August 6, 2007

ANTHONY M. PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Audit Report – Management Operating Data System
(Report Number MS-AR-07-003)

This report presents the results of our audit of the Management Operating Data System (MODS) (Project Number 06YG031MS000). We conducted this audit pursuant to the Postal Accountability and Enhancement Act, Public Law 109-435. Section 204 of the act requires the U.S. Postal Service to annually submit a report to the Postal Regulatory Commission analyzing costs, revenues, rates, and quality of service. The U.S. Postal Service Office of Inspector General is required to "regularly audit the data collection systems and procedures utilized" to prepare this report. This is the first in a series of MODS audits. Subsequent audits will examine issues such as MODS volume and workhour errors, and standard national conversion rates.

At the seven facilities we visited, MODS internal controls were generally effective and MODS data was valid and reliable when used to assess overall plant efficiency. However, internal controls were not effective in ensuring that volume and workhour data recorded against MODS operation numbers was valid. We recommended certain system-wide internal control improvements:

- Updating outdated policies, procedures, and on-line training materials.
- Developing guidelines for correcting MODS volume and workhour errors.
- Performing MODS reviews annually.

Management agreed with our recommendations and has developed initiatives that address the issues in this report. Management's comments and our evaluation of these comments are included in the report. Additionally, management provided several comments that clarified information in the report. These additional 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 Robert Mitchell, Director, Sales and Service, or me at (703) 248-2100.

Tammy Whitcomb
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Attachments

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EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of the Management Operating Data System (MODS) as required by the Postal Accountability and Enhancement Act of 2006. Our objectives were to assess the effectiveness of MODS internal controls and the validity and reliability of MODS volume and workhour data. This is the first in a series of MODS audits. Subsequent audits will examine issues such as MODS volume and workhour errors, and standard national conversion rates.

Results in Brief

MODS internal controls were generally effective at the seven mail processing facilities we audited. Additionally, MODS data was valid and reliable at these facilities when used to assess overall plant efficiency. However, MODS internal controls were not effective in ensuring that volume and workhour data recorded against MODS operation numbers was reliable. We identified three system-wide internal controls that can be improved:

- Policies, procedures and on-line training materials were outdated.
- MODS volume and workhour errors were not corrected.
- MODS reviews were not performed annually.

Summary of Recommendations

We recommended updating MODS policies and procedures and on-line training materials, developing new guidelines for correcting MODS errors, and emphasizing the completion of annual MODS reviews.

Summary of Management's Comments

Management agreed with the recommendations and stated they will take action on them.

Management also provided additional background information and suggested several clarifications in its response. Management's comments, in their entirety, are included in Appendix E.

Overall Evaluation of Management's Comments	Management's actions taken or planned are responsive to the recommendations and should correct the issues identified in the findings. Additionally, we revised our final report as appropriate, based on management's additional comments and suggested clarifications.

INTRODUCTION

Background

The Management Operating Data System (MODS) was developed in 1971 to collect, store, and report data on mail volume, workhours, and machine utilization. At more than 430 major mail processing facilities,[1] mail volume and workhour data is entered into MODS, compiled, and used to plan mail processing activities, project workhours and mail volumes, and evaluate the efficiency of facilities. Standard 3-digit MODS operation numbers are assigned to each mail processing activity at MODS facilities. Volume and workhour information is then recorded against the MODS operation numbers. See Appendix D for a description of MODS operation numbers.

The U.S. Postal Service measures mail volume in two ways: first handling piece (FHP) and total piece handlings (TPH). FHP is mail volume recorded into an operation where it will receive its first distribution handling. For manual operations, FHP plus any subsequent downstream handling totals TPH. For automated operations, total pieces fed, minus any rework or reject mail, totals TPH.

MODS collects mail volume (piece count) data from automated processing equipment, weight scales, and manual entries. For mail processed on automated mail processing equipment, End of Run (EOR) software collects and transmits mail volume into MODS. For mail that is not processed on automated mail processing equipment, the Postal Service uses four scale systems to estimate mail volume.[2] Scale software records mail weight and then converts the weight into the number of mailpieces by multiplying, for each operation, the number of pounds of mail by standard national conversion rates. The data from the scale controllers is then electronically transmitted to MODS.

Some mail volume data is input manually into MODS. This primarily occurs when mail processing equipment does not

[1] Major mail processing facilities include processing and distribution centers/facilities (P&DC/F), bulk mail centers (BMC) and airport mail centers/facilities (AMC/F).
[2] PC Scales, Hardy Scales, Tray Management System Scales, and In-Line Scales System.

interface with MODS or mail is processed manually, such as when nonmachinable packages are sorted manually at BMCs.

The Time and Attendance Collection System (TACS) feeds employee workhour data into MODS. Each mail processing operation has an associated Employee Badge Reader (EBR). When employees are working on a mail processing operation, they clock into that operation using the EBR. This is called employee "clock ring" data, and it is then used to compute and record workhours by operation. The information from the EBR is then transmitted in real time to TACS. Clock rings are manually adjusted or entered, if necessary, by the supervisor. If the clock ring is incomplete or incorrect, the employee is paid only for the correct portion of the clock ring. Figure 1 illustrates the MODS data flow.

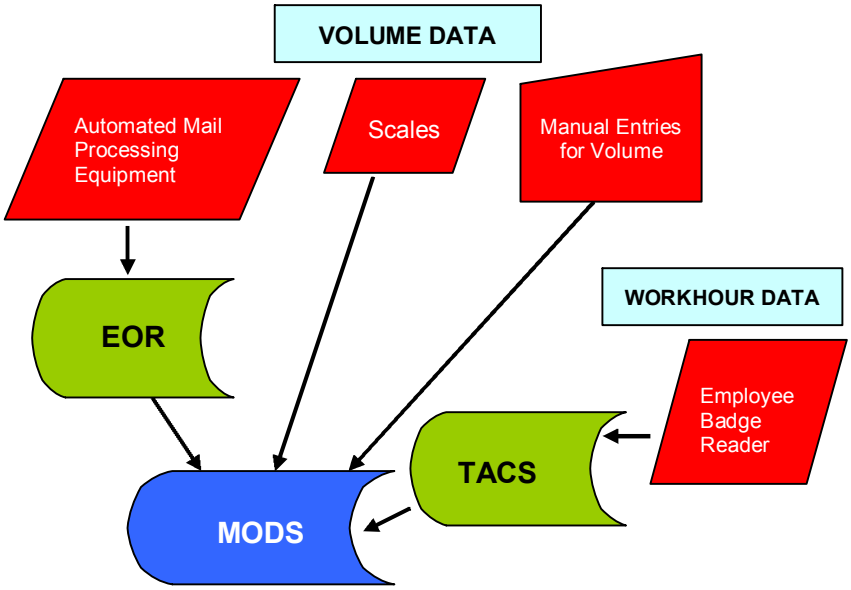


Figure 1. MODS Data Flow

The Postal Service has two distinct uses for MODS data in postal ratemaking. First, MODS is one of the primary systems used to distribute mail processing employee labor costs to all categories of mail and special service. These labor costs are associated with mail processing operations when employees clock into a mail processing activity

identified by a 3-digit MODS operation number. Workhour information by MODS operation number is associated with labor cost pools and management uses a statistical cost system[3] to distribute the pool costs to all categories of mail and service.

The Postal Service also uses MODS data to econometrically model mail processing variability.[4] In plants, MODS volume and workhour information is translated into productivities for individual MODS operations, often by work tour and other characteristics. Econometric modeling uses productivities to estimate the percentage of mail processing labor costs in each cost pool that are volume variable (volume variable costs change in response to changes in mail volume) and, therefore, should be directly attributed to each category of mail and service.

In recent rate cases (including Docket No. R2006-1), the Postal Regulatory Commission (PRC) has accepted the Postal Service's use of MODS to assist in distributing mail processing employee labor costs to all categories of mail and special service. However, the PRC has rejected the use of MODS data in mail processing variability models. The PRC has identified three major concerns with the quality of MODS data.

First, the PRC has concerns that MODS data contains misclocking errors. Misclocking errors occur when employees are working in one mail processing operation but are clocked into a different operation.[5] A 1996 Postal Inspection Service audit estimated that at 25 processing and distribution centers, opening unit employees were clocked into the incorrect operation 31 percent[6] of the time.[7] A recent U.S. Postal Service Office of Inspector General

[3] In-Office Cost System.
[4] For a detailed analysis, see PRC Docket No. R2006-1, *Opinion and Recommended Decision*, Mail Processing Variability, pages 21 – 59, February 26, 2007.
[5] Management's response to this report provided background information that Postal Service cost pools used in rate cases are an aggregation of selected MODS operations numbers. They noted that, although employees may be clocked into a different operation than the one management assigned them, management believes the misclocking rate is low when the MODS operation numbers are aggregated into cost pools. The Postal Service also noted that in rate case proceedings, Postal Service witnesses have challenged the validity of the Postal Inspection Service audit that reported a 32 percent misclocking rate at selected facilities.
[6] In subsequent rate case documentation, the Postal Service revised the Postal Inspection Service audit estimate to 32 percent.
[7] The Postal Service Inspection Service, *National Coordination Audit: Allied Workhours* (Report Number 034-1181680-PA (1), December 1996).

(OIG) audit at a mail processing facility estimated employees were not clocked into the correct MODS operation 22 percent of the time.[8]

Second, the PRC has questioned the reliability of the standard national conversion factors. According to the PRC, "conversion factors are inaccurate because they are not plant-specific and many years go by between updates."

Third, a considerable amount of MODS data introduced in rate cases has significant measurement errors. Common errors include the pairing of zero workhours with mail volume and vice versa, implausibly high or low productivity, and negative piece counts.

Objectives, Scope, and Methodology

We conducted this audit pursuant to the Postal Accountability and Enhancement Act, Public Law 109-435. Section 204 of the act requires the Postal Service to submit an annual report to the PRC analyzing costs, revenues, rates, and quality of service. The OIG is required to "regularly audit the data collection systems and procedures utilized" to prepare this report.

The objectives of this audit were to assess the overall effectiveness of MODS internal controls and assess the validity and reliability of MODS volume and workhour data.

- Validity refers to whether MODS data actually represents volume and workhour performance at facilities.

- Reliable data is complete, accurate, and consistent; meets its intended purpose; and is not subject to inappropriate alteration.

We discuss our scope and methodology in detail in Appendix A.

This is the first in a series of MODS audits. Subsequent audits will examine issues such as MODS volume and workhour errors, and standard national conversion rates.

[8] The OIG, *Mail Processing Internal Controls at the Dallas Bulk Mail Center* (Report Number NO-AR-06-009, September 28, 2006).

Prior Audit Coverage

The OIG report titled *Mail Processing Internal Controls at the Dallas Bulk Mail Center* (Report Number NO-AR-07-009, September 28, 2006) projected that 22 percent of the time employees were not clocked into the MODS operation on which they were working. The Postal Service accepted the recommendations to correct labels on EBRs and to train employees and supervisors in correct time recording procedures.

AUDIT RESULTS

Overall, at the seven mail processing facilities we visited, MODS internal controls were generally effective and MODS volume and workhour data was valid and reliable when used to assess overall plant efficiency. However, MODS internal controls were not effective in ensuring that volume and workhour data recorded against MODS operation numbers was reliable.

Additionally, we identified three system-wide internal control components that can be improved:

- Policies, procedures, and on-line training materials were outdated.
- MODS volume and workhour errors were not corrected.
- MODS reviews were not performed annually.

Effective Internal Control System

At the seven mail processing facilities we visited, MODS internal controls were generally effective in ensuring that MODS volume and workhour data was valid and reliable when used to assess overall mail volume and workhours at the facilities and to evaluate the efficiency of mail processing facilities. We used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework to assess the effectiveness of internal controls. We found that:

- A control environment was in place with clear reporting relationships and duties.
- Relevant risks had been identified and the Postal Service had taken actions to mitigate the risks and improve the quality of MODS data.
- Internal control activities at the seven mail processing facilities we visited were in place and functioning.
- Information and communication systems were in place and functioning.
- MODS performance was monitored at all levels.

Individual Management Operating Data System Data Entries Not Reliable

At the seven facilities we visited, MODS internal controls were not effective in ensuring that volume and workhour data recorded against individual MODS operation numbers was reliable. During a 3-month period, about 39 percent of the data records at these facilities contained four types of anomalous MODS data that logically should not occur:[9]

1. Zero workhours but mail volume recorded in a MODS operation.

2. Zero mail volume but workhours recorded in a MODS operation.

3. MODS operations with FHP mail counts greater than TPH mail counts.

4. MODS operations with negative mail volume.

There are instances where anomalous MODS data would legitimately occur. For example, about 80 percent of FHP mail volume is determined using scales that weight and convert mail to piece counts using national conversion rates. If the actual TPH piece count does not equal the estimated pound to piece conversion rate, then FHP will be greater or less than TPH. Although there are instances where anomalous MODS data is legitimate, this would not account for an occurrence rate of 39 percent. To determine whether these MODS data anomalies are legitimate, we would need to examine each individual MODS transaction. However, we did not perform such a detailed examination of the individual MODS transactions for the 3-month data set.

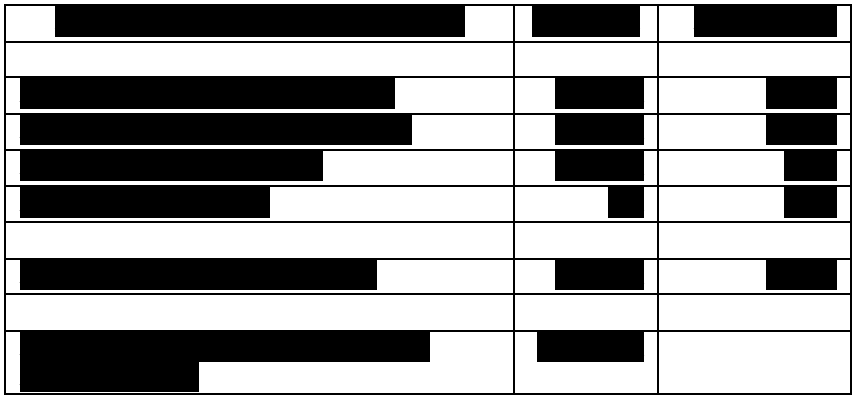
While the individual data records had a high error rate, when they are aggregated at the plant level on a daily, weekly, or monthly basis, the total volume and workhour data at the facilities is generally reliable, especially for the Postal Service's purposes. For example, if employees are working in one mail processing operation but clocked into a different operation, an anomalous MODS data entry would occur because the mail processing operation would have

[9] Our original anomalous data rate was 59 percent. Based on management's comments to our draft report, we calculated that about 20 percent of the anomalous data involved workhours recorded in 133 operation numbers where there is no requirement to have a volume count.

no associated workhours and the employee workhours would not be associated with mail volume. However, when aggregated at the plant level, the total mail volume would be associated with total workhours. See Appendix D for further details.

At each of the seven facilities, we examined 3 months of MODS data entries (August 1 – October 31, 2006) and determined that 17,179 of the 44,367 mail processing data records (or 39 percent) contained an anomalous entry. Approximately 11 percent of the anomalous data were instances of zero workhours, but volume was recorded. Another 22 percent of the anomalous data was zero volume but workhours were recorded. Six percent of the anomalous data was FHP greater than TPH, and less than 1 percent of the anomalous data was negative volume. See Figure 2.

Figure 2.
Summary of Anomalous Data Records



We asked the MODS coordinators at the seven facilities for explanations of the anomalous MODS data. Common responses included:

- Employees were clocked into the incorrect MODS operation.
- Employees were not swiping their badge when moving from one operation to another.

- Employees were assigned an incorrect base operation code.[10]
- Invalid operation numbers were on the EBR.

[10] Management assigns mail processing employees to base mail processing operations, which are identified by MODS operation numbers. Base operation codes are encoded on time badges. When employees clock into a mail processing operation, they automatically clock into their base operation code unless the employee enters a different code into the EBR. If management assigns an employee an incorrect code and the employee enters it into the EBR, there will be a misclocking error.

Outdated Training Materials

Outdated training materials weaken MODS training. There are no formal MODS training courses, so MODS users are self-taught using a combination of written policies and procedures,[11] on-line training materials, and on-the-job training. However, the written policies and procedures and on-line training materials are outdated. Many of the systems discussed in written policies and procedures and the on-line training materials are no longer in use.

Examples of outdated information in the written policies and procedures and on-line training materials include:

- Postal Service information systems have been updated and no longer include the Postal Source Data System and the Corporate Data Base to transmit and store information.
- TACS replaced the Electronic Time Clock System.
- The on-line training and written policies and procedures give instructions for two MODS scale systems, the Hardy Scales and the PC Scales. However, two additional scale systems are now in use—the Tray Management System Scales and the In-Line Scales System.

Recommendation

We recommend the Vice President, Network Operations, direct the Manager, Processing Operations, to:

1. Update policies, procedures, and on-line training materials for the Management Operating Data System.

Management's Comments

Management agreed with the recommendation and plans to update the MODS policies, procedures, and training materials by the end of the fiscal year.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the finding.

[11] Handbook M-32, *Management Operating Data System*, April 2000.

Management Operating Data System Volume and Workhour Errors Not Corrected

Some MODS volume and workhour errors had not been corrected at all MODS facilities. The Postal Service does not have guidelines for correcting these errors. As a result, some volume and workhour data may be lost or recorded under a catch-all operation number. These volume and workhour errors occur when a MODS control prevents MODS from accepting EOR, Scales, or TACS data. These errors are reported, but not incorporated into the appropriate operation number until the error is corrected.

MODS volume errors are reported in EOR and Scales Interface Data Error Reports. If volume errors are not corrected within 60 days of the date the error occurred, the volume data is dropped from MODS.

MODS workhour errors are reported in a TACS interface data error report. If workhour errors are not corrected within 60 days of the date of occurrence, the workhours are recorded in one of two default MODS operation numbers. Most of the workhours are recorded in MODS operation number 565, a default mail processing operation number assigned to Function 1.[12] Other uncorrected workhour errors are recorded in MODS operation number 756, a default customer service operation number assigned to post offices, stations, and branches.

[redacted][13]

[12] Function 1 is mail processing operations, which include P&DC/Fs, AMC/Fs, Remote Encoding Centers, and BMCs.
[13] [redacted]

Figure 3. Uncorrected Workhours

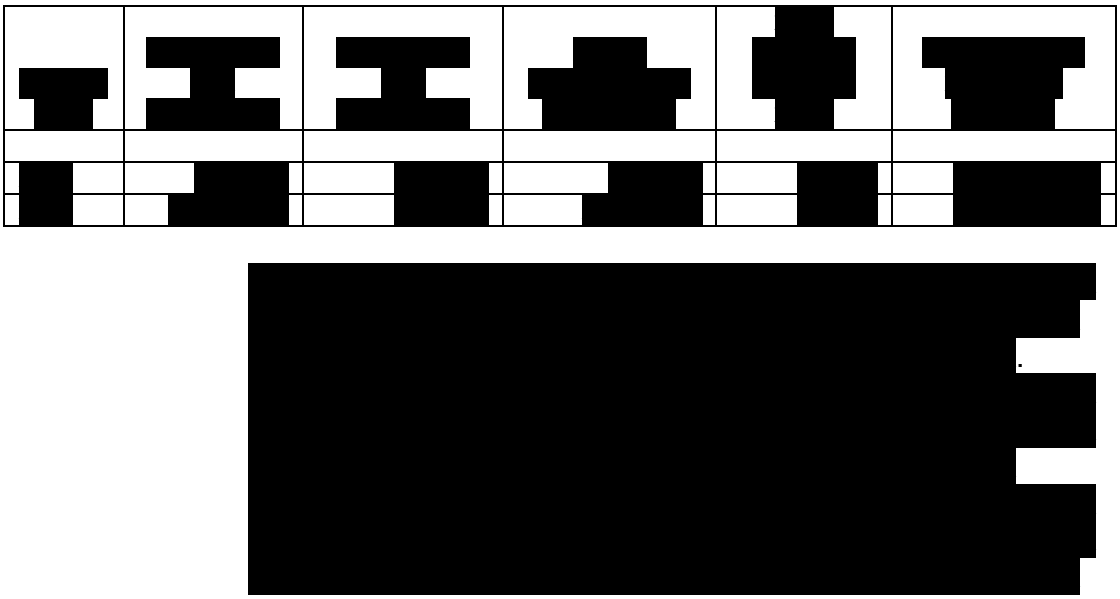
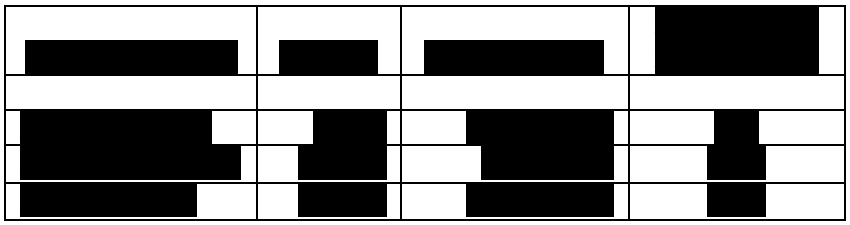


Figure 4.
Volume and Workhour Errors
As of February 21, 2007



Recommendation	We recommend the Vice President, Network Operations, direct the Manager, Processing Operations, to: 2. Establish guidelines for correcting Management Operating Data System volume and workhour errors.
Management's Comments	Management agreed with the recommendation and will incorporate it into the updated policies and training materials referenced in recommendation 1, procedures, and requirements to reconcile workhour and volume discrepancies.

Evaluation of Management's Comments	Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the finding.

Management Operating Data System Audits Not Conducted Annually	MODS reviews are not performed annually. Postal Service policy[14] requires each facility to conduct an annual MODS review to identify and correct discrepancies in MODS operations. Two of the seven facilities we visited had not conducted an annual review. Additionally, 14 of the 78 facilities we surveyed reported that reviews are not conducted annually. Omitting annual reviews increases the risk that MODS data is inaccurate.
Recommendation	We recommend the Vice President, Network Operations, direct the Manager, Processing Operations, to: 3. Monitor the completion of annual reviews of the Management Operating Data System.
Management's Comments	Management agreed with the recommendation and will establish criteria whereby the areas will monitor the completion of their individual plants' MODS audits. The areas will also report compliance rates to management on a regular basis.
Evaluation of Management's Comments	Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the finding.

[14] Handbook M-32, *Management Operating Data System*, April 2000.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted this audit pursuant to the Postal Accountability and Enhancement Act, Public Law 109-435. Section 204 of the act requires the Postal Service to submit an annual report to the PRC analyzing costs, revenues, rates, and quality of service. The OIG is required to "regularly audit the data collection systems and procedures utilized" to prepare this report.

We conducted this audit from March 2006 through August 2007 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 on November 16, 2006, and included their comments where appropriate.

We interviewed national and area MODS coordinators and reviewed operations at seven MODS facilities.[15] At each facility, we interviewed MODS personnel, reviewed workhour and volume source documentation, and observed MODS operations.

To assess the validity of MODS workhours, we reconciled each facility's workhours reported in TACS with workhours reported in MODS. To assess the validity of MODS volume, we reconciled scale, EOR, and manual volume with volume reported in MODS.

To assess the reliability of manual volume entries at the facilities, we judgmentally selected manual volume entries and reconciled the recorded volume with supporting documentation.

To assess the reliability of scale volume data at the facilities, we reviewed monthly calibration of scales, examined procedures for weighing mail, and reviewed key internal controls over scale operations. Some key internal control activities include employees observing weight limits when weighing mail, affixing weigh tags with correct information, and conspicuously marking and using tare[16] weights. We observed the mail weighing process, but we did not review the accuracy of the standard national conversion rates used to convert weighed mail to pieces.

To assess the reliability of TACS data at the facilities, we examined key internal control activities and reviewed procedures for identifying and correcting workhour errors. Some key internal control activities include employee time badges being kept in a secure and locked location with limited access, the MODS coordinators or immediate supervisors

[15] We judgmentally selected and visited [redacted].

[16] The tare weight is the weight of a rolling container and the interim containers which are then subtracted from the total weight to calculate the actual net weight of the mail itself.

reviewing the TACS or MODS error reports, and workhour adjustments (where workhours are added or transferred from one operation to another) being verified, approved, and initialed by the appropriate manager.

To assess MODS training, volume and workhour procedures, and monitoring and communication activities, we surveyed 98 judgmentally selected MODS facilities. We determined how internal controls, such as training MODS users, communicating MODS changes to users, and monitoring workhours, operate nationally. Appendix B summarizes the results of our survey.

To analyze individual MODS records at the seven facilities, we extracted mail processing records by operation number from the Enterprise Data Warehouse for the period August 1 – October 31, 2006. We then searched the records for instances of zero workhours with associated volume and vice versa, FHP greater than TPH, and negative mail volume reported.

At the seven facilities we visited, we did not review the extent to which mail processing employees were clocked into a different MODS operation number than the MODS operation number to which they were actually assigned. In rate case testimony, the Postal Service estimated that employees were not clocked into the correct MODS operation 32 percent of the time.[17] A previous OIG audit at a mail processing facility estimated employees were not clocked into the correct MODS operation 22 percent of the time.[18]

We used the COSO internal control framework[19] to assess the effectiveness of internal controls. COSO defines internal controls as a process designed to provide reasonable assurance that an organization can achieve key objectives related to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Under the COSO framework, five interrelated components provide a basis against which internal controls can be evaluated.

1. Control environment: Sets the tone for the organization and is a foundation for the other internal control components. Key control environment factors include management and employee commitment and attitude toward effective internal controls, an effective organizational structure, and training and supervision practices.

2. Risk assessment: The identification, analysis, and management of relevant risks in achieving the organization's objectives.

[17] PRC Docket No. R2006-1, Library Reference USPS-LR-1
[18] The OIG, *Mail Processing Internal Controls at the Dallas Bulk Mail Center* (Report Number NO-AR-06-009, September 28, 2006).
[19] The COSO, Internal Control – Integrated Framework.

3. Internal control activities: The policies and procedures that help ensure management directives are carried out. This includes diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, and documentation.

4. Information and communications: Information systems must report on external and internal events, activities, and conditions that make it possible to run and control the organization. Effective communication also must flow down, across, and up the organization.

5. Monitoring: Occurs in the course of normal operations and includes regular supervisory activities and other actions people take in performing their duties. Monitoring of internal control also includes policies and procedures for ensuring that the findings of audits and other reviews are resolved.

APPENDIX B. SUMMARY OF SURVEY RESULTS

We judgmentally selected 98 postal facilities. Out of the 98 facilities, we received responses from 78 facilities.

TRAINING	RESPONSES	NUMBER OF RESPONSES	PERCENTAGE
What type of training do you receive?	• WebMODS formal training	17	22
	• PC MODS formal training	1	1
	• On-the-job training	49	63
	• Data integrity on-line training (2000)	5	6
	• Reading Handbook M-32	3	4
	• Written user guides	3	4
TACS/WORKHOURS			
Is overtime authorized by supervisors?	• Yes	64	82
	• No	9	12
	• Yes and no	4	5
	• Don't know	1	1
Do badge readers contain the operation numbers for surrounding work areas?	• Yes	74	95
	• No	3	4
	• Yes and No	1	1
Do supervisors sweep and rack employee badges?	• Yes	37	47
	• No	33	42
	• Yes and No	7	9
	• Don't know	1	1
Do supervisors physically observe employees making clock rings?	• Yes	40	51
	• No	21	27
	• Yes and no	16	21
	• Don't know	1	1
Do supervisors make periodic clock ring checks on employees in selected pay locations or operation numbers?	• Yes	54	69
	• No	16	21
	• Yes and no	7	9
	• Don't know	1	1
Are badges for employees retained in a badge rack located at or near their assigned operation?	• Yes	63	81
	• No	10	13
	• Yes and no	4	5
	• N/A	1	1

Are employees clocked into the operation in which they are working?	• Yes • No • Yes and no	65 6 7	83 8 9
Is a control in place for supervisors to ensure employee moves are captured for their assigned operation?	• Yes • No • Yes and no	56 21 1	72 27 1
EOR/VOLUME			
Are end of runs checked to ensure that all interfaced machines have transmitted?	• Yes • No	77 1	99 1
Are MODS adjustments saved, verified, and signed with supporting documentation?	• Yes • No	74 4	95 5
NONMACHINABLE COUNTS			
Are physical counts of containers made for conversion purposes?	• Yes • No • N/A	69 5 4	88 6 6
Are containers correctly identified for conversion purposes?	• Yes • No • N/A	70 2 6	90 2 8
Are mail types correctly identified?	• Yes • No • N/A	71 1 6	91 1 8
SCALES			
Are scales calibrated monthly as required?	• Yes • No • N/A	52 18 8	67 23 10
Does documentation show that scales have been calibrated?	• Yes • No • N/A	62 8 8	80 10 10
Are tare weights for all rolling stock used to transport mail clearly and conspicuously marked or posted at the scale?	• Yes • No • N/A	69 1 8	88 2 10

Do employees use the tare weight markings on the equipment when weighing mail?	• Yes • No • N/A	67 3 8	86 4 10
When weighing mail, do mail processing employees properly identify the "FROM" and "TO" operations of that mail?	• Yes • No • N/A	70 0 8	90 0 10
Are weigh tags used to identify mail type that is weighed?	• Yes • No • N/A	69 1 8	88 2 10
Are weigh tags retained on mail containers until mail has been distributed?	• Yes • No • N/A	67 3 8	86 4 10
	•		
RESTRICTIONS ON ACCESS/AUTHORIZATIONS			
Has any unauthorized access to WebMODS been detected?	• Yes • No	0 78	0 100
Are criteria in place to allow access to WebMODS?	• Yes • No	74 4	95 5
Who is authorized to enter manual data or make edits to the data?	• MODS coordinator • Data technician • In-plant support personnel • Authorized data processor • Operations support specialist • Backup MODS coordinator	NA	NA
To your knowledge, do any authorized data entry processors allow other users to enter data into MODS using their user ID?	• Yes • No	3 75	4 96
Does anyone other than the designated site processor enter data into WebMODS?	• Yes • No	11 67	14 86

REPORTS			
Is there a log for manual entries which contains the manual entry information as well as the identification of the data entry operator?	• Yes • No	62 16	79 21
Does the facility run WebMODS troubleshooting reports?	• Yes • No	46 32	59 41
Are you satisfied with the reporting options in WebMODS?	• Yes • No	54 24	69 31
Are MODS reports distributed in your facility?	• Yes • No	53 25	68 32
Are reports signed and dated after review?	• Yes • No	6 72	8 92
Are reports generated to reflect errors and adjustments?	• Yes • No	48 30	62 38
Are MODS Operations reports reviewed daily by the plant manager and in-plant support manager?	• Yes • No	57 21	73 27
Are supervisors, distribution operations and managers, distribution operations required to explain questionable volume, workhours, and productivity performance?	• Yes • No	75 3	96 4
Is a valid list of your facility's operation numbers posted and available to each manager and supervisor?	• Yes • No	67 11	86 14
COMMUNICATION			
How are MODS changes communicated to you?	• E-mail • Verbal • Written • Not communicated	64 6 6 2	81 8 8 3

OTHER			
Are MODS reviews conducted annually as required by Handbook M-32?	• Yes • No	64 14	82 18
Does your facility perform the review internally, or does the area send an outside party to perform the review?	From the "Yes" answers in previous question • Area • District • Facility (internally) • Area and facility	 5 6 36 17	 8 9 56 27

APPENDIX C. SUMMARY OF ANOMALOUS DATA

QUESTION	RESPONSES
What would cause negative volume?	• Withdrawing more mail from an operation than what was weighed into it. • Mail withdrawn from an operation where no mail was weighed in.
What would cause FHP to be greater than TPH?	• During the course of processing mail, some trays of nonmachinable letters are extracted. These letters have already been weighed and the FHP volume has to be withdrawn. • New machines were installed, but employees were weighing the mail into the old operation instead of the new one. This should be corrected by modifying the scale profile.
What would cause workhours to be reported, but no volume? What would cause volume to be reported, but no workhours?	• Invalid operation numbers on the EBRs on the workroom floor into which employees are clocking. • The employees' base operation is not the operation in which they are working. • Employees sometimes move between operations when they switch sort plans, generally on the same piece of equipment. • Having employees on the proper operation would solve this problem.

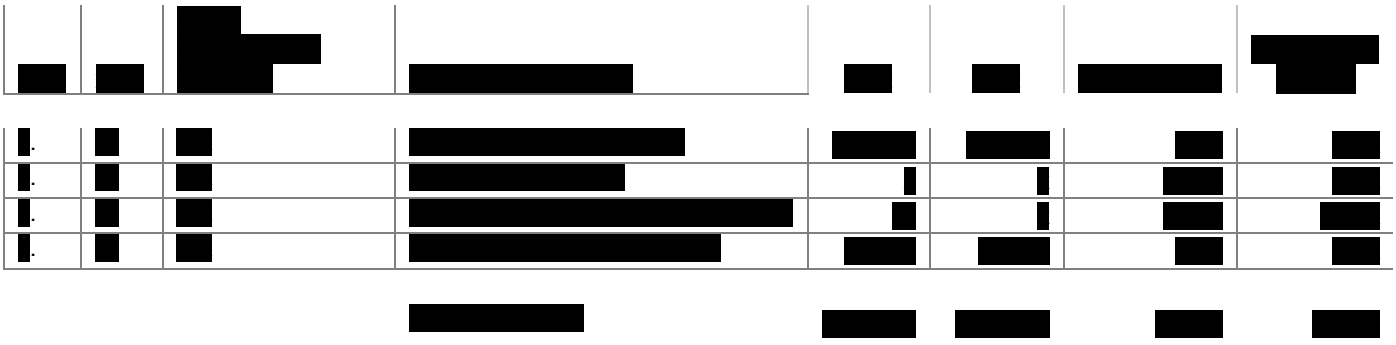
APPENDIX D. MANAGEMENT OPERATING DATA SYSTEM ERRORS

MODS reports, like the Management Summary Report, aggregate individual MODS data records by function code and Labor Distribution Code (LDC). [redacted]. Each LDC has multiple MODS operation numbers that describe the activities performed under that LDC. For example, there are 71 possible MODS operation numbers under LDC 17.

At the plant level, most operating reports summarize workhour and volume data by LDC and function, [redacted]

Figure 5 provides an example of the impact of anomalous data – a situation where LDC [redacted] has four assigned MODS operation numbers ([redacted]) and volume and workhours are recorded under the incorrect MODS operation number. Data entries 1 through 4 depict anomalous data because the work was performed in operation numbers [redacted] and [redacted] ([redacted]) but the workhours were reported in operation numbers [redacted] and [redacted] ([redacted]). However, the total [redacted] volume and workhours – aggregated at the level for Postal Service use – are correct.

Figure 5. Example of Impact of Anomalous Data



APPENDIX E. MANAGEMENT'S COMMENTS

Tom Pajunas
Vice President, Network Operations

UNITED STATES POSTAL SERVICE

June 18, 2007

KIM H. STROUD
DIRECTOR, AUDIT REPORTING

SUBJECT: Transmittal of Draft Audit Report – Management Operating Data System (Report Number MS-AR-07-Draft)

This is in response to the June 4, 2007 letter from Darrell E. Benjamin Jr., which amended the draft audit discussed in the March 30, 2007 letter.

Recommendation 1: Update policies, procedures and online training materials for the Management Operating Data System (MODS).

Response: Network Operations agrees with Recommendation 1 and will update MODS policies and training materials by the end of this fiscal year.

Recommendation 2: Establish guidelines for correcting MODS workhour volume and volume errors.

Response: Network Operations agrees with Recommendation 2 and will incorporate into the updated policies and training materials referenced in Recommendation 1, procedures and requirements to reconcile workhour and volume discrepancies.

Recommendation 3: Monitor the completion of annual reviews of the MODS.

Response: Network Operations agrees with Recommendation 3 and will establish criterion whereby the Areas will monitor the completion of their individual plants' MODS audits. The Areas will report their compliance rates to Network Operations on a regular basis.

The Postal Service would like to clarify the following findings:

1. Many of the additions to this report reference Rate Case testimony and financial measurements such as cost pools. While MODS feeds the cost pools, cost pools are an aggregation of selected 3 digit operation numbers. These cost pools are used in rate cases and the cost pool hours are used at the national level to derive costs for a cost pool.

   This report focused on assertions made during rate case testimony that MODS data is unreliable, yet did not present USPS testimony on the same subject. Additionally this report uses a 1996 study by the Inspection Service to support a claim that 32% of the time employees are clocked into the wrong operation number. This study, performed by the Inspection Service only looked at opening unit operations and purposely selected 25 sites for review who were registering high LDC 17 work hours.

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- On page 3, paragraph 4, references a PRC Docket No. R2006-1, Library Reference USPS-LR-L-1, May 3, 2006. This reference addresses the 1996 Inspection Service audit that focused on allied operations. More specifically, on pages 3-5, in this same Library Reference, the document states:

  "Workhour data from MODS are also used in the costing system. Workhour data are widely recognized as being reliable in total since they are complied from the payroll clock ring data. The relevant potential criticism of hours data from MODS is that employees may be clocked into a different operation number (and potentially, cost pool) than the operation to which they are actually assigned. The Postal Service uses the hour's data at a level of aggregation for which the misclocking rate is believed to be low. The cost pools are defined so that they encompass activities for which supervisors have incentives to ensure correct clocking. The variability analysis also confirms the consistency between the hours in a cost pools and the corresponding workload measures."

- The USPS witness testimony disputing the Inspection Service findings need to be part of this record as the methodology used to calculate the 32 percent error rate is challenged. Witness Degen testified:

  "I agree with Postal management's response to the audit which concurred with the recommendations of the report. I do not agree with the specific results you quote regarding the 31 percent error, for several reasons. The 31 percent error rate is being misconstrued. It applies to opening units only, not all of LDC 17 or all of MODS. The Inspection Service's calculation of the error rate is not an estimate of the misstatement of hours at the operation group (cost pool) level and was never intended to be one. Further, the report results were not designed as a statistical study of misstatement and should not be used as such.

  The Inspection Service report discusses allied labor operations and LDC 17 hours, but the audit was confined to opening units; 'Detailed audit attention at the P&DCs focused on analyzing opening unit operations', (Page 5 of the report). Opening units are likely to have more misclocking because of the nature of the operation. Opening unit results should not be applied to other operations. The reported 31 percent is the rate of the misclocking at the individual operation level. In fact, the Inspection Service indicates that an employee clocked into operation 111, but working in operation 112 generates two errors by their definition. In this example, the audit reported 2 errors, one for operation 111 and one for operation 112, where none exist at the level we use the data because operations 111 and 112 are in the same cost pool. For each operation there are two kinds of errors reported in the audit: 1) an employee clocked into the operation, but working elsewhere; and 2) an employee working in the operation, but clocked elsewhere. The net effect of these two error types represents the net misstatement of hours. However, the audit reports the sum of these two error types which overstates the total net effect on opening unit hours. These error definitions and reporting practices are appropriate for the calculation of the incidence of misclocking as the Inspection service set out to do, but these are not appropriate for an estimate of the net misstatement of hours. Furthermore, when the errors are defined at the individual operation

level, the results cannot be applied to the operation group data used for the Year 1996 costs. Finally, the audit was not undertaken as a statistically unbiased sample of the misstatement of MODS hours. Several of the audit sites were chosen because actions were being taken to address LDC 17 workhours. The results were not weighted to reflect the underlying mix of sites by size or other relevant criteria. In fact, almost 30 percent of the total number of errors is from one of the twenty five sites. The audit was not intended to measure the overall misstatement of hours, even for opening unit operations."

2. Page 6 and page 14, where the methodology to determine a MODS error was discussed, specially on page 14, the OIG audit states:

> "To analyze individual MODS records at the seven facilities, we extracted mail processing records by operation number form the Enterprise Data Warehouse for the period August 1 – Oct 31, 2006. We then searched the records for instances of zero workhours with associated volume and vice versa, First Handled Pieces (FHP) greater than Total Handled Pieces (TPH), and negative mail volume reported.

There are approximately 350 MODS operation numbers that require volume counts. There are also another 130 operation numbers where there is no requirement to have a volume count. If all operation numbers were analyzed, and any operation number that registers workhours without volume is considered an error, then the amount of the errors would be overstated.

3. Page 7, paragraph 2. The sentence "Six percent of the anomalous data was TPH greater than FHP..." This should be where FHP is greater than TPH.

4. Page 10, paragraph 3. MODS operation 565 is NOT assigned to the Bulk Mail Centers. This was addressed in USPS response dated April 30, 2007. Operation 565 is a default Mail Processing Operation assigned to Function 1. Function 1 includes Processing and Distribution Centers, Processing and Distribution Facilities, Air Mail Centers, Remote Encoding Centers, and Bulk Mail Centers.

5. Page 22, paragraph 1. Function 2 is Delivery Operations; this report incorrectly reported Function 2 as Customer Service.

The section on MODS volume and Workhour Errors Not Correct should be exempt from the Freedom of Information Act (FOIA) because it addresses sensitive financial information. The remaining portions of this audit and management's response do not contain information that may be exempt from disclosure under the FOIA.

Should you have any questions or concerns, please contact Linda M. Malone, Manager, Operations Technical and Systems Implementation Support, at 202-268-2695.

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