August 24, 2007

JOHN P. BERTOLINA
SENIOR PLANT MANAGER
MARGARET L. SELLERS PROCESSING AND DISTRIBUTION CENTER

SUBJECT: Audit Report – Internal Controls Over Operation Clock Rings at the
   Margaret L. Sellers Processing and Distribution Center
   (Report Number NO-AR-07-008)

This report presents the results of our review of internal controls over operation clock rings[1] and time cards at the Margaret L. Sellers Processing and Distribution Center (P&DC) in San Diego, California (Project Number 06XG025NO000). We conducted this self-initiated review in cooperation with management at the Margaret L. Sellers P&DC.

Generally, internal controls ensuring the accuracy of clock rings were in place and effective. Based on our statistical sample of 220 employees, we projected that 93 percent of mail processing employees at the Margaret L. Sellers P&DC were clocked in to the correct operation. Conversely, 7 percent of employees were clocked in to the incorrect operation. Errors in employees' operational moves could result in management making incorrect decisions about resource allocations and the productivity of individual operations.

In addition, internal controls over time card security could be improved. Management did not secure all time card racks containing employees' electronic time cards and allowed some employees to retain their time cards during their tours. This increased the P&DC's vulnerability to timekeeping errors and fraud.

We made four recommendations in this report. Management agreed with our findings and recommendations and has initiatives planned addressing the issues in this report. Management comments and our evaluation of these comments are included in the report.

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[1] Employees swipe time cards on an electronic badge reader to record their work hours in the Time and Attendance Control System. Each swipe is referred to as a clock ring.

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 J. Batta, Director, Network Processing, or me at (703) 248-2100.

E-Signed by Colleen McAntee
ERIFY authenticity with Approve]
L. McAntee
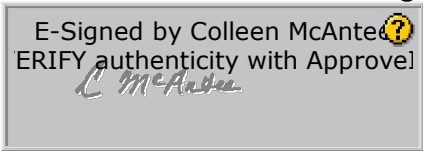
Colleen A. McAntee
Deputy Assistant Inspector General
  for Mission Operations

Attachments

cc: Patrick R. Donahoe
     Michael J. Daley
     John E. Platt
     Katherine S. Banks

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EXECUTIVE SUMMARY

Introduction	We assessed internal controls over mail processing employees' operation clock rings[1] and time cards at the Margaret L. Sellers Processing and Distribution Center (P&DC) in San Diego, California. We conducted this self-initiated review in cooperation with P&DC management.
Results in Brief	Generally, internal controls ensuring the accuracy of operation clock rings were in place and effective. Based on our statistical sample of 220 employees, we projected that 93 percent of mail processing employees at the Margaret L. Sellers P&DC were clocked in to the correct operation. Conversely, 7 percent of employees were clocked in to the incorrect operation.

Factors contributing to the condition included: employees not always recording their moves outside their base operation; inaccurate TACS base operation codes; and inadequate oversight. Errors in employees' operational moves could lead facility managers to make incorrect decisions about resource allocations and the productivity of individual operations.

In addition, internal controls over time card security could be improved. Supervisors did not secure all time card racks containing employees' electronic time cards and allowed some employees to retain their time cards during their tours, so that the employees could save time when clocking in and out of operations and lunch breaks. This increased the P&DC's vulnerability to timekeeping errors and fraud.

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[1] Employees swipe time cards on an electronic badge reader to record their work hours in the Time and Attendance Control System (TACS). Each swipe is referred to as a clock ring.

Summary of Recommendations	We recommended the Senior Plant Manager, Margaret L. Sellers P&DC ensure that employees were clocked into the correct operations as well as secure and control employee timecards.
Summary of Management's Comments	Management agreed with our findings and recommendations. Management agreed to monitor and record employee operational moves; adjust TACS reports; and secure and control time cards. We have included management's comments, in their entirety, in Appendix B.
Overall Evaluation of Management's Comments	Management's comments are responsive to the audit findings and recommendations. Management's planned actions should correct the issues identified in the report.

INTRODUCTION

Background

Labor is the largest component of Postal Service operating costs. Illustration 1 shows that labor costs in fiscal year (FY) 2006 were about 79 percent of the Postal Service's total operating costs.[1]
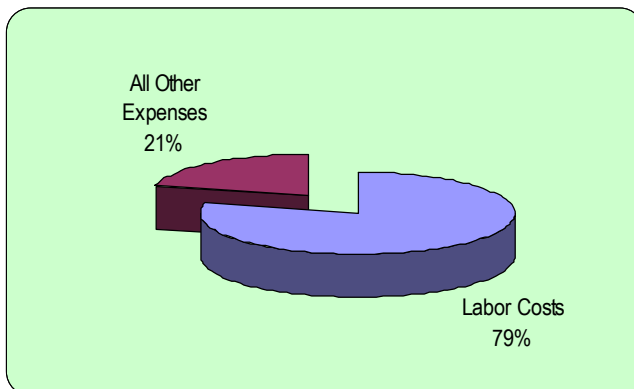
Illustration 1: Labor Costs as a Portion of Total Expenses, FY 2006

Mail processing workhours contribute significantly to the Postal Service's labor costs. Illustration 2 shows that mail processing workhours in FY 2006 were about 23 percent of total workhours.[2] Management must accurately capture mail processing workhours to determine the productivity and efficiency of mail processing operations.

Illustration 2: Mail Processing Workhours as a Portion of Total Workhours, FY 2006

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[1] USPS FY 2006 Annual Report, page 43.
[2] USPS FY 2006 Annual Report, page 28.

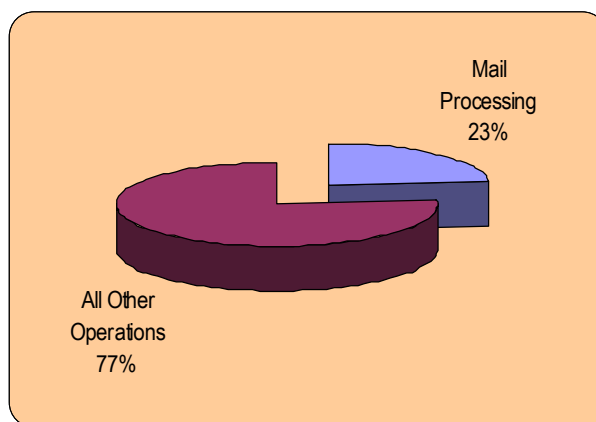The Postal Service uses the Time and Attendance Control System (TACS) to capture the workhours employees spend performing various mail processing operations. Workhour data recorded in TACS feeds other productivity and tracking systems, such as the Plant Information Management System (PIMS), the Performance Cluster FLASH, and the Management Operating Data System (MODS).[3] The Postal Service uses MODS to measure efficiency and productivity and to assess operating needs, including the size of the labor force needed to carry out a facility's workload.

Employees record their work time and the operations they work by swiping electronic time cards on an electronic badge reader (EBR). Postal Service procedures require employees to swipe their time cards and enter an operation code each time they begin working a new operation.[4] Each swipe records time in TACS and is referred to as a clock ring. Illustration 3 shows the type of EBR used at the Margaret L. Sellers P&DC.

Illustration 3: Electronic Badge Reader

Objectives, Scope, and Methodology

The audit assessed internal controls over operation clock rings and time cards for mail processing employees at the Margaret L. Sellers P&DC in San Diego, California. We limited our scope to assessing the accuracy of operation clock rings at a single point in time and management's control of employee time cards.

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[3] The TACS system also provides workhour data to the Delivery Services Information System, the Leave Analysis Tracking System, and the Automated Vehicle Utilization System.
[4] The Margaret L. Sellers P&DC has 435 active operation numbers for mail processing.

To test the accuracy of operation clock rings, we statistically sampled mail processing employees, observed their work, and compared the operations employees were working to the operations recorded in TACS. Our analysis included a sample of 220 employees from three tours, observed from October 30 through November 7, 2006. See Appendix A for details of the sample selection methodology. We also used selected data systems, including MODS, PIMS, TACS, FLASH, and the web-based COmplement INformation System (WebCOINS).

To assess internal controls over time cards, we observed management's control of employee time cards. We also reviewed postal procedures, policies, manuals, reports, and instructions and interviewed craft employees, supervisors, and facility managers.

We conducted this audit from April 2006 through July 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 and included their comments where appropriate. We assessed the reliability of computer data by verifying computer records to employee activities.

Prior Audit Coverage

Mail Processing Internal Controls at the Dallas Bulk Mail Center (Report Number NO-AR-06-009, dated September 28, 2006) estimated that about 22 percent of mail processing employees at the Dallas Bulk Mail Center were not working the operation captured in Postal Service systems, and found that employee time cards were not secured and properly controlled. The Office of Inspector General recommended that management ensure control of employee timecards and train employees and supervisors on timecard procedures. The Postal Service agreed with the findings and recommendations.

Management Operating Data System (MODS) (Report Number MS-AR-07-DRAFT, dated June 4, 2007) found that at seven facilities visited, MODS internal controls were generally effective and MODS data was valid and reliable when used to assess overall plant efficiency. However, the report noted that internal controls were not effective in

ensuring the validity of volume and workhour data recorded against MODS operation numbers. The report recommended system-wide internal control improvements including updating policies, procedures, and online training materials.

AUDIT RESULTS

Accuracy of Operation Clock Rings

Generally, internal controls ensuring the accuracy of operation clock rings were in place and effective. However, internal controls regarding employees' moves outside their base operations need improvement.

Of 220 employees sampled, 204 (93 percent) were clocked in to the operation recorded in TACS. Based on the sample results, we statistically projected that 93 percent of mail processing employees at the Margaret L. Sellers P&DC were correctly clocked into the operation they were working at the time of our observations. Illustration 4 shows an employee working on a Delivery Bar Code Sorter (DBCS) operation which was correctly clocked.

Illustration 4: Employee Working a DBCS Operation

However, 16 employees (7 percent) were clocked in to the wrong operation. These errors resulted because 13 employees did not record moves outside their base operations,[5] and three employees had inaccurate base operation information in

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[5] A base operation is the operation to which all of an employee's workhours are charged unless the employee records a move to another operation. (TACS, Supervisor Training, Participant's Workbook, January 2002.)

TACS. Postal Service procedures require employees moving from one operation to another to immediately clock in to the new operation.[6]

In addition, local managers did not always provide the necessary oversight to ensure employees recorded the correct clock rings when moving from one operation to another. While 19 of 24 supervisors interviewed said they reviewed TACS reports to ensure employees had recorded their moves, we observed that several supervisors were not familiar with obtaining automated TACS reports. Furthermore, only two supervisors said they reviewed the Employee Moves Report from TACS, which provides information about an employee's workhours by operation. Postal Service procedures make supervisors responsible for reviewing employees' clock rings and making corrections when an incorrect operation has been charged.[7]

The accuracy of mail processing workhours is important in assessing a facility's performance because managers use them to measure efficiency and productivity. When not corrected, such errors may cause misstatements of an operation's productivity and adversely affect management decisions about resource allocations for that operation.

Recommendations	We recommended the Senior Plant Manager, Margaret L. Sellers Processing and Distribution Center, ensure: 1. Employees record their operation numbers as they move between operations. 2. Supervisors are properly trained on how to obtain and use the appropriate Time and Attendance Control System (TACS) reports to monitor operational moves. 3. Supervisors use TACS reports to monitor operational moves.
Management's Comments	Management agreed with our finding and recommendations. They agreed to provide talks to all employees to emphasize the importance of timely and accurate clock rings. They also agreed to train management on how to monitor and control clock rings as

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[6] Section 3-4.3, Handbook M-32, *Mail Operations Data System*, April 2000, page 34.
[7] Sections 113.11 and 114.1, Handbook F-21, *Time and Attendance*, August 2005.

well as ensure management makes adjustments on TACS
reports to correct clock ring errors.

Evaluation of Management's Comments	Management's comments are responsive to our recommendations. Management's planned actions should correct the issues identified in the report.

Security of Employee Time Cards

The managers at the P&DC did not always control and secure electronic time cards according to Postal Service procedures. Of the 223 employees observed:

- 31 (14 percent) returned their time cards to the time card racks after clocking in to a tour, and

- 192 (86 percent) kept their time cards after clocking in to the tour rather than returning them to the time card racks.

In addition, managers left some time card racks unsecured during and after the tour ended. Illustration 5 shows time card racks at 16:12 during Tour 2. Note the open, unsecured rack for █████████████ (see arrow in the picture below) used during Tour 1.

Redacted

Illustration 5: Unsecured Time Card Racks

Postal Service policies make supervisors responsible for controlling employees' access to time cards and prohibit employees from keeping their time cards after clocking in or out of work unless given specific authorization from their supervisors.[8]

Supervisors allowed employees to keep their time cards so they could save time when clocking in and out of operations and lunch breaks. Employees said keeping cards allowed them to use EBRs located on the workroom floor rather than returning to the workroom entrance located across the plant. We observed that employees who returned their time cards to the racks worked in locations where racks were mounted nearby on structural pillars.

The Postal Service manager indicated that he was aware some employees retained their badges. He said the issue had not been addressed since his arrival in April 2006 because plant productivity outweighed securing badges. He also noted that the plant had no problem with employees attempting to record fraudulent work time. Nevertheless, permitting employees to have unrestricted access to their time cards increases the P&DC's vulnerability to timekeeping errors and fraud.

Recommendation	We recommended the Senior Plant Manager, Margaret L. Sellers Processing & Distribution Center:
	4. Ensure that time cards are secured and adequately controlled.
Management's Comments	Management agreed with our finding and recommendation. They are implementing a procedure of closing and locking time card storage racks until 10 minutes prior to the pay location employees' start time and re-securing them 10 minutes after the pay location employees' start time.
Evaluation of Management's Comments	Management's comments are responsive to our recommendations. Management's planned actions should correct the issues identified in the report.

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[8] Sections 133.63 and 142.24, Handbook F-21, *Time and Attendance*, June 2002.

APPENDIX A

SAMPLING FOR REVIEW OF CLOCK RINGS AT MARGARET L. SELLERS PROCESSING AND DISTRIBUTION CENTER

Purpose of the Sampling

One of the objectives of this audit was to determine the accuracy of employees' clock rings at the Margaret L. Sellers P&DC. In support of this objective, the audit team employed a stratified sample with two-stage selection within each stratum to randomly select the mail processing (Function 1) employees on the work floor for interview.

Definition of the Audit Universe

For the Margaret L. Sellers P&DC, we identified 1,036 Function 1 employees, including regular, casual and part-time flexible (PTF).
  o Tour 1: 447;
  o Tour 2: 193;
  o Tour 3: 396.

The audit universe data were obtained from the TACS and WebCOINS as of October 17, 2006.

During the audit, we modified the universe by identifying and removing individuals whose scheduled days off coincided with the planned site observations. This resulted in a modified audit universe of 881 employees.

Sample Design and Modifications

We chose a stratified sample design to reflect the grouping of employees into each of the three tours. We calculated the sample based on testing compliance with various controls (attribute tests). Assuming a deviation rate of about 50 percent, we calculated the sample size for each stratum separately, for a two-sided 95 percent confidence interval with a +/- 7 percent precision for the attribute tests.

Our original plan was to consider employees properly recorded in TACS as being correctly clocked in. During the audit, we limited our focus to those employees who were actually on duty. We created a modified universe and corresponding sample by removing the employees with scheduled days off from both the universe and the sample.

During the testing, the team identified listings for several sample individuals who, for various reasons, could not be tested: they no longer worked in the facility, they were not on the clock for reasons other than a regularly scheduled day off, or they were

missed because their tour ended before the team had an opportunity to test them. Because such instances could not be determined for the audit universe, we adjusted the final sample size for these instances and evaluated the results using methods for a subpopulation of unknown size.

DESIGN		SAMPLE SIZE BY TOUR			
		Tour 1	Tour 2	Tour 3	Total
PLANNED	Original Universe	447	193	396	1,036
	Original Sample	137	98	132	367
MODIFED: Not Scheduled Day Off	Modified Universe	397	157	327	881
	Modified Sample	123	77	116	316
FINAL: Employees Observed	Sample of Employees on Clock	82	50	88	220

We made all Function 1 employee selections for the sample using the randbetween function in Excel to assign random numbers to the employees in the universe listing.

Statistical Projections of the Sample Data

Methodology

To assess the accuracy of employees' clock rings, we calculated the point estimate of the total number and percentage of Function 1 employees who were clocked in under the wrong operation code, as well as the associated confidence interval, for a stratified sample, as described in Chapter 5, *Elementary Survey Sampling*, Schaeffer, Mendenhall, and Ott, 1996. We analyzed the results within each stratum individually as belonging to a subpopulation of unknown size, that is, the number of employees actually on the clock on the test dates, as described in Chapter 11, Section 3, of *Elementary Survey Sampling.*

Results

Based on the sample of 220 employees, we project the following results. All confidence intervals are for a 95 percent confidence level.

We project that between 4.4 and 10.1 percent of employees on the clock on the test dates were clocked in an operation code other than the operation they were performing at the time of the review. Our unbiased point estimate is that 7.3 percent were clocked in under the wrong operation code at the Margaret L. Sellers P&DC. (Conversely, 92.7 percent were clocked in under the correct operation code.)

We project that, during the audited tours, between 36 and 53 employees were clocked in to an operation code other than the operation they were performing at the time of the review. Our unbiased point estimate is that 44 employees were clocked in under an

incorrect operation code at the Margaret L. Sellers P&DC. (The implied size of the unknown subpopulation is, therefore, 613 employees on the clock during the audited tours.)

APPENDIX B. MANAGEMENT'S COMMENTS

SENIOR PLANT MANAGER
M.L. SELLERS PROCESSING & DISTRIBUTION CENTER

UNITED STATES
POSTAL SERVICE

July 6, 2007

Colleen A. McAntee
Office of Inspector General
United States Postal Service

SUBJECT: Internal Controls Over Operation Clock Rings at the Margaret L. Sellers
Processing and Distribution Center (Report Number NO-MA-07-DRAFT)

Management at the Margaret L Sellers Processing and Distribution Center agrees with the
findings and observations contained in the report.

Recommendation 1:
Employees record their operation numbers as they move between operations.

Response
Management agrees with this recommendation. Specific courses of action to correct the
concern will be:

1. Business Talks will be created to emphasize the importance of timely and accurate clock
    rings. These talks will be given to supervisors and craft employees.
2. The Business Talks will be presented to the Plant Manager for approval, and will have his
    signature.
3. The Senior Manager, Distribution Operations will have responsibility for ensuring the
    Business Talks are presented by the completion date.
4. The estimated completion date for distribution and presentation of the Business Talks to all
    employees is July 30, 2007.

Recommendation 2:
Supervisors are properly trained on how to obtain and use the appropriate Time and
Attendance Control System (TACS) reports to monitor operational moves.

Response
Management agrees with this recommendation. Specific courses of action will be:

1. Training will be given by Management on how to monitor and control clock rings using the
    proper TACS reports.

11251 RANCHO CARMEL DRIVE
SAN DIEGO CA 92199-9997
(858) 674-0100

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2. The training will be presented by TACS personnel, given in small groups and made available to all tours.
3. The Manager, Time and Attendance Collection System (TACS) and the Senior Manager, Distribution Operations will have responsibility for ensuring the training is given by the completion date.
4. The estimated completion date for the training to all supervisors is August 15, 2007.

Recommendation 3:
Supervisors use TACS reports to monitor operational moves.

Response
Management agrees with this recommendation. Specific courses of action will be:

1. Ensure proper TACS reports are being viewed and appropriate adjustments made.
2. Supervisors will discuss Clock Ring errors with the employee.
3. Part of the discussion will involve instructing the employee on their responsibility to make correct Clock Rings, and it impact on data integrity and budget.
4. The Senior Manager, Distribution Operations will have responsibility for ensuring the process is in place by the completion date.
5. The estimated completion date for full implementation of the process is August 10, 2007.

Recommendation 4:
Ensure that time cards are secured and adequately controlled.

Response
Management agrees with this recommendation. Specific courses of action will be:

1. Time card storage racks will be closed and locked until 10 minutes prior to the beginning of the Tour.
2. Time card storage racks will be resecured 10 minutes after the BT of the Pay Location.
3. The Manager, Time and Attendance Collection System (TACS) will have responsibility for ensuring the procedure is in place by the completion date.
4. The estimated completion date for institution of the process is July 30, 2007.

John P Bertolina