



# OFFICE OF INSPECTOR GENERAL

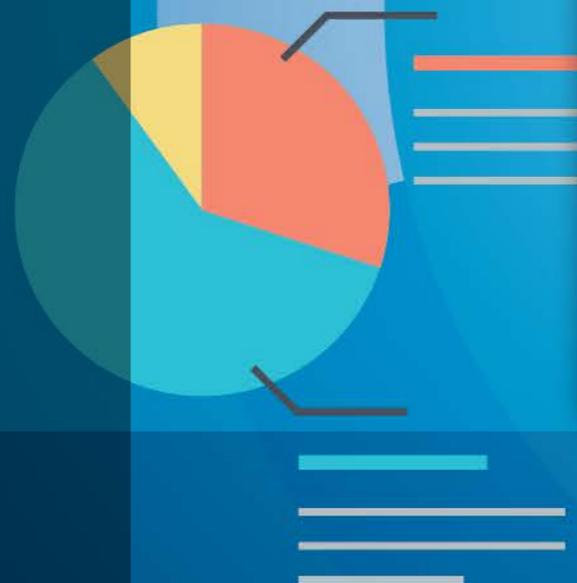
UNITED STATES POSTAL SERVICE

## Fiscal Year 2016 Statistical Tests

## Audit Report

Report Number  
FT-FO-17-001

December 22, 2016





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***ODIS-RPW is a continuous, national probability statistical sampling system that provides statistical estimates of destinating mail revenue, volume, and weight.***

## Background

The Postal Accountability and Enhancement Act of 2006 requires the U.S. Postal Service to report its annual review and mail volume to the Postal Regulatory Commission. The Origin-Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW) is a continuous, national probability statistical sampling system that provides statistical estimates of destinating mail revenue, volume, and weight. The Postal Service uses the data to develop new postage rates, conduct studies, prepare its budget, and support decisions on mail operations.

As part of this process, data collection technicians conduct statistical mail tests. The tests include sampling live mail and collecting data to estimate stamp use to calculate postage bought by the public but not used.

The U.S. Postal Service Board of Governors contracted with an independent public accounting firm to express opinions on financial statements and internal controls over financial reporting. The firm uses the ODIS-RPW data to support its opinions. The U.S. Postal Service Office of Inspector General coordinates audit work with the independent public accounting firm to ensure adequate coverage.

Our objective was to determine whether the Postal Service conducted statistical mail tests in accordance with established policies and procedures.

## What the OIG Found

Data collection technicians did not always follow policies and procedures when conducting system tests. We observed 47 tests in 16 districts and identified issues in three districts. Specifically, technicians did not always properly:

- Identify and isolate test mail.
- Apply correct sampling methodology.
- Enter mailpiece data into the laptop computer.

These issues are similar to those previously reported. In response to our prior reports and discussions throughout the year on the issues, management updated several draft versions of statistical programs handbooks and provided individualized and quarterly group training.

When data collection technicians do not properly perform the tests, there is an increased risk management relies on incorrect data to support decisions concerning mail operations.

## What the OIG Recommended

We believe corrective actions taken by management to update policy and provide training as the issues were identified have been effective. Therefore we are not making a recommendation.

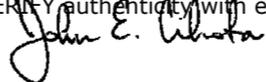
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

December 22, 2016

**MEMORANDUM FOR:** SHARON D. OWENS  
VICE PRESIDENT, PRICING AND COSTING

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop  


**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance, Pricing, and Investments

**SUBJECT:** Audit Report – Fiscal Year 2016 Statistical Tests  
(Report Number FT-FO-17-001)

This report presents the results of our review of the Postal Service's Fiscal Year 2016 Statistical Tests (Project Number 16BM003FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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# Findings

**We observed 47 tests in 16 districts and identified seven issues at three districts.**

## Introduction

This report presents the results of our audit of the U.S. Postal Service's Fiscal Year (FY) 2016 Statistical Tests (Project Number 16BM003FT000). Our objective was to determine whether the Postal Service conducted statistical Origin-Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW) tests in accordance with established policies and procedures. See [Appendix A](#) for additional information about this audit.

ODIS-RPW is a continuous, national probability statistical sampling system that provides statistical estimates of destinating mail revenue, volume, and weight. At randomly selected sites, the Statistical Programs group<sup>1</sup> data collection technicians (data collectors) sample live mail,<sup>2</sup> collect data, record the information, and transmit the test data for review. As part of this process, they record mailpiece characteristics such as revenue, weight, shape, indicia,<sup>3</sup> postmark date, origin, and mail class.

## Summary

The Postal Service did not always conduct statistical ODIS-RPW tests according to established policies and procedures. We observed 47 tests in 16 districts. We identified seven issues at three districts as shown in Table 1.

**Table 1. Summary of Issues Found**

ISSUE	DISTRICT WHERE ISSUES IDENTIFIED				TOTAL
	SEATTLE	SAN DIEGO	COLORADO / WYOMING		
 IDENTIFICATION & ISOLATION OF MAIL	1	0	1	2	
 SAMPLING METHODOLOGY	1	0	1	2	
 DATA ENTRY	0	1	2	3	
 TOTAL ISSUES	2	1	4	7 <sup>4</sup>	

Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

- 1 The Statistical Programs group supports statistical systems through the administration and communication of policies and procedures; development of training and analytical tools; and testing of data collection software to ensure data quality.
- 2 Sampling live mail includes identifying and isolating all mail included in ODIS-RPW tests.
- 3 Imprinted designation and markings on the mail that denote postage payment. It includes permit imprint, metered postage, PC Postage® products, and postage stamps.
- 4 These issues did not materially affect national estimates.

If the proper sampling method is not used, the integrity of the test data is threatened. In addition, when data collectors do not properly identify, isolate, sample, collect, or record test data, there is an increased risk management relies on incorrect data to support decisions concerning mail operations relating to revenue, volume, and weight estimates.

These issues are similar to those previously reported. In response to our prior reports<sup>5</sup> and discussions throughout the year on the issues, management published updated Statistical Programs handbooks,<sup>6</sup> required process reviews,<sup>7</sup> conducted stand-up talks, and provided individualized and quarterly training.<sup>8</sup> In addition, management developed a mandatory, online training module with questions specifically based on issues found during the year, including proper recording policies. We believe these corrective actions have been effective. Therefore, we are not making any recommendations at this time. We will continue to monitor these issues as part of our ongoing ODIS-RPW work.

## Identification and Isolation of Mail

We observed 47 tests and identified two instances where data collectors did not properly identify and isolate test mail.<sup>9</sup> Specifically:

- A data collector did not initially walk-around the facility (known as a walk-around) to identify eligible test mail. When we inquired, the data collector checked the hot case<sup>10</sup> for eligible test mail and stated a complete walk-around was not needed. However, the data collector later completed a walk-around of the facility. Postal Service policy<sup>11</sup> requires the data collector to walk-around the facility before beginning the test to ensure all eligible mail for the test was tagged and to check areas such as dock vestibules and carrier cases. Management stated the supervisor, Statistical Programs, and the data collector performed a walk-around of the facility the night before, and they were confident no mail was missed. However, OIG auditors were not present and did not observe the walk-around. By performing the walk-around the night before, the data collector could have missed eligible test mail delivered the morning of the test.
- A data collector did not properly identify and isolate eligible test mail unloaded from a truck during testing. Specifically, the data collector continued to test the previously selected samples without regard for the newly delivered mail until completing the testing of the prior sample. According to Postal Service policy,<sup>12</sup> the data collector is responsible for identifying and isolating all necessary mailpieces. The data collector stated the main focus was selecting and recording sampled mailpieces that first arrived. However, the data collector should have paused the test in progress, observed the unloading of the newly arrived mail, and placed the mail on hold until the test in progress was completed. This would ensure that the newly arrived mail did not enter into the mailstream until after it was tested.

When newly arrived mail is not properly identified, isolated, and placed on hold, the risk of mail being processed without testing increases, potentially impacting the revenue, volume, and weight estimates.

5 *FY 2015 Statistical Test Review* (Report Number [FT-FO-16-001](#), dated December 18, 2015) and *FY 2014 Statistical Test Reviews* (Report Number [FT-MA-15-005](#), dated April 13, 2015).

6 Handbook F-95, *Statistical Programs Management Guide*, July 2016, and draft versions of Handbook F-75, *Policies for Revenue, Volume, and Performance Measurement Systems*, June 2016 – updated through Statistical Programs Letter #6, FY 2016. Handbook F-75 is expected to be issued by September 30, 2017.

7 Manager, Financial Programs Compliance, and supervisor, Statistical Programs, are required to conduct a process review for each data collector where issues are noted.

8 Discussed at September 8, 2016, national quarterly training session.

9 Control 801CA040.

10 A special distribution case in a delivery unit for last-minute sorting or resorting of mail, especially preferential mail sorted to the wrong routes or received late. The carrier collects this mail before leaving for his or her route.

11 Handbook F-75, Chapter 3-7, Communicating with the Facility Manager.

12 Handbook F-75, Chapter 3, Identifying, Isolating, and Tagging Mail.

## Sampling Methodology

From our observations of 47 tests we found two occasions where the data collector did not apply the correct sampling methodology. Specifically:

- A data collector did not adjust the container and mailpiece skip intervals<sup>13</sup> to reflect the actual amount of mail received. The skip intervals originally selected were based on the amount of mail expected. When the mail arrived, the volume was less than expected, and the skip intervals should have been adjusted accordingly. Postal Service policy requires that<sup>14</sup> the data collector evaluate the volume of each mail arrival to determine the sampling method and skip intervals. If less mail is received than expected, the data collector should decrease the skip intervals to record the maximum number of mailpieces.<sup>15</sup> Management stated this occurred due to the data collector's oversight.
- A data collector applied the incorrect sampling methodology when selecting the sample by inadvertently reversing the container and mailpiece skip numbers. Postal Service policy<sup>16</sup> requires data collectors to use the proper skip interval to select containers and mailpieces. Once the OIG observed and communicated the data collector's error, the data collector corrected the sampling methodology. Had this occurrence not been corrected, one container would have been excluded from the test.

If the proper sampling method is not used, the integrity of the test data is threatened.

## Data Entry

We identified three instances out of 47 tests observed, where the data collector did not properly enter mailpiece data into the Computerized On-Site Entry System (CODES)<sup>17</sup> laptop computer. Specifically:

- A data collector incorrectly entered the postage value for three International Forever Stamps. The data collector valued each stamp as \$1.20 instead of \$1.15. Statistical Programs management pushes all price updates to CODES laptop computers at the end of each quarter. However, in this instance, the update did not include the April 10, 2016, price update (Notice 123, Price List) because it occurred after the second quarter cut-off date. In the interim, Statistical Programs management emailed the price update to all district management, who then forwarded the information to the data collectors. According to Postal Service policy,<sup>18</sup> International Forever Stamps are always valued at the prevailing First-Class Mail International 1-ounce letter rate, regardless of when they were purchased or used since they are nondenominated postage.<sup>19</sup> The data collector acknowledged that he had been out of the office and had not read all of his emails, so he was not aware of the updated price list.
- A data collector recorded one Forever Stamp into the CODES laptop computer when there were three affixed to the mailpiece. Postal Service policy<sup>20</sup> requires the data collector to record the total number of Forever Stamps that appear on the mailpiece. The data collector acknowledged it was an error and made the correction after the OIG communicated the error.

13 The data collector uses a mailpiece skip interval to select mailpieces and record a fraction of the mail volume. A container mailpiece skip interval is used to select containers and record all or some of the mailpieces in those containers.

14 Handbook F-75, Chapter 4-2, Choosing a Sampling Method, Chapter 4-4.7, Adjusting the Mailpiece Skip Interval During Sampling, and Chapter 4-5.7, Adjusting Mailpiece and Container Skip Intervals Before Sampling.

15 For example, the original container and mailpiece skip intervals were 40/20 based on a larger mail volume. If adjusted to a smaller mail volume, the container and mailpiece skip intervals would be 18/16, which would result in a larger sample.

16 Handbook F-75, Chapter 4-5.2d, Overview of Container Skip Subsampling Procedure.

17 CODES is a computerized data entry system that uses portable computers to record data for statistical programs that are designed to attribute costs to and report revenue, pieces, and weight for each mail class and product.

18 Handbook F-85, *International Revenue, Volume, and Performance Measurement Systems*, July 2016, Chapter 4-4h, Indicia.

19 A postage stamp without a monetary value on the face.

20 Handbook F-75, Chapter 5-3.1.4, Number of Mailpieces, Weight, and Nonmachinable Characteristics.

- A data collector did not identify and record a mailpiece with a Forever Stamp on it that should have been included in the sample. According to Postal Service policy,<sup>21</sup> data collectors must record all selected mailpieces. This was an oversight. The mailpiece data was correctly recorded after the OIG communicated the error.

The Postal Service relies on Statistical Programs sample data to estimate postage in the hands of the public,<sup>22</sup> which includes Forever Stamps that have been sold but not used. When Forever Stamps are not properly recorded, their estimated volume and revenue is misstated.

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<sup>21</sup> Handbook F-75, Chapter 4-4.6, Selecting the Mailpieces.

<sup>22</sup> The process of deferring the recognition of revenue when postage has been purchased, but where services (mail delivery) have not yet been provided.

# Recommendations

## Management's Comments

This report did not have recommendations. Management agreed with the issues except for the mail isolation issue regarding the walk-around not being observed. They stated that since the walk-around was performed the night before, the issue did not rise to the level of an official finding.

See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the issues. We continue to believe that the risk of mail being processed without testing increases when data collectors do not conduct the walk-around just prior to beginning the test. We reported the issue to provide management and the independent public accounting (IPA) firm with information regarding the integrity of the statistical tests. The data collector later completed a walkaround of the facility.

# Appendices

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## Appendix A: Additional Information

### Background

The Postal Accountability and Enhancement Act of 2006 (PAEA)<sup>23</sup> requires the Postal Service to report annual costs, revenue, volume, and quality of service to the Postal Regulatory Commission (PRC). To meet this requirement, the Postal Service uses the RPW report, a document the PRC requires under the PAEA for product and extra service revenue, volume, and weight reporting information. RPW reporting combines information for many resources. Most product revenue and volume comes from census-type systems, such as PostalOne!<sup>24</sup> and Retail Systems Software,<sup>25</sup> where complete information is available. Also contributing to product reporting are data from ODIS-RPW, a continuous, national probability statistical sampling system. This system provides estimates of destinating mail revenue, volume, and weight where there are no system data that can provide the needed information. Management uses ODIS-RPW estimates to develop new rates, prepare its budget, conduct management studies, and support management decisions concerning mail operations.

As part of the ODIS-RPW estimation process, data collectors select mailpieces systemically for tests using random starts and mailpiece/container skip intervals for mail available on a randomly selected day. Data collectors sample live mail, collect data at randomly selected sites, record the information in CODES laptop computer, and transmit the data for review. In addition, the data collectors record various mailpiece characteristics, such as revenue, weight, shape, indicia, postmark date, origin, and mail class. Management relies on sample information to estimate revenue and stamp use when calculating postage in the hands of the public. Data collection serves as an important role in the development of Postal Service prices.

Financial Programs Compliance managers<sup>26</sup> handle day-to-day operations of Statistical Programs, ensuring employees are trained to properly collect the data. Statistical Programs supervisors help managers coordinate and monitor training requirements and administer unit data collection activities. In addition, they review data collectors' work to ensure they are properly performing all tests they regularly execute. Management reviews data collectors with less than 1 year of experience in a program at least twice during their first year in that program. Management reviews data collectors with more than 1 year of experience in a program at least once during the fiscal year. Management is also responsible for initiating action for any improvement opportunities noted during the reviews.

The U.S. Postal Service Board of Governors contracted with an IPA firm to express opinions on the financial statements and internal controls over financial reporting. The IPA firm uses ODIS-RPW as one source of information to support its integrated audit and maintains overall responsibility for testing and reviewing significant Postal Service accounts and processes. The OIG coordinated audit work with the IPA firm to ensure adequate coverage.

### Objective, Scope, and Methodology

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

The IPA firm judgmentally selected 47 ODIS-RPW tests at 16 randomly selected districts.<sup>27</sup> To achieve our objective, we performed site visits at various mail facilities to observe data collectors perform statistical ODIS-RPW tests. We observed 41 data collectors<sup>28</sup>

<sup>23</sup> Public Law 109-435, enacted December 20, 2006.

<sup>24</sup> An integrated electronic system that records mailing transactions, receives payments, and simplifies record keeping and the retrieval of mailing data. It is the foundation of seamless acceptance and the submission of electronic documentation for Intelligent Mail.

<sup>25</sup> Retail Systems Software replaces the existing Point-of-Service, Self Service Kiosk, and Contract Access Retail Systems Software.

<sup>26</sup> The role of the manager, Financial Programs Compliance, is to allocate resources to conduct Statistical Programs tests, analyze data and information, conduct training, and perform process reviews.

<sup>27</sup> ODIS-RPW tests can be conducted at different types of postal facilities.

<sup>28</sup> We observed three different data collectors conduct tests in eight districts (for a total of 24). Six districts used two data collectors (12), another district used four data collectors, and one district only used one data collector.

select mail to be tested and record various mailpiece characteristics into the CODES laptop computer. We also interviewed Statistical Programs management and the data collectors performing the selected tests. In addition, we reviewed the reports for each test provided by management.

We conducted this audit from October 2015 through December 2016 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 November 17, 2016, and included their comments where appropriate. We did not assess the reliability of the ODIS-RPW data and did not rely on the data for the purposes of this report.

### Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2015 Statistical Test Review</i>	To determine whether the Postal Service conducted statistical mail tests in accordance with established policies and procedures.	<a href="#">FT-FO-16-001</a>	12/18/2015	None
<i>Fiscal Year 2014 Statistical Tests Reviews</i>	To determine whether the Postal Service conducted statistical mail tests in accordance with established policies and procedures.	<a href="#">FT-MA-15-005</a>	4/13/2015	None

## Appendix B: Management's Comments

SHARON OWENS  
VICE PRESIDENT, PRICING AND COSTING



December 14, 2016

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2016 Statistical Tests  
Report Number FT-FO-17-DRAFT

Management agrees with the majority of the subject report and responds as follows:

#### Recommendation

The report made no recommendations. The Office of Inspector General (OIG) audit report stated that it believes that the corrective actions taken by management to update policy and provide training have been effective.

#### Management Response/Action Plan:

We agree with the findings pertaining to the identification of mail and sampling methodology. As noted in the report, management has taken action to remediate these findings by doing the following:

- Directing managers, Financial Programs Compliance (MFPCs) to deliver a Stand-up Talk and to instruct all ODIS-RPW data collectors to complete an eModule training course outlining the Fiscal Year 2016 Statistical Tests audit findings by December 31, 2016. MFPCs are also directed to monitor the completion status of this course as data collectors document the completion of this training at the end of the course.
- Focusing on the proper procedures for identifying and isolating eligible test mail; applying correct container and mailpiece skip intervals; and entering and verifying information keyed into the CODES laptop at a national training webinar scheduled for December 15, 2016.

Management does not agree with the mail isolation finding regarding the lack of an observable "walk around" of the facility. As noted in the report, management had stated that the supervisor, Statistical Programs and the data collector performed this task at the test facility the night before, when the OIG was not present. While we believe that this should have been brought to management's attention, we do not believe this rises to the level of an official finding.

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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 (FOIA).

If you have any questions, please contact Joseph G. Hurley at (202) 268-3134.

  
Sharon Owens

cc: Joe Hurley  
Brad Pafford  
Deirdre Jones-Merritt  
Sally Haring



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