



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

In-Office Cost System Inputs into the Cost and Revenue Analysis Report

Audit Report

May 30, 2012

Report Number CRR-AR-12-004



HIGHLIGHTS

IMPACT ON:

The U.S. Postal Service currently spends about \$69 million annually for its manual data collection efforts to prepare the Cost and Revenue Analysis report, which is a key component of the Postal Service's Annual Compliance Report provided to the Postal Regulatory Commission (PRC). This includes about \$13 million per year to collect data for the statistical In-Office Cost System (IOCS) report which is used to attribute labor costs to products and services.

WHY THE OIG DID THE AUDIT:

Our objective was to determine whether the mail processing portion of labor costs could be attributed to products and services using available automated data. We evaluated the operational benefits of using automated data and process changes. We performed this review as part of our mandate under the Postal Accountability and Enhancement Act to audit the data collection systems and procedures the Postal Service uses in their rate-making process.

WHAT THE OIG FOUND:

With additional system enhancements, the Postal Service could use data from mail processing systems to determine the mail processing portion of labor costs for products and services. With the proper system changes, the Postal Service could obtain the census data necessary for mail processing cost

determination. This would reduce dependence on manual data collection and could provide annual net savings of almost \$500,000. The system enhancements would also provide important benefits to cost control, mail acceptance, and revenue protection.

WHAT THE OIG RECOMMENDED:

We recommended the chief financial officer and executive vice president explore replacing the current IOCS data collection model with an alternate system to determine mail processing costs and coordinate these changes with the PRC. We also recommended the vice president, Network Operations, link employee information to mail processing operations by requiring input of employee information into the Web End-of-Run system.

WHAT MANAGEMENT SAID:

Management agreed with the recommendations, but disagreed with the cost savings estimates.

AUDITORS' COMMENTS:

We consider management's comments responsive to the recommendations. We believe our savings estimate is conservative and is based only on the incremental labor cost investments needed, as other investment costs were accounted for in our earlier reports.

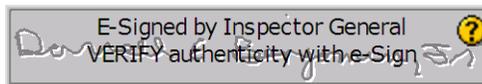
[*Link to review the entire report*](#)



May 30, 2012

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE
PRESIDENT

DAVID E. WILLIAMS, JR.
VICE PRESIDENT, NETWORK OPERATIONS



FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General, Revenue and Systems

SUBJECT: Audit Report – In-Office Cost System Inputs into the Cost
and Revenue Analysis Report
(Report Number CRR-AR-12-004)

This report presents the results of our audit of In-Office Cost System (IOCS) inputs into the Cost and Revenue Analysis (CRA) report (Project Number 11RG001CRR003). Specifically, this report explores alternate ways of producing cost allocations currently provided by the IOCS statistical program component of the CRA report using automated data, thus reducing the need for manual data collection efforts. In addition, this report discusses potential operational benefits from image recognition technology.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Paul Kuennen, director, Cost, Pricing, and Rates, or me at 703-248-2100.

Attachments

cc: Joseph D. Moeller
John E. Larrimore
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of In-Office Cost System (IOCS) inputs into the Cost and Revenue Analysis (CRA) report (Project Number 11RG001CRR003). Our objective was to determine whether the mail processing portion of labor costs could be attributed to products and services using available automated data. This self-initiated audit addresses financial risk. This report is the final in a series of three reports and addresses the IOCS component of the CRA. The two prior reports¹ addressed the Transportation Cost System and the Revenue, Pieces, and Weight components of the CRA report. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service prepares the CRA report annually to determine whether it complied with the statutory requirement² that each class or type of mail service bear direct and indirect costs attributable to that class or service. The Postal Service uses statistical models and studies to attribute costs to the mail classes in the CRA as the accounting systems do not accumulate financial data by mail categories. The Postal Service uses the IOCS, a statistical system, to allocate certain labor costs to its products and services. Labor costs, which were \$48.3 billion in fiscal year (FY) 2011, are a significant portion of Postal Service costs.

The IOCS provides a mechanism for attributing clerk, mail handler, and supervisor labor costs for activities performed inside Postal Service facilities. The accounting system tracks these labor costs by work operations identified by a Management Operations Data System (MODS) operations code.³ Summary labor costs are collected in 61 mail processing cost pools, representing combinations of MODS operations that share common characteristics, such as the mail processing equipment involved. Product volume-variable labor costs are computed for each cost pool using employee work activities reported through IOCS. Ratios generated by IOCS distribute these volume-variable labor costs to mail classes and products. Mail processing equipment also has the capability to capture images of mailpieces, which are useful in cost-determination and revenue-protection initiatives.

Data collectors manually performed about 567,000 IOCS data collection readings⁴ in FY 2011, approximately 306,000 of which involved clerks and mail handlers. The Postal Service spends about \$69 million a year to manually collect statistical data for analysis and to prepare the CRA report. This includes about \$13 million for IOCS data collection,

¹ *Transportation Cost System Inputs into the Cost and Revenue Analysis Report* (Report Number CRR-AR-11-004, dated September 19, 2011). *Revenue, Pieces, and Weight Inputs into the Cost and Revenue Analysis Report* (Report Number CRR-AR-12-003, dated January 27, 2012).

² The Postal Accountability and Enhancement Act of 2006, Sections 201 and 202.

³ Management uses MODS operations codes, represented by a 3-digit number, to record all workhours at Postal Service facilities according to the function or activity performed.

⁴ An IOCS data collection reading consists of observing a selected employee at a designated time during the employee's workday and recording the activity being performed at the time of the observation. In addition, the characteristics of any mail, mail transportation, or processing equipment the sampled employee is handling or using are recorded.

\$1.3 million of which is spent on 61,574 data collection readings in automated operations at mail processing facilities.

Conclusion

We found that the mail processing portion of labor costs could be attributed to products and services using available automated data. Specifically, with additional system enhancements, the Postal Service could use data from mail processing systems to determine the mail processing portion of labor costs for product categories. Product category information could be obtained from data extracted from mailpiece images and mail volume and workhour information from MODS. The Postal Service could use this data, combined with labor rates obtained from the payroll system, to compute the per unit labor cost of processing mailpieces on automated machines, reducing the need for manual data collection in the mail processing area.

Using census data⁵ to determine mail processing labor costs per piece would enable the Postal Service to reduce 61,574 data collection readings a year, resulting in net savings of \$4.29 million over a 10-year period. Implementing the system enhancements to use automated data for costing purposes will also result in additional operational advantages. For example, the near real-time availability of per unit mail processing costs for mail products will help the Postal Service to better control processing costs and manage operations more efficiently. Additionally, the image recognition capabilities of mail processing equipment could be used in the Seamless Acceptance⁶ process planned for the future. In addition, the U.S. Postal Inspection Service (Inspection Service) could use the image recognition capability to strengthen its revenue-protection efforts. See [Appendix B](#) for additional details regarding the monetary impact.

Management stated that a substantial effort would be needed to modify existing procedures to fully utilize image processing technology. In responding to our two prior reports, Finance personnel disagreed with our cost-saving estimates and said that the capabilities and costs for image recognition and data reporting for Revenue, Pieces, and Weight purposes are unknown at this time. However, they stated they would continue to work with stakeholders, including Operations and Product Information, to identify data gaps and the processes needed to fill these gaps. Management also agreed to coordinate with Engineering to form a working group and provide specifications for Revenue, Pieces, and Weight data and evaluate image recognition capabilities and, where feasible and cost-effective, develop an implementation plan.

Careful planning and substantial changes in systems and processes are necessary to implement the options presented in this report, therefore, Postal Service Finance personnel should continue consulting with other groups to develop a formal long-range data needs roadmap that places a greater reliance on census data for product costing

⁵ Census data involves using mail characteristics, such as mail type, volume, shape, and destination ZIP Code™, captured from all mailpieces by automated systems, rather than relying on statistical sampling of mail.

⁶ A program that automates business mail acceptance and verification processes for letter and flat mail from mailers applying unique Intelligent Mail barcodes on mailpieces, trays, sacks, tubs, pallets, and other containers.

purposes. This should include fully utilizing the image recognition capabilities of mail processing equipment to determine mail product information and obtaining the required data elements — such as volume, workhour, and employee pay rate — by implementing suitable system enhancements.

Census Data to Estimate Mail Processing Costs

The Postal Service could determine the unit labor costs of processing mail on automated equipment using census data. The Postal Service would need to obtain the volume of mail processed on a machine by product, the number of workhours employees spend processing that mail, and their pay rates.

Volume of Mail by Product

The Postal Service currently has the capability to capture images of mailpieces processed on mail processing equipment but, as stated in our previous reports, the optical character recognition capability must be enhanced and implemented to capture mail product information. With the enhanced ability to differentiate mail product information, the Postal Service could obtain mailpiece volume by specific products required for unit cost determinations from MODS. Using images, it would be possible to know the volume of the different products being processed during a run on a piece of automated equipment.

Employee Workhours

Information on workhours expended processing mail is currently available from MODS for three-digit MODS operations codes. The Postal Service could improve the reliability of MODS data, especially workhour and volume information, by linking employees with the processing machine operations they are working on. This can be accomplished by inputting employee information into the Web End-of-Run (WebEOR) system⁷ when the mail processing operation begins. The WebEOR system has optional fields for entering employee and supervisor information before the start of a processing operation. Converting these optional fields to mandatory fields would help associate specific operations with the employees who actually work on those operations. This information is needed prior to extracting wage rates for specific employees from the payroll system.

The Postal Service uses innovative techniques in other Postal Service Operations areas to match employees and their individual wage rates to specific equipment usage. For example, Engineering developed technology known as the Powered Industrial Vehicle Management System⁸ and integrated it with the Time and Attendance System (TACS)⁹ to ensure labor costs related to the Powered Industrial Vehicle Management System are accurate for operators of powered industrial vehicles for monitoring costs. The system,

⁷ A software application that allows end users to retrieve, view, and store various mail processing end-of-run statistics from automated mail processing equipment. The system provides a set of standard reports with essential data for operating decisions.

⁸ Powered Industrial Vehicle Management System evaluates the use of powered industrial vehicles.

⁹ A timekeeping application which records employee workhours expended during various Postal Service operations.

which relies on employee access cards, gathers cost data for two MODS operations codes.¹⁰

The Postal Service can adopt technology similar to the Powered Industrial Vehicle Management System to associate employees with mail processing operations recorded in other MODS operations. This would promote the accuracy of volume, workhour, and hourly wage rate for different mail processing automation runs and sort schemes. Additionally, this technology would allow the ability to link employees to specific mail processing equipment to better manage labor and automated resources and ensure that the workhours associated with processing mail in a specific operation is reliable.

Hourly Labor Rate

Management can determine the hourly cost of machine operators utilizing payroll and TACS data. The hourly rates, coupled with the product, volume, and workhour information, can be used to compute the unit cost of a product processed on automated equipment. Linking employee information to mail processing operations recorded in MODS and further integration with the TACS will help obtain the volume, workhours and labor rate information necessary for unit cost calculation.

Unit Cost Calculations

Management could obtain the data required to calculate the unit labor cost for a mail product, as discussed above. However, calculating the unit labor costs for processing a *specific* mail product on a *specific* processing machine would require additional information. Specifically, the volume of the mail product processed on each machine, the workhours of employees who worked on the machine, and the pay rates of those employees would be required to calculate the unit labor costs for a mail product.

In the simplest scenario, where only one mail product is processed in a single operation where only one employee worked, the unit labor cost of processing that product in that operation would equal the product of the hourly rate of that employee multiplied by the number of hours that employee worked divided by the mailpiece volume of the product processed. However, mail processing is a complex operation with multiple mail products simultaneously being processed in multiple operations, multiple employees working in different operations, and processing taking place in multiple locations. Therefore, the calculation is complex and requires the use of data from multiple sources.

The data available from these various sources (such as TACS, MODS, and mailpiece images) could be used to develop a costing model to address each level of the complexities involved in the unit cost determination. For example, as the percentage of each product processed in an operation can be determined, data could be collected for different mail processing runs and sort schemes to compute the average cost per piece processed on a particular machine in a plant. The Postal Service could collect detailed data on the percentage of each product and the average cost from many mail

¹⁰ Operation Number 229, Equipment Operator – Tow; and Operation Number 230, Equipment Operator – Forklift.

processing runs for a given machine type. The data from mail processing runs could be aggregated and analyzed to estimate the average cost of each product for each machine type.¹¹ Rather than limiting this analysis to runs in a single plant, observations from all plants or a sample of plants could be used in the analysis to estimate the costs of the individual products for the given machine type on a national basis.

Determining the mail processing labor cost per unit using census data would enable the Regulatory Reporting and Cost Analysis group to eliminate the need for IOCS testing in automated mail processing operations. In our first report,¹² we recommended establishing a coordination committee to explore using census data for product costing purposes. The coordination committee could explore how employee information from the payroll system or TACS could be linked to the WebEOR system or MODS to obtain the hourly wage rates of employees who work on specific operations. This and other necessary system interfacing would enable the Postal Service to use additional census data for product costing. As the Postal Service's mail visibility and tracking capabilities mature, the use of census data could be expanded to further decrease the dependence on manual testing.

Operational Benefits of Enhanced Mail Imaging Technology

The system enhancements proposed for automating product costing will provide additional operational benefits. The ability to determine the unit cost of operations by mail products on a near real-time basis will help the Postal Service better control processing costs and manage operations more efficiently. Additionally, the Postal Service has projects in the planning and concept phases that could utilize enhanced imaging capabilities. The Seamless Acceptance initiative could benefit from using enhanced imaging capabilities, as could initiatives involving revenue protection, law enforcement, and customer service.

Cost Control

The Postal Service could monitor mail processing costs at the product level on a near real-time basis, as the unit cost of mail processing for mail products will be available. This will be particularly useful to monitor the processing costs of mail products that have not covered their costs. Rather than waiting until the year's end to report products that failed to cover costs, the Postal Service will be able to proactively take action to ensure unnecessary processing costs are not incurred for these products. The Postal Service could establish cost thresholds for different processing operations for different mail products and monitor the costs at a granular level by operation, plant, or district. Additionally, the availability of volume by mail product and their associated costs could enable the Postal Service to develop better marketing strategies for products and services.

¹¹ Linear least squares regression analysis, which is a mathematical approximation method, could be used to conduct this analysis.

¹² *Transportation Cost System Inputs Into the Cost and Revenue Analysis Report* (Report Number CRR-AR-11-004, dated September 19, 2011).

Seamless Acceptance

The Seamless Acceptance initiative can use mailpiece images and weight, together with the Intelligent Mail barcode, for mail acceptance, thereby reducing dependence on clerks for mail verification. The Postal Service currently has a project in the proof of concept phase to develop processes and systems to support Seamless Acceptance. Under this concept, mail verification could take place during mail processing, as images are examined and weights are compared against manifested records to ensure that postage is accurate. Any shortfall in revenue could be determined and collected from the mailer after the mail is processed and delivered. The Postal Service could also use the mailpiece image as support to collect any short paid revenue from the mailer.

Currently, acceptance clerks verify and accept mailings in short timeframes. The U.S. Postal Service Office of Inspector General (OIG) and others have reported that clerk verifications are not always sufficient to ensure proper revenue collection.¹³ Using images and weights for automated mail verification would be a suitable approach for ensuring that the Postal Service collects all the appropriate revenue and would also help reduce labor costs.

Revenue Protection

The Inspection Service uses mailpiece images [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] For example, improved image quality can provide important evidentiary benefits in analyzing [REDACTED]
[REDACTED]

Customer Service

The Postal Service has a pilot program called Real Mail Notification that uses electronic notifications to alert customers of mail delivery. Customers who sign up for this program receive notification containing electronic images of the mailpiece exteriors. The system, which initially covers only letter mail, could be expanded to include flats and parcels, pending the necessary software upgrades. System upgrades to produce high-quality images for costing purposes will help capture additional data elements, such as the indicia and ZIP Code, enhancing the utility of the program.

¹³ *FY 2010 Financial Installation Audit – Business Mail Entry Units* (Report Number FF-AR-11-006, dated January 20, 2011); *Electronic Verification System Rejected Transactions* (Report Number CRR-AR-09-006, dated August 19, 2009); *FY 2010 Sarbanes-Oxley Compliance Review* by Ernst & Young, LLP, dated January 31, 2011.

Recommendations

We recommend the chief financial officer and executive vice president direct the manager, Regulatory Reporting and Cost Analysis, to:

1. Explore using census data from mail processing systems to calculate automated mail processing labor costs by mail product.
2. Coordinate with the Postal Regulatory Commission to use census data collection in place of manual data collection to determine automated mail processing costs.

We recommend the vice president, Network Operations, direct the manager, Network Development Support, to:

3. Explore steps to link employee information to mail processing operations by evaluating various approaches, including requiring input of employee information into the Web End-of-Run system.

Management's Comments

Management agreed with the recommendations but did not agree with the OIG assessment of the readiness of systems and data or the estimate of monetary savings. Management stated that the estimated savings could be substantially different from the OIG's estimate, as the cost of system enhancements to provide additional data is unknown.

Management stated that, while technology exists to identify mail products at the level of detail required for regulatory reporting and business use, the cost of implementation is unknown and could affect savings estimates. Management further stated that if the acquisition and maintenance costs of equipment to store, process, and transmit images differ from OIG estimates, the business case for this initiative could change.

Regarding recommendation 1, management stated that, under the DRIVE initiative, they are already working with other groups to assess system capabilities and gaps and to enhance the systems for their use for labor costing. Management also stated that they will explore ways to improve the link between employee workhours and volume data reporting systems. In subsequent communications, management clarified that the milestone date for completing actions for recommendation 1 is March 30, 2013.

Regarding recommendation 2, management stated that the Postal Service will coordinate with the Postal Regulatory Commission (PRC) provided that using census data proves to be practical and more cost effective. With regard to recommendation 3, management stated they will evaluate systems and explore approaches to improving the link between employee workhours and volume data reporting systems. They will determine the target completion date based on the software/hardware requirements

needed to support the endeavor. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive and corrective actions should resolve the issues identified in the report. The OIG recognizes that additional investments in systems enhancements are required to use automated data for product costing purposes. The Transportation Cost System and the Revenue, Pieces, and Weight reports we issued previously already included a major portion of the required system upgrade costs. Therefore, this report only includes the additional investment required to accomplish labor costing and we believe our estimate is a conservative estimation of the monetary benefits which may be realized.

Appendix A: Additional Information

Background

The Postal Service annually prepares the CRA report to determine whether it complied with the statutory requirement that each class or type of mail service bear the direct and indirect costs attributable to that class or service. The Postal Service's accounting systems do not accumulate financial data by mail category. The Postal Service uses methodologies approved by the PRC, which include the use of apportionment factors derived from operational and statistical information sources, to prepare the CRA report. Major statistical systems used in the CRA process include IOCS, the City Carrier Cost System, and the Rural Carrier Cost System to attribute labor costs; the Transportation Cost System to attribute mail transportation costs; and the Revenue, Pieces, and Weight System to estimate national Revenues, Pieces, and Weight information. Data collectors conduct more than 800,000 data collection readings a year to provide data for these systems. Special studies and operational information provide additional data required for cost development.

IOCS provides a mechanism for attributing certain labor costs to activities performed within the Postal Service's network. The IOCS is a sampling system that distributes the labor costs of clerks, mail handlers, city carriers, and supervisors to the activities carried out by those employees, particularly activities related to mail processing. Currently, mail processing volume-variable costs by mail product and special services are computed using the volume-variability/distribution key method. Using this method, the IOCS generates distribution ratios for 61 mail processing cost pools to attribute the volume-variable portion of labor costs to mail classes and products.

IOCS samples blocks of employee workhours and develops estimates of the proportions of employee workhours spent on various functions in the office and, for some of these functions, the proportions of time spent handling or processing various categories of mail. The time proportions are then used to distribute certain labor costs to each mail class and product and to each special service. IOCS also indirectly provides data for the calculation of certain non-labor costs — such as mail processing equipment costs — related to sampled labor activities.

Objective, Scope, and Methodology

Our objective was to determine whether the mail processing portion of labor costs could be attributed to products and services using available automated data. In addition, we determined whether there were operational benefits that would be derived from the use of automated data and process changes.

We interviewed personnel, evaluated policies and procedures, and reviewed systems documentation relating to IOCS and other statistical systems. We engaged a contractor to assist in our work, provided guidance to the contractor, and supervised the

contractor’s work to accomplish our objective. We used the contractor to determine whether management could adapt the current IOCS data collection system to provide more cost-effective and better data collection methods. We also used the contractor to determine the feasibility of using census data to replace the current manual data collection.

We evaluated business processes, the availability of system-generated data, and potential enhancements to systems and processes. We did not base our conclusions on the analysis of computer-generated data, therefore, did not evaluate the reliability of any such data

We conducted this performance audit from August 2011 through May 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 25, 2012, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)	Report Results
<i>Cost and Revenue Analysis Reporting Model</i>	CRR-AR-10-003	7/27/2010	None	The Postal Service needs to establish proper access controls for its shared network drive and could enhance controls by improving CRA process documentation. Management agreed with the findings and recommendations.

<p><i>Transportation Cost System Inputs into the Cost and Revenue Analysis Report</i></p>	<p>CRR-AR-11-004</p>	<p>9/19/2011</p>	<p>\$9.8</p>	<p>Additional planning, systems design, and system integration could enable the Postal Service to use more of the data generated by operational systems for CRA cost-attribution purposes. Management agreed with the findings and recommendations, but disagreed with the monetary impacts.</p>
<p><i>Revenue, Pieces, and Weight Inputs into the Cost and Revenue Analysis Report</i></p>	<p>CRR-AR-12-003</p>	<p>1/27/2012</p>	<p>\$127.9</p>	<p>The Postal Service could reduce manual data collection for Revenue, Pieces, and Weight estimation by modifying automated processes to collect mailpiece images for analysis and by moving sampling from mail exit points to supporting processing plants. Management agreed with the findings and recommendations, but disagreed with the monetary impacts.</p>

Appendix B: Monetary Impacts

Finding	Impact Category	Amount
IOCS Data Collection	Funds Put to Better Use ¹⁴	\$4,289,691

The Postal Service could achieve cost savings and increase reporting accuracy in labor cost attribution by developing an automated process to use available census data in the mail processing area. As stated in the report, developing enhancements to the WebEOR and TACS applications would provide labor hours to determine the mail processing portion of labor cost for products and services and render manual IOCS data collections in the mail processing area unnecessary. We estimate this and other system enhancements to cost \$5 million, with an annual maintenance expense of \$250,000. This investment would result in annual cost savings of \$1.30 million due to the elimination of 61,574 IOCS data collection readings taking place in the mail processing area, which equates to the reduction of 16 full-time positions. The remaining readings could be conducted over the phone, consolidating the required resources in centralized locations. The net present value of the resulting savings over a 10-year period is approximately \$4.29 million.

The system enhancements proposed to implement automated costing solutions will also have operational benefits in areas such as mail acceptance, revenue protection, and performance tracking.

¹⁴ This term is synonymous with the term 'costs avoided.' The monetary impact represents the net present value of cash flows for 10 years discounted at the Postal Service's current borrowing rate of 2.6 percent.

Appendix C: Management's Comments



May 18, 2012

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: In-Office Cost System Inputs into the Cost and Revenue Analysis Report (Report Number [CRR-AR-12-DRAFT])

The United States Postal Service agrees with the Office of Inspector General's (OIG) recommendations to explore using census data from mail processing systems to calculate mail processing labor costs by product, and to coordinate such use with the Postal Regulatory Commission (PRC).

We agree that there is potential to reduce sampling costs once all the required census systems are implemented nationwide and functioning reliably. However, we advise against attempting to reliably quantify the savings at this time since the costs of developing and maintaining the census systems to provide the additional data required for costing purposes is unknown. It could be substantially different from the \$4 million over ten years estimated in the report. Additionally, as discussed during this audit, several actions will be required before any savings can be realized:

- Image processing algorithms and procedures should be developed that can identify mail products at the level of detail required for regulatory and business use. While the technology presumably exists, the cost to implement the algorithms is unknown at this time and could affect any savings estimates.
- Hardware and software systems to store, process, and transmit images must be deployed on mail processing equipment nationwide. If the acquisition or maintenance cost for such equipment differs from the OIG's estimates, the business case for this initiative may change.

RECOMMENDATION 1:

Explore using census data from mail processing systems to calculate automated mail processing labor costs by mail product.

Management Response/Action Plan:

Management agrees with this recommendation. Under our DRIVE initiatives, we are already working with other groups to assess the capabilities and identify the gaps of current census data, and to develop specifications for enhancements to those systems that would enable their use for labor costing.

Target Implementation Date:

The work is ongoing.

- 2 -

Responsible Official:

Manager, Regulatory Reporting and Cost Analysis, Finance, U. S. Postal Service

RECOMMENDATION 2:

Coordinate with the PRC to use census data collection in place of manual data collection to determine automated mail processing costs.

Management Response/Action Plan:

Management agrees with this recommendation. We will coordinate with the PRC to use census data for labor costing provided that using census data proves to be practical and more cost effective.

Target Implementation Date:

The work is ongoing.

Responsible Official:

Manager, Regulatory Reporting and Cost Analysis, Finance, U. S. Postal Service

RECOMMENDATION 3:

Explore steps to link employee information to mail processing operations by evaluating various approaches, including requiring input of employee information into the Web End of Run system.

Management Response/Action Plan:

Management agrees with this recommendation. Systems will be evaluated and approaches explored to improve the linkage between employee work hours and volume data reporting systems. This will include evaluating inputs as well as looking for technological solutions to automate the process. In all cases, sufficient safeguards will be considered to protect sensitive data as required.

Target Implementation Date:

The work is ongoing. Target dates for implementation of any approach will be determined based upon software/hardware requirements needed to support the endeavor.

Responsible Official:

Manager, Network Development and Support

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.



Joseph Corbett
Chief Financial Officer and Executive Vice President



David E. Williams, Jr.
Vice President, Network Operations

cc: Manager, Corporate Audit Response Management