



August 11, 2008

J. RON POLAND
MANAGER, STATISTICAL PROGRAMS

SUBJECT: Management Advisory Report – In-Office Cost System Phone Readings
Additional Analysis (Report Number ESS-MA-08-001)

This management advisory presents the results of our self-initiated review of the potential cost implications of In-Office Cost System (IOCS) telephone readings (Project Number 08RG014ESS000). The objective was to assess whether telephone readings inappropriately impact the allocation of mail processing costs to mail categories. Click [here](#) to go to Appendix A for additional information about this review.

Conclusion

Both an initial analysis by the U.S. Postal Service Office of Inspector General (OIG) and a subsequent U.S. Postal Service analysis indicated differences in the distributions of IOCS readings or mail processing costs to mail categories based on telephone and on-site sampling methods. The results of IOCS readings should be independent of the sampling methods. All other things equal, the same result should occur whether the reading is done by telephone or performed on-site.

The Postal Service has not yet provided the OIG with sufficient data and explanations to support a conclusion that the differences in the distributions of mail processing costs to mail categories are statistically insignificant, immaterial, or fully explained by other suggested factors. To the extent practicable, the Postal Service should perform additional analyses to confirm that the sampling method did not cause these differences and examine the appropriateness of its distribution of costs to mail categories based on telephone readings.

Initial Analyses Indicate Differences in the Distributions of Costs to Mail Categories Based on Telephone and On-Site Readings

The OIG issued an audit report on IOCS in March 2008 that found inaccurate telephone readings. See Prior Audit Coverage in Appendix A for more information. Subsequently, we worked with the Postal Service to determine whether telephone readings materially affect the distribution of mail processing costs to mail categories and pricing. The Postal Service performed an analysis of fiscal year (FY) 2007 IOCS data that sorted costs for clerks and mail handlers by mail category and by reading method for groups of Postal Service facilities (for example, processing and distribution centers [P&DCs], air

mail centers [AMCs], and annexes). This preliminary analysis identified differences in the distributions of costs to mail categories based on telephone and on-site readings.

The Postal Service indicated that factors such as facility and time of day could explain the differences; however, the analysis reviewed a selected group of facilities and did not include controls for time of day. Thus, it is unclear whether we can attribute the differences in the distributions of costs identified by this preliminary analysis to plausible, reasoned causes or to inaccuracies in telephone readings. Inaccurate telephone readings could distribute costs inappropriately across mail categories, resulting in an inaccurate basis for pricing. Click [here](#) to go to Appendix B for our detailed analysis of this topic.

We recommend the Manager, Statistical Programs, direct his staff to:

1. Perform a comprehensive analysis to determine whether material errors exist in the distribution of In-Office Cost System mail processing costs to mail categories based on telephone readings and on-site readings. If material errors exist, the Manager, Statistical Programs, should take appropriate action that could include short-term programmatic corrections.

To the extent practicable, this additional analysis should adopt the following enhancements to the previous analytical methodology:

- The analysis should control for facility type, time of day, or other factors as appropriate. The analysis should review more finely disaggregated groups of facilities including, where appropriate, separate groups of individual facilities.
 - The analysis should exclude certain subsets of the data where there are plausible, reasoned explanations for material differences between distributions of telephone and on-site costs. For example, the analysis should exclude facilities with 100 percent telephone readings where no suitable benchmark for comparison exists.
 - The analysis should adopt and apply a standard for identifying statistical significance in the differences of the distributions of telephone and on-site costs.
2. Continuously monitor for errors in In-Office Cost System cost distribution caused by the sampling method and conduct detailed assessments if errors exist at individual facilities or are associated with individual data collectors.

Management's Comments

Management agreed with our finding that there are differences in the distributions of the IOCS costs to mail categories based on telephone and on-site readings. Additionally,

management agreed that the result of the reading should be independent of its sampling method. However, management disagreed with the OIG's assumption that the differences in the distributions of IOCS costs to mail categories are due to the sampling method. Management noted that nonrandom factors, including the size of the office, location, and time of day, affect the sampling method and the mail mix handled. Therefore, management stated, there should be no expectation that the distribution of costs should be the same for the two different types of readings. Management disagreed with OIG's estimate that \$185 million of mail processing costs are affected.

Furthermore, management stated they have satisfied the first recommendation by performing additional analysis. Management plans to follow up with further investigation of one location that had a significantly different cost distribution in FY 2007 based on telephone and on-site readings.

The comments indicated that management does not believe that the recommended analysis would yield further useful results. With the available data, no analysis could control for all the factors that could affect cost distributions and quantify the differences that depend solely on a sampling method that is not randomly selected by a statistical design.

Management disagreed that "errors . . . caused by the sampling method" can be successfully identified, and stated that the OIG's second recommendation for continuous monitoring of the distribution of costs by facility or data collector is problematic.

Management's comments, in their entirety, are included in [Appendix C](#).

Evaluation of Management's Comments

Prior audit work found inaccurate IOCS telephone readings and indicated that those inaccurate telephone readings could affect the distribution of mail processing costs. The prior audit finding was the starting point for this advisory report. This review concluded that the Postal Service should perform additional analysis to either reject or accept the hypothesis that telephone readings cause inaccuracies in the distribution of IOCS mail processing costs to mail categories.

This review did not assume that the sampling method alone explained the differences in the distribution of IOCS costs. We recognized in the exploratory analysis, in the Postal Service analysis, and in the recommendations that other factors could explain the differences. We agree with management's comments that factors such as size of the office, location, and time of day affect the sampling method and the mail mix handled. Our review recognized that the sampling method is a factor that could also affect the distribution of costs.

We agree with management's comments that the Postal Service should not automatically expect the distribution of costs to be the same for the two different types of readings. However, if all other things are equal, then we believe that there should be an expectation that the distribution of costs should be the same.

We agree with management's qualitative comments on the impact of facility type and size on IOCS readings. These qualitative comments are consistent with our review's recommended quantitative approach.

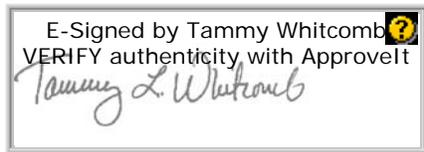
Our report stated that, based on the Postal Service's analysis, adjusting the distribution of mail processing costs based on telephone readings to equal those based on on-site readings would affect the distribution of \$185 million of mail processing costs. This estimate suggests a potential significant impact that justifies our recommendations to use Postal Service resources for additional analysis. Until a comprehensive analysis is performed, the actual dollar impact on specific mail products will be unknown.

The OIG considers management's comments partially responsive to the first recommendation. We applaud the Postal Service for performing additional analysis and, contrary to other management comments, indicating that additional analysis along these lines, even by individual location, is possible. Further, we applaud the Postal Service for adopting an initial standard for identifying statistical significance. Because this additional analysis is new, was never discussed during the review or at the exit conference, and merits review, we cannot comment on whether the Postal Service has satisfied this recommendation.

We disagree with management's statement that the recommended analysis would not yield further useful results. We agree that no analysis could control for all possible factors. However, additional analysis would be informative and useful. Our preliminary analysis indicates that shipping services products could be bearing more than their share of costs. Until the Postal Service performs a comprehensive analysis as we recommended, management's conclusion that additional analysis would not be useful is premature.

We consider management's comments not responsive to the second recommendation. We believe that the comments are inconsistent with the technical dialogue during the review. We also believe that the Postal Service can enhance its existing analysis. Continuous improvement is a good business practice, and we hope the Postal Service agrees that, although difficult, continuously improving data systems and the business application of the data is a worthwhile effort. Although we believe this recommendation has merit, we do not intend to elevate the disagreement for resolution.

We appreciate the cooperation and courtesies extended by your staff. If you have any questions or need additional information, please contact Mohammad Adra, Director, Evaluations and Special Studies, or me at (703) 248-2100.



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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

IOCS is an employee work sampling system used to distribute more than \$32 billion in the labor costs of clerks, mail handlers, city delivery carriers, and supervisors to classes and subclasses of mail and special services. To efficiently conduct a large number of IOCS readings,¹ data collectors conduct about 51 percent of the readings by telephone and the remaining 49 percent on-site.²

The OIG report titled *In-Office Cost System Telephone Readings* (Report Number CRR-AR-08-004, dated March 31, 2008) presented our assessment of the accuracy of IOCS data obtained from telephone readings. The audit found that 70 of the 163 (or 43 percent) IOCS telephone readings selected for further review in three Postal Service districts were inaccurate.³ The readings were inaccurate because data collectors and supervisors did not follow policies and procedures. Based on this prior audit work, we concluded that an additional analysis was necessary to determine whether inaccuracies in telephone readings could inappropriately affect cost distribution and pricing.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess whether inaccurate telephone readings affect the distribution of clerk and mail handler costs to mail classes and subclasses and special services. We conducted an exploratory analysis to determine whether we should further pursue discussion and analysis with the Postal Service. We used IOCS data from FYs 2006 and 2007 to determine whether material differences existed in the distributions of telephone and on-site readings to mail categories.⁴ We sorted IOCS readings for clerks and mail handlers by mail category and by reading method for aggregate groups of Postal Service facilities.⁵

Within each reading method, we computed the percentage of readings for each mail category. We then contrasted the percentages for each mail category between telephone and on-site reading methods. A relatively high or low ratio of telephone to on-site percentages indicated a difference in the distribution of IOCS readings for the mail category. The results of IOCS readings should be independent of the sampling methods. All other things equal, the same result should be obtained whether the reading is done by telephone or performed on-site.

¹ During FY 2007, the Postal Service conducted nearly 700,000 IOCS readings.

² OIG Report CRR-AR-08-004, footnote 3.

³ OIG Report CRR-AR-08-004, page 4.

⁴ Mail categories are selected groups of IOCS activity codes and relate to mail classes and subclasses and special services.

⁵ At several interim stages, the analysis covered various combinations of cost ascertainment groups (CAGs), facility types (for example, bulk mail centers [BMCs], P&DCs, international service centers, and associate offices), and uniform operation codes (for example, outgoing distribution, incoming distribution, and window service). However, controlling for all plausible factors that affect cost distribution was outside the scope of our exploratory analysis.

After our initial analysis, the Postal Service conducted its own analysis of IOCS data for FY 2007. We reviewed this analysis to determine whether these differences were adequately analyzed and explained.

We conducted this review from March through August 2008 in accordance with the President’s Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our findings and recommendations with Postal Service management on July 3, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>In-Office Cost System Telephone Readings</i>	CRR-AR-08-004	March 31, 2008	\$12,355 ⁶	<ul style="list-style-type: none"> • The Postal Service had adequate policies for conducting telephone readings. • Employees did not always follow data collection procedures and respondents may have provided inaccurate information. • The audit found that 70 out of 163 (or 43 percent) IOCS telephone readings selected for further review were inaccurate. • Management agreed with recommendations to strengthen controls over the integrity of IOCS data collection.

⁶ Incorrect leave status errors caused this monetary impact and we reported it as funds put to better use.

APPENDIX B: DETAILED ANALYSIS

INITIAL ANALYSES INDICATE DIFFERENCES IN THE DISTRIBUTIONS OF COSTS TO MAIL CATEGORIES BASED ON TELEPHONE AND ON-SITE READINGS

Our initial exploratory analysis showed differences between the profiles of telephone and on-site readings for some mail categories. These results indicated that we should work with the Postal Service to expand and enhance the analysis.

The Postal Service was very receptive and responsive to our review and discussion of the exploratory analysis. Building on and enhancing that analysis, the Postal Service conducted its own analysis of IOCS data for FY 2007. The Postal Service adopted a comparable methodology that sorted IOCS costs for clerks and mail handlers by mail category and by reading method for aggregate groups of Postal Service facilities;⁷ however, the Postal Service implemented the following notable enhancements:

- The Postal Service used IOCS costs instead of readings because readings do not have equal dollar weights and because of certain sampling design issues.⁸
- The Postal Service distributed direct mail processing costs to mail categories within Function 1 (mail processing and distribution) pools only.
- The Postal Service distributed direct, mixed mail, and not handling mail processing costs to mail categories within Function 1 pools only.
- The Postal Service distributed direct, mixed mail, and not handling mail processing costs to mail categories for Management Operating Data System (MODS) facility types.⁹

The Postal Service compared results by several facility types to illustrate the impact when using more homogeneous groups of readings. The Postal Service stated that “[w]hen grouped by facility types (AMC versus P&DC, etc), there is no pattern to the phone reading differences.” The Postal Service stated that factors such as facility and tour (the time of day) could explain the differences in the distributions of telephone and on-site costs to mail categories. The Postal Service also stated that the appropriate examination of results is within individual facility groups and not when facility groups are combined.

⁷ For two interim stages, the Postal Service analyzed within P&DCs, AMC/air mail facilities, logistics and distribution centers, annexes, and other facilities.

⁸ For example, the Postal Service stated that costs specifically account for different sampling rates across CAGs and international facilities, but readings do not.

⁹ MODS facility types include Function 1, Function 4, and BMCs.

The Postal Service's analysis indicated differences in the distributions of costs to mail categories based on telephone and on-site sampling methods. Additionally, the Postal Service has not yet provided the OIG with sufficient data and explanations to support a conclusion that the differences in the distributions of mail processing costs to mail categories are statistically insignificant, immaterial, or fully explained by other suggested factors.

Tables 1 and 2 present ratios of the percentages of costs distributed to mail categories based on telephone and on-site sampling methods within the provided facility groups. A ratio with a value of one indicates that the percentage of costs distributed to the mail category based on telephone readings is the same as the percentage of costs distributed to the same mail category based on on-site readings. We highlighted individual ratios where the percentage of costs distributed to the mail category based on telephone readings is different from the percentage of costs distributed to the same mail category based on on-site readings.¹⁰ For example, the percentages of costs distributed to Priority Mail® based on telephone readings are 20 percent higher within the 1-P&DCs facility group, 70 percent lower within the Annex facility group, and 20 percent lower within the Other facility group than the percentages of costs distributed to Priority Mail based on on-site readings. Although the Postal Service did not identify a pattern in the telephone reading differences, it should analyze individual differences for significance, plausible reasons for the differences, and evidence of data issues within the facility group.

Table 1: Ratios of Telephone to On-Site Percentages – Function 1 Pools Only

Redacted

¹⁰ We highlighted ratios with a value greater than or equal to 1.2, or less than or equal to 0.8; however, ratios close to or equal to 1.0 could be average values that conceal individual facilities with material differences in the distributions of mail processing costs based on telephone and on-site readings.

Table 2: Ratios of Telephone to On-Site Percentages – MODS Facility Types

Redacted

The Postal Service stated that factors such as facility and time of day could explain the differences in the distributions of costs to mail categories based on telephone and on-site readings; however, the Postal Service's analysis reviewed a selected group of facilities and did not include controls for time of day. Thus, it is unclear whether the differences in the distributions of costs identified by this preliminary analysis can be attributed to plausible, reasoned causes or to inaccuracies in telephone readings. Inaccurate telephone readings could distribute costs inappropriately across mail categories. Based on the Postal Service's analysis, adjusting the distribution of mail processing costs based on telephone readings to equal those based on on-site readings¹¹ would affect the distribution of about \$185 million in mail processing costs.¹²

OTHER MATTERS OF INTEREST

During our research, we reviewed the Statistical Programs National Performance Assessment (NPA) Indicator, IOCS Clerk and Mailhandler Readings at Post Offices, Stations, and Branches,¹³ which reports on IOCS readings. We observed a high proportion of telephone readings for several geographic locations where Postal Service facilities are located close to each other. For example, in the Northern Virginia, Central Florida, and Greensboro Districts, a majority of stations and branches have 100 percent telephone readings, although it is likely that data collectors are located nearby. We also observed similar geographic locations where many stations and branches had a low

¹¹ Because costs are redistributed from one mail category to another, the net sum of the redistributed costs is zero. We compute the total impact by adding the positive or, alternatively, the negative net redistributed costs by mail category.

¹² The Postal Service distributes other attributable costs to mail classes, subclasses, and special services based on the distribution of mail processing costs. Although this report excludes the impact of distributing other attributable costs, the impact could be material.

¹³ These data are from the National Performance Admin System, <http://eagnmnsxed1/NPA/welcomeAdmin.jsp> (authorized access required).

proportion of telephone readings. A more formal analysis was outside the scope of this research, but we encourage the Postal Service to review such activity and identify opportunities to efficiently replace telephone readings with on-site readings.

APPENDIX C: MANAGEMENT'S COMMENTS

FINANCE



July 29, 2008

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report – In-Office Cost System Phone Readings Additional Analysis (Report Number ESS-MA-08-DRAFT)

We agree with the finding that there are differences in the distributions of In-Office Cost System (IOCS) costs to mail categories based on telephone and on-site readings. However, we disagree with the OIG's assumption that those differences are due to the sampling method.

We agree that, in theory and practice, the result of a reading should be independent of its' sampling method (telephone versus on-site). In other words, on-site readings and telephone readings should yield the same result if the sampling method is the only difference between the two subjects under comparison. However, the sampling method is not selected randomly, but is chosen by local management to optimize data collection resources. Typically telephone readings are done at smaller, more distant locations. These non-random factors impact both the sampling method and the mail mix handled at respective locations. These factors include the size of the office (smaller facilities may have less equipment and do more manual handling as well as handle specialized categories of mail), location (offices close to large plants where data collectors are domiciled may have different mixes of customers and handle a different mix of mail than more distant offices), and time of day (data collectors may be available to perform on-site readings on some tours but not others). Thus, there should be no expectation that the distribution of costs should be the same for the two different types of readings, or that the ratios in tables 1 and 2 of the OIG report should all equal 1.0. Comparisons by sample method are further confounded when sampled employees are temporarily assigned to work at other locations. In these cases, the mailpiece recorded in a reading will not reflect the location information available to IOCS.

The OIG's initial analysis showed that the distributions of costs between on-site and telephone readings were markedly different. We explained that much of the difference is due to the types of facilities sampled by the respective reading types;

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controlling for facility type dramatically reduces the apparent differences. For example, Logistic and Distribution Centers (L&DCs) handle Priority Mail and also have relatively more telephone readings than at Processing and Distribution Centers (P&DCs). Similarly Air Mail Facilities (AMC/AMFs) handle more Express Mail but also have relatively more telephone readings. Conversely, International Mail is primarily handled at International Service Centers (ISCs) where most readings are conducted on-site; as a consequence telephone readings show a smaller percentage of costs associated with International mail. These examples demonstrate that facilities with more telephone readings also handle different mail mixes, and that IOCS correctly reflects those different mail mixes.

In general, it is reasonable to expect that the readings from smaller offices where telephone readings tend to take place would be different from larger offices. It would not be unusual or surprising to see a higher portion of Priority and Express readings at smaller offices. Much of sorting to carriers and sequencing of letter mail is done in the larger plants. However, most of the sorting to carrier and sequencing of Priority and Express Mail parcels is done at the delivery office. This operational feature could account for much of the perceived differences.

We agree with OIG that "[I]t is unclear whether the differences in the distributions of costs identified by this preliminary analysis can be attributed to plausible, reasoned causes or to inaccuracies in telephone readings." We therefore disagree with OIG's subsequent estimate that \$185 million of mail processing costs are affected. This estimate is implicitly based on the assumption that there should be no difference in the distributions for on-site versus telephone readings within the facility group. This number was developed by dropping all telephone reading data from an entire facility type and then applying the cost distributions from on-site readings from the same type, ignoring the other factors that could also affect cost distributions. In their analysis, the readings are grouped into seven facility types, including such broad categories as "all Function 4 offices" and "all Function 1 Other (not P&DC, AMC, LDC, or Annex)", and their estimate of the impact depend heavily on this particular method of grouping IOCS readings. Grouping readings in other equally plausible ways also leads to equally arbitrary, yet very different, results.

Recommendation #1

Perform a comprehensive analysis to determine whether material errors exist in the distribution of In-Office Cost System mail processing costs to mail categories based on telephone readings and on-site readings. If material errors exist, the Manager, Statistical Programs, should take appropriate action that could include short-term programmatic corrections.

To the extent practicable, this additional analysis should adopt the following enhancements to the previous analytical methodology:

- The analysis should control for facility type, time of day, or other factors as appropriate. The analysis should review more finely disaggregated groups of facilities including, where appropriate, separate groups of individual facilities.
- The analysis should exclude certain subsets of the data where there are plausible, reasoned explanations for material differences between distributions of telephone and on-site costs. For example, the analysis should exclude facilities with 100 percent telephone readings where no suitable benchmark for comparison exists.
- The analysis should adopt and apply a standard for identifying statistical significance in the differences of the distributions of telephone and on-site costs.

We believe that we have satisfied this recommendation in that additional analysis has been performed along these lines. We investigated finely disaggregated data for FY06, FY07 and FY08 quarters 1 thru 3. The comparison was restricted to pay locations within finance numbers where there were at least 15 readings per year and at least five on-site and five telephone readings, restricting to 2,322 readings in FY06, 1,381 in FY07 and 1,842 in quarters 1 thru 3 of FY08. Due to the small number of readings, mail classes were grouped into three groups: First-Class Mail, Standard Mail and Other. In all years, there were no significant differences in the distributions within plants, customer service or in other facility types based on the Chi-square test at the 95 percent significance level, even though other confounding variables such as assigned operation or time of day were not included. There were differences for the annex facility type as a group, but there were no significant differences by individual location within the annex group in FY06 or in FY08, using Fisher's exact test at the 95 percent significance level for small sample sizes. Only one annex location had a significantly different distribution in FY07 (but not in FY06), where telephone readings showed significantly more First-Class Mail and less Standard Mail than on-site readings. We plan to follow-up with further investigation of this location. However, with a total of 23 telephone tallies in FY07, this location would not make a material difference to the national cost distributions. We can make ourselves available to the OIG and more fully explain these results should that be necessary.

In addition, even though there were no differences within the plant or customer service facility groups as a whole, we also conducted further investigation of some questionable individual locations. In one case, telephone readings were conducted on employees clocked to Priority Mail operations while on-site readings were conducted on employees clocked to DBCS operations. In another case, on-site

readings were conducted between midnight to 9 am, handling incoming mail, while telephone readings took place primarily between 9 am and 4 pm, handling outgoing mail. In these instances, IOCS data for both on-site and telephone readings appear to correctly reflect their respective mail mix.

We do not believe that the recommended analysis in the three bullets would yield further useful results. With the available data, no analysis could control for all of the possible factors that affect cost distributions, and be able to quantify the differences that depend solely on a sampling method that is not randomly selected by a statistical design.

We further disagree that programmatic corrections should be made to the cost distributions on the basis of any further analysis. The number of locations where there are enough on-site and enough telephone readings on clerks and mailhandlers to even begin a direct comparative analysis is very small, less than 1 percent of all sampled pay locations. This includes all locations with more than 15 readings with mailpieces, and at least five each of telephone and on-site readings *per year*. Such a small number of locations could not be used to make adjustments to national cost distributions. Moreover, the Postal Service may not be able to adopt any alteration of the current methodology by which costs associated with telephone tallies are distributed to mail products without input from the Postal Regulatory Commission.

Recommendation #2

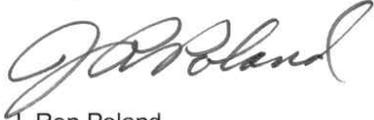
Continuously monitor for errors in In-Office Cost System cost distribution caused by the sampling method and conduct detailed assessments if errors exist at individual facilities or are associated with individual data collectors.

We disagree that “errors ... caused by the sampling method” can be successfully identified, and believe that the OIG’s recommendation for continuous monitoring or the distribution of costs by facility or data collector is problematic. IOCS is not designed to produce statistically reliable estimates by individual facilities. At individual locations, the median number of readings per year where a mailpiece is obtained is only four. Only 5 percent of locations have 20 or more readings with mailpieces (on-site and telephone together) per year.

IOCS is not designed to provide estimates by data collector. Different data collectors are scheduled to take readings at different facilities and on different tours, factors that affect both the type of mail handled and the type of reading taken. Questioning a data collector for diverging from the “expected” distribution of mail classes could create a bias to report what is expected, and would thereby damage the integrity of IOCS.

We believe that limited Postal Service resources can be better spent on improving the data systems and data collection processes rather than performing further iterative studies in an attempt to verify the underlying assumptions that "all other things [are] equal". We do appreciate the OIG's having highlighted in "Other Matters of Interest" that certain districts appear to have a high proportion of telephone readings at locations that are relatively close to where data collectors are located. We will continue communicating the importance of IOCS while encouraging on-site readings whenever feasible. In addition, headquarters staff will continue looking for ways to reduce the number of telephone readings.

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



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