



January 28, 2010

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SUBJECT: Audit Report – Statistical Testing at Postal Service Districts
(Report Number CRR-AR-10-001)

This report presents the results of our self-initiated audit of statistical testing at U.S. Postal Service districts (Project Number 09RG029CRR000). Our objective was to review controls over statistical program procedures and testing at selected Postal Service districts. Based on the results of our review of City Carrier Cost System (CCCS), In-Office Cost System (IOCS), and Transportation Cost System (TRACS) testing in the Capital District; and efforts to improve the quality of statistical programs, we are concluding our audit and issuing a report on the Capital District.

The Postal Accountability and Enhancement Act (the Postal Reform Act of 2006) requires the U.S. Postal Service Office of Inspector General (OIG) to regularly audit the data collection systems and procedures the Postal Service uses to prepare its analysis of costs, revenues, rates, and quality of service for the Postal Regulatory Commission. This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

Conclusion

Overall, employees in the Capital District generally conducted statistical testing in accordance with established policies and procedures. District management actively participates in a national quality assurance initiative that has cut In-Office Cost System/Time and Attendance Collection System (IOCS/TACS) discrepancies¹ by more than 50 percent over a 3-year period. However, management could strengthen controls over the collection of data related to route deviation parcels² and collection mail.³ Finally, Capital District data collection technicians (DCTs) only completed one of six TRACS-Rail tests scheduled during our review period. Although we curtailed our fieldwork after surveying Capital District operations, we noted DCTs nationwide

¹ An IOCS/TACS discrepancy occurs when employee work activity recorded during an IOCS reading does not match the employee work activity captured by TACS. See Appendix B for a list of discrepancies.

² A parcel is considered a route deviation parcel when delivery of the item requires a deviation from the carrier's usual route.

³ The term collection mail refers to mail that the carrier on the tested route brings back to the facility. The carrier's supervisor counts and records collection mail on Postal Service (PS) Form 2846, *City Carrier Mail Acceptance Data*.

completed 78 percent of scheduled TRACS-Rail tests during Quarter 4, fiscal year (FY) 2009. Verifying real-time rail movements would allow DCTs to avoid unnecessary time spent traveling to facilities. Also, completing additional TRACS-Rail tests would improve the accuracy of the TRACS data used to allocate rail transportation costs to mail categories and special services.

Reduction in IOCS/TACS Discrepancies

District management effectively uses IOCS/TACS discrepancy reports to improve the accuracy of IOCS testing. The statistical programs office at headquarters prepares and distributes these reports each pay period to district statistical program managers. District management investigated each discrepancy at the Capital District and a follow-up report was provided to area management. IOCS/TACS discrepancies at the Capital District declined 33 percent in FY 2009, from 421 in FY 2008 to 282 in FY 2009. See [Appendix B](#) for a list of IOCS/TACS discrepancies.

Nationally, IOCS/TACS discrepancies continue to decline. Specifically, discrepancies declined 25 percent in FY 2009, from 15,772 in FY 2008 to 11,867 in FY 2009. Table 1 shows the annual and cumulative decline in IOCS/TACS discrepancies.

Table 1. Decline in IOCS/TACS Discrepancies

Fiscal Year	No. of Discrepancies	Percent Decline	
		Annual	Cumulative
2006	24,351		
2007	19,315	21	21
2008	15,772	18	35
2009	11,867	25	51

City Carrier Cost System Testing

In two of six CCCS tests we reviewed, city carriers stated the DCT did not ask them to identify whether parcels were regular or deviation parcels. This indicates the DCT may not have used proper procedures⁴ to classify parcels. Although regular parcels can be delivered along the carrier's route, deviation parcels require a route deviation to the customer's door. The Postal Service considers route deviation activities, including delivering deviation parcels to the customer's door, to be dependent on the volume of mail and therefore volume variable. The volume variable costs for delivering deviation parcels are distributed to mail categories and special services based on estimated deviation parcel volumes obtained from the CCCS testing. In FY 2009, management attributed about \$152.3 million in route deviation activity costs to mail categories and special services based on estimated deviation parcel volumes developed from CCCS

⁴ Handbook F-65a, *Data Collection User's Guide for Cost Systems*, Chapter 3, City Carrier Costs System, Section 323, 2.d. (3), requires DCTs to classify sampled parcels as regular or deviation parcels based on feedback from the city carrier.

testing. Following the CCCS testing procedures will help ensure the deviation parcel volume estimates used to attribute those costs are more accurate.

Additionally, in two CCCS tests, city carriers and/or their supervisors recorded incorrect collection mail data because they did not understand the procedures for counting and reporting collection mail. The existing testing procedures⁵ require DCTs to explain collection mail procedures to the city carrier and their supervisor. During our review, management issued new statistical testing guidance⁶ and forms to improve the accuracy of collection mail data. Accordingly, we are not presenting a recommendation regarding this specific issue.

We recommend the manager, Finance, Capital District, direct the manager, Statistical Programs, Capital District, to:

1. Reinforce City Carrier Cost System testing procedures to ensure employees correctly record regular and deviation parcels information.

TRACS-Rail Tests

The Capital District completed one of six TRACS-Rail tests scheduled during our 2-week review period. When DCTs arrived at the facilities to conduct the tests, they often found the rail vans were not at the facilities. Nationally, DCTs did not complete 81 of 365 (22 percent) scheduled rail tests for the Q4, FY 2009. We also noted that three districts did not conduct any of 42 scheduled rail tests during the Q4, FY 2009.

TRACS testing procedures instruct DCTs to contact network operations regarding the scheduled movement of rail vans.⁷ Railroad mail is carried primarily in containers (vans) on flat cars by freight trains. At train stations, the vans are attached to tractor-trailers and taken to destination national distribution centers or sectional center facilities. The TRACS-Rail test is conducted when mail is off-loaded at the destination facility.

One to 2 days before performing a TRACS-Rail test, the DCT should contact the vehicle control office or personnel at the destination facility to verify the scheduled arrival of the rail vans. The vehicle control office uses the Rail Management Information System (RMIS)⁸ to determine which rail vans will arrive at the facility on the scheduled day. Because rail transportation between facilities is used on an as-needed basis, the scheduled TRACS-Rail test mail frequently does not arrive at the destination facility on the scheduled test time/date. If the rail van does not arrive at the scheduled test time, a replacement rail van can be sampled on that day or on a later day in that quarter.

⁵ Handbook F-65a, Chapter 3, City Carrier Costs System, Sections 323, 2.d. (4) and 2.e., Section 323, 1.d. (4), and Section 311.1, 7.

⁶ Statistical Programs Letter # 1, FY 2010 Attachment 4, p. 1, *PS Form 2846, City Carrier Route Mail Acceptance Data*, effective September 2009.

⁷ Handbook F-65, Chapter 6, Conducting the TRACS Rail Test, Section 6.1.1, Communicate with the Facility Personnel, pages 6-8.

⁸ A computerized system that provides real-time rail movement information.

Capital District DCTs contacted the vehicle control office to verify the movement of rail vans. However, in five instances, the DCT arrived at the facility to conduct TRACS-Rail tests but the rail van was not at the facility. TRACS testing procedures do not require DCTs to verify real-time rail movements in the RMIS; however, doing so may help DCTs avoid unnecessary time spent traveling to facilities. Additionally, completing more TRACS-Rail tests would improve the accuracy of the TRACS data used to allocate the \$84.6 million in FY 2009 rail transportation costs to mail categories and special services.

At the January 5, 2009, exit conference, management stated that rail transportation use is in transition as they implement the network distribution center plan. Rail transportation costs declined significantly during FY 2009 and they will monitor this trend to determine whether TRACS-Rail sampling will be adjusted or stopped.

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

2. Update Transportation Cost System-Rail testing procedures to include the use of the Rail Management Information System to verify the movement of rail vans scheduled for testing.

Management's Comments

Management agreed with the findings and the intent of the recommendations. In reference to recommendation 1, management stated they would reinforce testing procedures at the March 2010 quarterly statistical training session. Regarding recommendation 2, management stated that the restructuring of the Postal Service network has led to a drastic reduction in rail trips. Therefore, they will continue to monitor rail trips to determine whether TRACS-Rail sampling plans and procedures need adjustment. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's actions should resolve the issues identified in the report. If management continues TRACS-Rail testing, we believe that testing procedures should include use of the RMIS to verify the movement of rail vans.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Paul Kuennen, director, Cost, Revenue and Rates, or me at (703) 248-2100.



Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Systems

cc: Joseph Corbett
Vincent H. DeVito, Jr.
Jerry D. Lane
J. Ron Poland
James G. Hayman
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The CCCS is a statistical sampling and data collection system used to estimate mail characteristics on different city routes and at different times of the year. This determines the portion of total delivery costs attributable to mail categories and special services. For each selected route-day, a sample of mail is selected, and for each selected mailpiece, the class, product, and other characteristics are recorded using Computerized On-Site Data Entry System (CODES) software. The Postal Service conducted about 8,000 CCCS tests in FY 2009.

The IOCS is a statistical sampling and data collection system used to distribute the labor costs of clerks, mail handlers, city carriers, and supervisors to the activities carried out by those employees, particularly activities related to mail handling. The Postal Service conducted about 650,000 IOCS tests in FY 2009, and recorded the test results using the CODES software.

TRACS is a statistical sampling and data collection system used to attribute purchased transportation costs to mail categories and special services. The TRACS uses three separate sampling systems to collect data for purchased air, highway, and railroad transportation. The Postal Service conducted about 18,000 TRACS tests in FY 2009, and recorded the data using the CODES software.

The Statistical Programs Office at Headquarters Finance develops the statistical sampling design and related data collection policies and procedures. They also process and analyze national CCCS, IOCS, and TRACS data. Within each Postal Service district, a statistical programs manager provides technical guidance on data collection policies and procedures and monitors data collection results to ensure employees are using proper sampling and reporting techniques. DCTs use laptop computers and the CODES software to record the test results. For each type of statistical test, an automated script in CODES guides the DCT through the data collection procedures.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to review controls over statistical program procedures and testing in selected Postal Service districts. Based on the results of our review of CCCS, IOCS, and TRACS testing at the Capital District and efforts to improve the quality of statistical programs, we curtailed the scope of our audit and issued a report on the Capital District.

We judgmentally selected the Capital District for review based on the high number of IOCS/TACS discrepancies at the district and the fact that no statistical program audits had been conducted at that district in the prior 3 years. We selected all CCCS and TRACS tests conducted in the Capital District from September 12 through September 30, 2009. This selection yielded 15 TRACS tests (three air tests, six

highway tests, and six rail tests) and six CCCS tests. We randomly selected 40 out of 366 IOCS tests conducted during the same period.

To assess controls over statistical testing, we reviewed testing policies and procedures and compared CCCS, IOCS, and TRACS test results to corresponding information from Postal Service systems including the Enterprise Data Warehouse (EDW), TACS, Transportation Information Evaluation System (TIMES), and Web End of Run (WebEOR). Additionally, we interviewed personnel from the statistical programs office, the Capital District Statistical Programs manager, and the Capital District DCTs that conducted the tests.

To assess the reliability of CCCS testing, we compared the delivery point sequencing (DPS) piece counts recorded on CCCS tests to DPS piece counts reported by WebEOR. To determine whether employees were following testing policies and procedures, we interviewed DCTs, city carriers, and supervisors who participated in the CCCS testing.

To assess the reliability of IOCS testing, we compared employee work activities recorded on IOCS test results with corresponding work activity recorded in TACS. To determine whether employees were following testing policies and procedures, we interviewed DCTs, sampled employees, and supervisors who participated in the IOCS testing.

To assess the reliability of TRACS-Highway testing, we compared container and mail volume information recorded on TRACS-Highway tests with corresponding information recorded in the TIMES. To verify the reliability of TRACS-Air testing, we compared dates, facilities, and weights recorded on TRACS-Air tests with corresponding information recorded in the EDW. We were unable to compare TRACS-Rail tests with corresponding data in the RMIS, because the RMIS identifies rail vans using barcodes, and those barcodes were not recorded during TRACS-Rail tests.

We conducted this performance audit from August 2009 through January 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on January 5, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Transportation Cost System</i>	MS-AR-07-002	3/20/2007	N/A	Overall, TRACS internal controls were effective and TRACS data was valid and reliable. This report contained no recommendations.
<i>In-Office Cost System Telephone Readings</i>	CRR-AR-08-004	3/31/2008	\$3.2 million in possible misallocation of costs and \$12,355 in funds put to better use	The Postal Service has adequate policies and procedures for conducting IOCS telephone readings and recent management actions have increased the accuracy of data obtained from telephone readings. However, in three districts, 43 percent of IOCS telephone readings we reviewed were inaccurate. The telephone readings were inaccurate because data collectors and supervisors did not follow policies and procedures and some data collectors may have falsified some or all of the information in certain telephone readings. Management agreed with the findings and recommendations.
<i>OIG Audit of Statistical Tests for Fiscal Year 2008 – Cost and Revenue Analysis</i>	FF-AR-09-024	11/24/2008	N/A	The Postal Service generally conducted IOCS; Origin-Destination Information System-Revenue, Pieces and Weight; System for International Revenue and Volume Inbound; and TRACS tests in accordance with established data collection policies and procedures. Management agreed with the findings and recommendations.

APPENDIX B: LIST OF IOCS/TACS DISCREPANCIES

There are six categories of IOCS/TACS discrepancies:

1. The IOCS test records the employee on the street when TACS shows the employee is performing an office activity.
2. The TACS shows the employee is performing a street activity when the IOCS test records the employee in the office.
3. The IOCS test time is outside available TACS work time for the employee.
4. The IOCS test records the employee in a work activity when TACS shows the employee is on leave.
5. The IOCS test records the employee in a work activity when TACS data is missing or incomplete.
6. The IOCS test records the employee is not available for testing when TACS shows the employee is clocked into work.

APPENDIX C: MANAGEMENT'S COMMENTS

FINANCE



January 20, 2010

LUCINE M. WILLIS

SUBJECT: Audit of Statistical Testing at Postal Service Districts (Report Number CRR-AR-10-DRAFT)

Management responds to the audit findings as follows:

Recommendation #1

The Manager, Finance, Capital District direct the manager, Statistical Programs, Capital District: Reinforce City Carrier Cost System testing procedures to ensure regular and deviation parcels information is correctly recorded.

Response

We agree with the recommendation. See the attached response from the manager of Finance, Capital District.

Recommendation #2

Update Transportation Cost System-Rail testing procedures to include the use of the Rail Management Information System to verify the movement of rail vans scheduled for testing.

Response

This recommendation is based on a review of a quarter during which the Postal Service began a major restructuring of its Bulk Mail Center/Network Distribution Center transportation network system. Rail trips were being drastically reduced—i.e. quarter 4, 2009 CS-14 volume variable costs for freight rail dropped to \$5.7M from \$12M in quarter 3, 2009. Since the Transportation Cost System-Rail relies on recent historical quarter data to select rail vans for sampling, we believe that results beginning with quarter 4 are atypical and should not be used as a basis for changing national policy. Statistical Programs will continue to closely monitor the Postal Service's rail usage to determine whether future Transportation Cost System Rail sampling plans and procedures need adjustment. 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 Ron Poland at (202) 268-2634.

Joseph Moeller, Manager
Regulatory Reporting & Cost Analysis

Attachment

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January 15, 2010

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SUBJECT: AUDIT RESPONSE – STATISTICAL TESTING AT POST SERVICE DISTRICTS
(REPORT NUMBER CRR-AR-10-DRAFT)

Management agrees with the recommendation and listed below is the response:

- (1) **RECOMMENDATION:** Reinforce City Carrier Cost System testing procedures to ensure regular and deviation parcels information is correctly recorded.

RESPONSE: The testing procedures will be reinforced at the quarterly statistical programs training on March 10th. The Manager, Statistical Programs will also monitor each data collection technician on the Carrier Cost System procedures to ensure parcels are accurately recorded.

If any additional information is required, please contact me at 202-636-1017.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kathi Washington".

Kathi Washington
Manager, Finance
Capital District

Cc: Henry Dix, District Manager
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