



March 6, 2006

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Transmittal of Audit Report – Audit of Statistical Tests for Fiscal
Year 2005 – Cost and Revenue Analysis (Report Number FF-AR-06-091)

This report presents the results of our audit of the statistical tests for the fiscal year 2005 Cost and Revenue Analysis (Project Number 05XD003FF000). We reviewed tests of the Origin-Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW); the In-Office Cost System (IOCS); the Transportation Cost System (TRACS); and the System for International Revenue and Volume Outbound-International Origin-Destination Information System (SIRVO-IODIS). We conducted the audit in support of the U.S. Postal Service Cost and Revenue Analysis.

The Postal Service generally conducted the tests of the ODIS-RPW, IOCS, TRACS, and SIRVO-IODIS in accordance with established policies and procedures. Of the 275 tests observed, we identified testing errors in 39 tests. However, we do not believe these errors affected the overall validity of the process. For example, data collection technicians did not always communicate with test site personnel, follow procedures for isolating mail to be sampled, use marking slips to identify sampled mail, bring required test materials to the test site, level scales properly, follow scripted IOCS questions, or verify identification codes for dispatch and routing. Also, statistical programs managers did not always review mail exit points. Improvements are needed to maintain the integrity of the statistical data. Since the Postal Service uses the results of statistical tests in ratemaking, the data must be as accurate and consistent as possible.

We recommended management reinforce, through training, data collection procedures to ensure technicians include all mail and protect it from double counting; bring required test materials to the test site; level scales properly; follow scripted questions; and verify dispatch and routing identification codes for tests of the ODIS-RPW, IOCS, TRACS, and SIRVO-IODIS. We also recommended management reinforce policies for mail exit point reviews to statistical programs managers. Management agreed with our findings and recommendations, and the actions taken or planned should correct the issues identified in the report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Linda Libician-Welch, director, Field Financial – West, or me at (703) 248-2300.

E-Signed by Inspector General 
VERIFY authenticity with ApproveIt

For John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachments

cc: Richard J. Strasser, Jr.
J. Ron Poland
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EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of statistical tests for the fiscal year 2005 Cost and Revenue Analysis. We reviewed tests of the Origin-Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW); the In-Office Cost System (IOCS); the Transportation Cost System (TRACS); and the System for International Revenue and Volume Outbound-International Origin-Destination Information System (SIRVO-IODIS). We conducted the audit in support of the U.S. Postal Service's Cost and Revenue Analysis.

The Postal Service conducts statistical tests to collect cost, revenue, and volume data. Our audit objective was to determine whether the Postal Service conducted these tests in accordance with established policies and procedures. We observed 110 data collectors performing cost and revenue analysis tests in 18 judgmentally selected districts and at two judgmentally selected airmail and international service center facilities. At the completion of our audits, we issued 20 audit reports to district managers.

Results in Brief

The Postal Service generally conducted its tests of the ODIS-RPW, IOCS, TRACS, and SIRVO-IODIS in accordance with established policies and procedures. Of the 275 tests observed, we identified testing errors in 39 tests. However, we do not believe these errors affected the overall validity of the process. For example, data collection technicians did not always communicate with test site personnel, follow procedures for isolating mail to be sampled, use marking slips to identify sampled mail, bring required test materials to the test site, properly level weigh scales, follow scripted IOCS questions, or verify identification codes for dispatch and routing. We also noted that statistical programs managers did not always review mail exit points.

Summary of Recommendations

We recommended management reinforce, through training, data collection procedures to ensure technicians include all mail and protect it from double counting, bring required test materials to the test site, level scales properly, follow scripted questions, and verify dispatch and routing identification codes for tests of the ODIS-RPW, IOCS, TRACS, and SIRVO-IODIS.

We also recommended management reinforce policies for mail exit point reviews to statistical programs managers.

Summary of Management's Comments	Management agreed with our recommendations, and stated they will reinforce policies for tests of the ODIS-RPW, IOCS, TRACS, and SIRVO-IODIS and mail exit point reviews. Management's comments, in their entirety, are included in Appendix C of this report.
Overall Evaluation of Management's Comments	Management's comments are responsive to our findings and recommendations, and the actions taken or planned should correct the issues identified in this report.

INTRODUCTION

Background

The Postal Reorganization Act of 1970 requires the U.S. Postal Service to break even financially over a period of years. Total revenue must equal total costs for each class of mail. The act specifies that each class or type of mail service should bear the direct and indirect costs attributable to it. To meet this requirement, the Postal Service must determine the cost, revenue, and volume of each mail class, subclass, and special mail service. However, Postal Service revenue and cost accounting systems do not provide revenue and cost information at the subclass and special service levels. Therefore, the Postal Service needs various statistical systems and special studies to develop estimates of costs, revenues, and volumes for categories of mail. The Postal Service uses these estimates to prepare rate cases and budgets, conduct cost studies, and measure mailflow and service performance.

Origin-Destination Information System- Revenue, Pieces, and Weight

The Origin-Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW) is one of two probability sampling systems that estimate revenue, volume flow, weight, and performance measurement. The Postal Service uses data from tests to develop proposals for new rates, assist in budget preparation, conduct management studies, and support management decisions concerning mailflow and service performance in transportation and operations.

The ODIS-RPW test requires data collectors to systematically select mailpieces using a random start for all mail available on the randomly selected day. Data collectors record various mailpiece characteristics, such as revenue, weight, shape, indicia, barcode, postmark time, and origin and mail class.

Handbook F-75, *Data Collection User's Guide for Revenue, Volume, and Performance Measurement Systems*, states that data collectors are responsible for isolating, counting, and recording the appropriate mailpieces for the tests.

In-Office Cost System

The In-Office Cost System (IOCS) provides data for estimating labor costs in post offices and special processing facilities. The system does this by sampling what an

employee is doing at a given point in time and estimating the proportions of employee work time spent on various functions, including handling or processing categories of mail. Time proportions are then used to estimate the costs attributable to each class and subclass of mail and each special service.

Handbook F-45, *In-Office Cost System – Field Operating Instructions*, states that every employee who participates in a reading is responsible for properly collecting required information. This includes the data collector, the sampled employee, and others who may provide information to the data collector about the sampled employee.

Transportation Cost
System

The Transportation Cost System (TRACS) is a statistical sampling and data collection system that provides information to estimate costs by subclass for the major cost accounts for interfacility purchased transportation. TRACS uses four separate sampling systems to collect data: highway, rail, passenger air, and network air. TRACS develops:

- Cubic-foot-mile distribution keys for highway and rail costs.
- Pound-mile distribution keys for passenger air costs.
- Pound distribution for night turn network air costs.
- Cubic foot distribution for day turn network air costs.

Handbook F-65, *Data Collection User's Guide for Cost Systems*, gives detailed instructions to data collectors for testing truck, air, and rail trips.

System for
International Revenue
and Volume Outbound-
International Origin-
Destination Information
System

The System for International Revenue and Volume Outbound-International Origin-Destination Information System (SIRVO-IODIS) is one of two sampling systems that estimate revenue, volume, and weight of international mail for the Postal Service. Postal Service management uses SIRVO-IODIS data to assist in budgeting and planning, based on forecasts of mail volume, workloads, and overall productivity.

Handbook F-85, *Data Collection User's Guide for International Revenue, Volume, and Performance Measurement Systems*, gives detailed instructions to data collectors for conducting tests of international mail.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Postal Service conducted statistical tests to collect cost, revenue, and volume data in accordance with established policies and procedures. To accomplish our objective, we conducted fieldwork from November 2004, through July 2005. We observed 110 judgmentally selected data collectors performing cost and revenue analysis tests in 18 judgmentally selected districts and two judgmentally selected airmail and international service center facilities.

Specifically, we judgmentally selected and observed:¹

- 70 ODIS-RPW tests
- 168 IOCS tests
- 19 TRACS tests
- 18 SIRVO-IODIS tests

We interviewed the data collectors performing selected tests and reviewed the reports of each test provided by district statistical programs managers.

We conducted this audit from November 2004 through March 2006 in accordance with generally accepted government auditing standards, and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate. We also issued interim reports to 20 district managers.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General issued, *Audit of Statistical Tests for Fiscal Year 2004 – Cost and Revenue Analysis* (Report Number FF-AR-05-076, March 8, 2005). The report stated that employees did not always follow instructions for classifying and sampling data and conducting readings. Also, employees did not always enter data correctly into the Computerized On-Site Data Entry System (CODES).

¹See table in Appendix B.

Headquarters Statistical Programs directed district managers of Statistical Programs to reinforce, through training, the correct procedures for classifying mail, sampling mailpieces, returning mail to the mailstream, balancing scales, and loading data into the CODES laptop. Further, management instructed statistical programs managers to conduct process reviews in accordance with policy.

AUDIT RESULTS

Observations

The Postal Service generally conducted tests of its ODIS-RPW, IOCS, TRACS, and SIRVO-ODIS in accordance with established policies and procedures. However, we observed the following test errors.

Test Results

ODIS-RPW:

We observed 70 ODIS-RPW tests and identified 24 tests where data collectors incorrectly applied procedures.² Specifically, data collectors did not:

- Communicate with test site personnel on the day of the test in four tests.
- Follow procedures for isolating and flagging mail to be sampled in two tests.
- Use marking slips to identify sampled mail in five tests.
- Bring required test materials to eight test sites.
- Follow procedures to level weigh scales in two tests.
- Enter test data correctly into CODES in one test.
- Correctly measure one parcel in one test.
- Apply the correct mailpiece skip interval in one test.

Additionally, we noted that in five districts, the statistical programs managers did not review mail exit points, as required.³ Postal Service policy requires an on-site review at least once per quarter if an ODIS-RPW test is conducted in the facility. Managers cited various causes for why they did not conduct reviews. If mail exit points are not reviewed as required, the precision of sample estimates could be impacted.

² See table in Appendix B.

³ Handbook F-75, *Data Collection User's Guide for Revenue, Volume, and Performance Measurement Systems*, October 2003, Appendix J, pages J-25 and J-26.

IOCS:

We observed 168 IOCS tests and identified four tests where data collectors applied procedures incorrectly.⁴ Specifically, in one test each, a data collector:

- Did not follow scripted questions and asked leading questions.
- Did not properly identify a sampled employee's roster designation at the time of the reading.
- Incorrectly ended a test because they misinterpreted criteria for transferred employees.
- Did not bring the required scale when conducting the test.

TRACS:

We observed 19 TRACS tests and identified three tests where data collectors incorrectly followed procedures.⁵ Specifically, data collectors:

- Did not properly verify the characters of the dispatch and routing identification codes on sampled items in two tests.
- Incorrectly identified an Express Mail piece in one test.

SIRVO-IODIS:

We observed 18 SIRVO-IODIS tests and identified eight tests where data collectors did not follow procedures to level weigh scales.

During our observations, we discussed errors in the ODIS-RPW, IOCS, TRACS, and SIRVO-IODIS tests with data collectors and district statistical programs managers. Postal Service officials agreed with the errors we identified and made the appropriate corrections when possible.

⁴ See table in Appendix B.

⁵ See table in Appendix B.

Recommendation	<p>We recommend the vice president, controller:</p> <ol style="list-style-type: none">1. Reinforce, through training, data collection procedures to ensure all mail is included and protected from double counting, required test materials are brought to the test site, scales are leveled properly, scripted In-Office Cost System questions are followed, and dispatch and routing identification codes are verified.
Management's Comments	<p>Management agreed with our recommendation, and stated by March 15, 2006, they will instruct managers, Statistical Programs to reinforce, through training, data collection procedures to ensure technicians include all mail and protect it from double counting, bring required test materials to the test site, level scales properly, follow scripted questions, and verify dispatch and routing identification codes.</p>
Recommendation	<ol style="list-style-type: none">2. Reinforce policies for mail exit point reviews to statistical programs managers.
Management's Comments	<p>Management agreed with our recommendation, and stated they had detailed the policies in correspondence on October 11, 2005, since mail exit point reviews are a fiscal year 2006 National Performance Assessment Indicator for managers, Statistical Programs. Management also stated by March 15, 2006, they will reinforce the policies for managers, Statistical Programs, to conduct mail exit point reviews in accordance with detailed Statistical Programs policies.</p>
Evaluation of Management's Comments	<p>Management's actions taken or planned are responsive to the recommendations and should correct the issues identified in the findings.</p>

APPENDIX A. ABBREVIATIONS

CODES	Computerized On-Site Data Entry System
IOCS	In-Office Cost System
ODIS-RPW	Origin-Destination Information System-Revenue, Pieces, and Weight
SIRVO-IODIS	System for International Revenue and Volume Outbound-International Origin-Destination Information System
TRACS	Transportation Cost System

APPENDIX B. FISCAL YEAR 2005 COST AND REVENUE ANALYSIS: SUMMARY OF OBSERVATIONS OF DATA COLLECTION PROCEDURES⁶

		ODIS-RPW		IOCS		TRACS		SIRVO-IODIS	
District	Week Data Collected	Number of Tests Observed	Total Number of Errors	Number of Tests Observed	Total Number of Errors	Number of Tests Observed	Total Number of Errors	Number of Tests Observed	Total Number of Errors
Northern Ohio	11/15/04	4	0	9	0	1	1	-	-
Mississippi	12/6/04	4	1	8	0	1	0	-	-
Greater South Carolina	12/6/04	3	4	8	0	1	0	-	-
Central New Jersey	12/13/04	3	0	8	0	1	0	-	-
Greensboro	1/3/05	4	0	8	1	1	1	-	-
Lakeland	1/10/05	4	0	10	0	1	0	-	-
Sacramento	1/10/05	4	4	8	0	1	0	-	-
San Diego	1/10/05	4	1	10	0	1	1	-	-
Portland	1/10/05	4	0	10	1	1	0	-	-
Southeast New England	1/10/05	4	3	9	0	1	0	-	-
Detroit	1/18/05	3	0	9	0	1	0	-	-
Fort Worth	2/28/05	4	0	11	0	1	0	-	-
Dallas	3/21/05	5	0	14	1	2	0	-	-
Erie	4/4/05	4	4	8	0	1	0	-	-
Colorado/Wyoming	6/6/05	4	0	9	0	1	0	-	-
Central Pennsylvania	6/20/05	4	1	12	0	1	0	-	-
Caribbean	6/20/05	4	5	9	1	1	0	-	-
Richmond	7/11/05	4	1	8	0	1	0	-	-
Triboro	5/17/05	-	-	-	-	-	-	10	0
San Francisco	1/10/05	-	-	-	-	-	-	8	8
Total		70	24	168	4	19	3	18	8

⁶ Although the percentage of tests with errors appears high, each test contains multiple records and fields. Therefore, the percentage of erroneous test entries is much lower than the total number of tests containing errors.

APPENDIX C. MANAGEMENT'S COMMENTS

Lynn Malcolm
VICE PRESIDENT, CONTROLLER



February 23, 2006

KIM H. STROUD

SUBJECT: Audit of Statistical Tests for Fiscal Year 2005—Cost and Revenue Analysis
(Report Number FF-AR-06-DRAFT)

This letter responds to your request for comments on the subject of audit of statistical tests for the fiscal year 2005 Cost and Revenue Analysis. Management's comments on the recommendations contained in the audit are enclosed.

As requested in your transmittal letter, management has reviewed the draft report for Freedom of Information Act (FOIA) exemptions. Finding no reason for an exemption, we feel the report in total should be made publicly available under FOIA.

If you have any questions, please contact J. Ron Poland at 202-268-2634.


for Lynn Malcolm

Enclosure

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**Management Response to Office of the Inspector Audit Report:
Audit of Statistical Tests for the Fiscal Year 2005 Cost and Revenue Analysis**

- 1. Reinforce, through training, data collection procedures to ensure all mail is included and protected from double counting, required test materials are brought to the test site, scales are leveled properly, scripted In-Office Cost System questions are followed, and dispatch and routing identification codes are verified.**

We agree with the finding and the recommendation. By March 15, 2006, we will instruct the Managers, Statistical Programs to reinforce through training data collection procedures to ensure all mail is included and protected from double counting, required test materials are brought to the test site, scales are leveled properly, scripted In-Office Cost System questions are followed, and dispatch and routing identification codes are verified.

- 2. Reinforce policies for mail exit point reviews to statistical programs managers.**

We agree with the finding and the recommendation. Since mail exit point reviews are a FY 2006 National Performance Assessment indicator for Managers, Statistical Programs, we detailed the policies in correspondence dated October 11, 2005. By March 15, 2006, we will reinforce the instructions to the Managers, Statistical Programs to conduct mail exit point reviews in accordance with the detailed Statistical Programs policies.