



September 14, 2010

JOSEPH MOELLER
MANAGER, REGULATORY REPORTING AND COST ANALYSIS

SUBJECT: Audit Report – Statistical Tests for Fiscal Year 2010
(Report Number FF-AR-10-222)

This report presents the results of our audit of the statistical tests for fiscal year (FY) 2010 (Project Number 10BD003FF000). The objective of our audit was to determine whether the U.S. Postal Service conducted statistical Origin-Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW) tests to collect cost, revenue, and volume data in accordance with established policies and procedures. We reviewed tests of the ODIS-RPW and conducted this work in support of the audit of the U.S. Postal Service's financial statements.¹ See [Appendix A](#) for additional information about this audit.

ODIS-RPW is the primary probability sampling system that estimates revenue, volume flow, weight, and transit times for most classes of mail and extra services.² The Postal Service uses data from tests to develop new rates, assist in budget preparation, conduct management studies, and support management decisions concerning mail flow and service performance in transportation and operations. The Postal Service also relies on statistical programs sample data for revenue protection and to estimate the stamp usage portion in the calculation of Postage in the Hands of the Public (PIHOP).³

Conclusion

The Postal Service generally conducted ODIS-RPW tests in accordance with established data collection policies and procedures. However, we identified 11 errors in seven of 63 tests observed.⁴ In this report, we discuss in detail only the most frequent type of test errors, which we define as those that occurred in at least 5 percent of the tests observed. We identified two types of test errors that accounted for 10 of the 11 errors. In addition to the test errors, data collectors in four districts did not follow

¹ This report does not present the results of audit work required under the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006).

² The Postal Service has identified a number of internal control design gaps related to the RPW general computer controls and the documentation of management oversight for data collection and the analysis procedures.

³ PIHOP is the process of deferring the recognition of revenue for postage purchased but for which services have not yet been provided.

⁴ These errors occurred in four of the 10 districts reviewed.

procedures for protecting data collection equipment. Although the percentage of test errors has decreased significantly from prior years, we continue to identify errors and issues over protection of data collection equipment that we previously reported in our FYs 2009,⁵ 2008,⁶ and 2007⁷ reports.

Postal Service Has Repeat Test Errors and Data Protection Issues

We identified test errors and data protection issues that are repeat findings from prior year audits. Although the corrective actions taken by postal management have significantly decreased these errors, we continue to observe errors as well as issues over protection of data collection equipment.

The two most frequent types of test errors identified include data collectors not:

- Following procedures to determine the appropriate random start and mailpiece and/or container skip intervals⁸ in three districts (five errors). A data collector must select the required mailpieces by applying the mailpiece skip interval through all selected mailpieces and/or containers using the container skip interval.⁹ In most instances, data collectors stated the errors were due to an oversight. Some data collectors stated the auditor's presence made them nervous and that is why they made errors.
- Verifying information keyed into the [REDACTED] in two districts (five errors). A data collector must verify the information is correct when entering mailpiece [REDACTED]¹⁰. The five errors occurred in four tests in which data collectors entered a total of [REDACTED]. In most instances, data collectors stated they overlooked the required action.

These two types of test errors are repeat findings from FYs 2008 and 2009. In response to the FY 2008 report, the Postal Service instructed the district Statistical Programs personnel to reinforce these procedures during their quarterly training sessions. The U.S. Postal Service Office of Inspector General (OIG) noted the FY 2009 errors before the districts had conducted their quarterly training sessions. Therefore, we did not make a recommendation to address these issues in FY 2009.

⁵ *Audit of Statistical Tests for Fiscal Year 2009 – Cost and Revenue Analysis* (Report Number FF-AR-10-015, dated November 20, 2009).

⁶ *Audit of Statistical Tests for Fiscal Year 2008 – Cost and Revenue Analysis* (Report Number FF-AR-09-024, dated November 24, 2008).

⁷ *Audit of Statistical Tests for Fiscal Year 2007 – Cost and Revenue Analysis* (Report Number FF-AR-08-084, dated January 30, 2008).

⁸ The skip interval is an assigned number used by the data collector during ODIS-RPW tests to systematically select mailpieces for recording. For example, a skip interval of 10 would require the data collector to select the first mailpiece using the start number and then to select every tenth mailpiece for recording.

⁹ Handbook F-75, *Data Collection User's Guide for Revenue, Volume, and Performance Measurement System*, Section 3.7.2.4, October 2003.

¹⁰ Handbook F-75, Chapter 3, pages 3 - 65.

The OIG identified these two issues in 70 percent¹¹ of the tests observed in FY 2008, 33 percent¹² of the tests observed in FY 2009, and 16 percent¹³ of the tests observed in FY 2010.

We also observed data collectors in four districts who did not follow procedures for protecting data collection equipment. Specifically, in seven of 63 observations, data collectors [REDACTED] (five of seven instances occurred in two districts).¹⁴

Data collectors must preserve the integrity of test data by [REDACTED]. Generally, data collectors stated they [REDACTED] because of an oversight. This is a repeat finding from each of the prior 4 fiscal year reports. As part of the corrective action taken, headquarters issued a directive informing district management of actions required for data and laptop security in FY 2007. In addition, in FY 2008, headquarters directed district management to reinforce procedures for protecting [REDACTED] through quarterly training. In February 2010, headquarters implemented a national training module for [REDACTED] and required district managers of statistical programs to certify that all data collectors had completed the training.

The cause for the test errors and issues over protection of data collection equipment is inadequate oversight by data collectors. Over the years, the Postal Service has addressed these issues by reinforcing policies, for example, during quarterly district training. The Postal Service reviews the performance of data collectors with more than 1 year of program experience at least once during the fiscal year and enters the results into the Process Support and Tracking System. This system could be used to monitor data collector performance to reduce the types of errors we describe in this report, which would help improve the Postal Service's ability to accurately estimate revenue and mail volume.

See [Appendix B](#) for detailed information on the testing errors by district and a comparative discussion of the conditions reported in our FYs 2009, 2008, and 2007 audit reports.

We recommend the manager, Regulatory Reporting and Cost Analysis, direct the manager, Statistical Programs, to:

1. Verify that district statistical programs managers track data collector performance and take appropriate actions in response to performance issues.

¹¹ In FY 2008, we observed errors for these two issues in 37 of 53 tests (70 percent).

¹² In FY 2009, we observed errors for these two issues in 21 of 63 tests (33 percent).

¹³ In FY 2010, we observed errors for these two issues in 10 of 63 tests (16 percent).

¹⁴ There were three instances in the Albany District and two instances in the Los Angeles District.

¹⁵ Handbook F-75, Appendix G-7 (Section IV.F); Handbook F-85, *Data Collection User's Guide for International Revenue, Volume, and Performance Measurement Systems*, Appendix B, Section IV, page B-9; and Statistical Programs Letter #6, *FY 2008, Administration*.

Management's Comments

Management agreed with the recommendation and stated that by October 15, 2010, Statistical Programs will instruct district statistical programs managers to track data collector performance information for FY 2011 and take appropriate action in response to performance issues. This will apply to those data collectors for whom process reviews are completed. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the actions should resolve the issues identified in the report.

The OIG considers the recommendation significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda Libician-Welch, director, Field Financial West, or me at 703-248-2100.

E-Signed by Lorie Nelson 
VERIFY authenticity with ApproveIt
Lorie Nelson

for John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Joseph Corbett
Vincent H. DeVito, Jr.
J. Ron Poland
Douglas G. Germer
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Act of 2006 divided Postal Service products into two categories: market-dominant and competitive. Market-dominant product price increases cannot exceed the increase in the Consumer Price Index and apply to each class of mail. For competitive products, the Postal Regulatory Commission (PRC) has set rules for a pricing floor that must cover the product's costs and a required contribution to institutional costs.¹⁶ The Postal Service will have the flexibility to change pricing on competitive products as it wishes, consistent with the PRC rules, as long as it publishes the price in the *Federal Register* at least 30 days before the effective date.

The Postal Act of 2006 requires the Postal Service to submit annual reports to the PRC regarding its costs, revenue, rates, and quality of service. The act also requires the OIG to audit regularly those data collection systems and procedures the Postal Service uses to collect such information and to submit these reports to the Postal Service and the PRC. This audit report is not the report called for under the act. Although the OIG will issue reports on an ongoing basis for the audits required under the act, the purpose of this report is to support the audit of the Postal Service's financial statements.

ODIS-RPW is the primary probability sampling system that estimates revenue, volume flow, weight, and performance measurement. The Postal Service uses data from tests to develop new rates, assist in budget preparation, conduct management studies, and support management decisions concerning mailflow and service performance in transportation and operations. In addition, information collected from ODIS-RPW tests is used in the calculation of PIHOP. The ODIS-RPW test requires data collectors to select systematically 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, origin, and mail class.

Every person involved with collecting statistical programs data is to be reviewed on all processes they regularly perform. A data collector with more than 1 year of experience in a program is to be reviewed at least once during the fiscal year in that program. Once a process review is completed, the results must be entered in Process Support and Tracking System. This system provides reports used to identify training opportunities.

¹⁶ Institutional costs are infrastructure and administrative costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the Postal Service conducted statistical ODIS-RPW tests to collect cost, revenue, and volume data in accordance with established policies and procedures.

To achieve our objective, we observed 52 judgmentally selected data collectors perform 63 judgmentally selected ODIS-RPW tests in 10 judgmentally selected districts.¹⁷ We interviewed the data collectors performing the selected tests and reviewed the reports of each test district the Statistical Programs managers provided.

We conducted this audit from December 2009 through September 2010 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 did not assess the reliability of the ODIS-RPW data and did not rely on that data for the purposes of this report. We discussed our observations and conclusions with management on August 24, 2010, and included their comments where appropriate. We also issued the results of our observations' checklists to 10 district managers.

PRIOR AUDIT COVERAGE

The OIG issued the following audit reports related to ODIS-RPW tests within the past 3 years. The reports concluded that the Postal Service generally conducted the tests in accordance with established policies and procedures. However, we observed test errors as described below for each report and included recommendations, as appropriate. Management agreed with our findings and recommendations for each report.

¹⁷ We selected districts in which we had not observed tests within the last 3 years. We obtained the test schedules from each district for the period of our fieldwork and judgmentally selected tests that fit our fieldwork schedule. Data collectors were assigned to the tests by the district prior to our selection.

Report Title	Report Number	Final Report Date	Report Results
<i>Audit of Statistical Tests for Fiscal Year 2007 – Cost and Revenue Analysis</i>	FF-AR-08-084	11/30/2008	Data collectors did not always identify, isolate, and capture mail to be tested and tag sampled mail after testing to release for processing. In addition to testing errors, data collectors did not always follow procedures for protecting data collection equipment, and unit management did not always ensure employees leveled and calibrated electronic scales and did not document calibration results.
<i>Audit of Statistical Tests for Fiscal Year 2008 – Cost and Revenue Analysis</i>	FF-AR-09-024	11/24/2008	Data collectors did not always follow proper random start and skip intervals; identify, isolate, and capture mail to be tested; [REDACTED] adhere to sampling procedures; or bring required test material to the site. In addition, data collectors did not always follow procedures for protecting data collection equipment.
<i>Audit of Statistical Tests for Fiscal Year 2009 – Cost and Revenue Analysis</i>	FF-AR-10-015	11/20/2009	Data collectors did not always follow proper random start and skip intervals; [REDACTED] use marking slips to identify mail being tested. In addition, data collectors did not always follow procedures for protecting data collection equipment.

APPENDIX B: DETAILED ANALYSIS

Tables 1, 2, and 3 present information on the testing errors identified in each district and a summary comparison of the conditions reported in our FYs 2009, 2008, and 2007 audit reports.

Table 1: Summary of FY 2010 ODIS-RPW Observations and Testing Errors by District

District ¹⁸	Number of Data Collectors Observed	Number of Tests Observed	Total Number of Errors	Number of Tests with Errors
Albany 7		7	0	0
Colorado/Wyoming 5		7	0	0
Greater Michigan	5	7	1	1
Kentuckiana 7		7	3	2
Los Angeles	7	7	0	0
Portland 6		7	6	3
Richmond 5		7	1	1
Rio Grande	4	7	0	0
South Georgia	3	4	0	0
Suncoast 3		3	0	0
Total 52		63	11	7

* The districts highlighted had no reported test errors.

¹⁸ 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.

Table 2: Detail of FY 2010 ODIS-RPW Test Errors¹⁹ and Observations by District²⁰

Test Errors/Observations	Albany District	Greater Michigan District	Kentuckiana District	Los Angeles District	Portland District	Richmond District	Rio Grande District	Total Test Errors
ODIS-RPW								
Data collector did not follow procedures to determine appropriate random start and mailpiece/container skip intervals.			X (2)		X (2)	X (1)		5*
Data collector did not verify the information [REDACTED]			X (1)		X (4)			5*
Data collector did not bring the required test material to the site.	X	(1)						1
Other Observations								
Data collector did not follow procedures to protect data integrity and data collection equipment.	X (3)	X (1)		X (2)	X (1)			7*
Unit management did not always ensure that scales used in conjunction with [REDACTED] were leveled and/or calibrated.							X (1)	1

* Most frequent test error, occurring in more than 5 percent of the total tests.

¹⁹ The numbers of tests with errors are shown in parentheses.

²⁰ Three of 10 districts observed had no reported testing errors and other observations.

Table 3: Summary of Previously Reported Testing Errors and Management Issues

Description of Testing Errors ²¹	Number of Testing Errors			
	FY 2010	FY 2009	FY 2008	FY 2007
ODIS-RPW – Number of Tests Observed	63	63	53	57
Data collector did not follow procedures to determine appropriate random start and mailpiece/container skip intervals.	5	12	23	0
Data collector did not verify the information [REDACTED]	5	9	14	2
Data collector did not use marking slips to identify mail being tested.	0	4	0	0
Data collector did not bring the required test material to the site.	1	3	3	1
Data collector did not properly identify, isolate, and capture mail to be sampled/tested.	0	1	15	5
Data collector did not adhere to container sub-sampling or mailpiece sampling procedures.	0	1	8	2
Data collector did not tag sampled mail after testing to release for processing.	0	0	0	3
Data collector did not properly measure/record sampled mailpieces.	0	0	0	2
Data collector did not communicate effectively with unit personnel to ensure test mail was identified, flagged, and isolated.	0	0	0	1
Total Number of Errors	11	30	63	16
Description of Management Issues ²²	Number of Errors		Districts with Errors	
	FY 2010	FY 2009	FY 2008	FY 2007
Management Issue - Number of Districts Observed:	10	13	14	13
Data collector did not follow procedures to protect data integrity and data collection equipment.	7	10	7	3
Manager, Statistical Programs, did not review mail exit point prior to test.	0	3	0	0
Manager, Statistical Programs, did not ensure data collectors were properly trained prior to conducting test.	0	1	0	0
Unit management did not always ensure that scales used in conjunction with [REDACTED] were leveled and/or calibrated.	1	1	1	1
Manager, Statistical Programs, did not document training received by employee.	0	0	1	0
Data collectors did not consistently process short-paid mail.	0	0	1	0
Data collector allowed another data collector to use [REDACTED] identification to enter mailpiece data.	0	0	0	1
Total Number of Management Issues²³	8	1	5	5

²¹ The cells highlighted in gray occurred in at least 5 percent of our observations.

²² The cells highlighted in gray are reportable repeat findings.

²³ In FYs 2010 and 2009, each instance of a management issue was documented in observation checklists; however, in FYs 2008 and 2007, only the district where the management issue occurred was documented and not the total number of occurrences.

APPENDIX C: MANAGEMENT'S COMMENTS

FINANCE



September 10, 2010

LUCINE M. WILLIS

SUBJECT: Audit of Statistical Tests for Fiscal Year 2010 (Report Number FF-AR-10-DRAFT)

Management responds to the audit findings as follows:

Recommendation #1

Verify that district statistical programs managers track data collector performance and take appropriate actions in response to performance issues.

Response

We agree with the recommendation. By October 15, 2010 Statistical Programs will instruct the district statistical programs managers to track data collector performance for FY 2011 for those data collectors for whom process reviews are completed and to take appropriate actions in response to performance issues.

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

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

A handwritten signature in cursive script that reads "Joseph Moeller".

Joseph Moeller
Manager
Regulatory Reporting & Cost Analysis

cc: Joseph Corbett
Vincent H. DeVito, Jr.
J. Ron Poland
Douglas G. Germer
Jamie Gallagher