OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Postal Service Product Costing Methodologies

Management Advisory Report

April 11, 2013

Report Number MS-MA-13-002

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

April 11, 2013

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BACKGROUND:

The U.S. Postal Service is an independent agency, expected to cover its costs through revenue generation. Current Postal Service accounting systems, however, do not provide sufficient information to assign costs to specific mail products and services. Therefore, various manual sampling, statistical systems, and special studies have been used to estimate and assign costs. These costs are presented in the annual *Cost and Revenue Analysis* report. In 2010, the total budget for the Revenue Reporting and Cost Analysis group was $102 million, which includes manual data collection, statistical sampling, production of *the Cost and Revenue Analysis* report, and other functions.

The Postal Service's business environment has changed drastically over the past several decades with the rapid growth of digital technologies, such as electronic communication platforms and Intelligent Mail barcodes. The methods for Postal Service costing have evolved over the last 40 years to address new products and services and to meet changing guidelines.

This report is the first of two reviews requested by the Postal Service chief financial officer and executive vice president. The objective of our review was to describe the background and history of the Postal Service's current costing methodologies and identify concerns with those methodologies. The second review will address alternatives to the current costing methodologies and systems.

WHAT THE OIG FOUND:

Postal Service stakeholders continue to discuss whether the Postal Service's current costing methodologies are viable in today's environment, given the changes in law, trends toward digital technology, and high costs of manual sampling required with current costing methodologies. The following areas appear to need improvement: (1) cost of collecting data from manual sampling, statistical systems, and special studies; (2) availability of timely cost reporting data; and (3) high costs that cannot be directly attributable to a product. In response to these concerns, Postal Service officials recognize the need to explore other options and requested a second report in this series to benchmark costing methodologies of foreign posts.

WHAT THE OIG RECOMMENDED:

We did not make any recommendations in this report.

Link to review the entire report

April 11, 2013

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND
EXECUTIVE VICE PRESIDENT

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Performance

SUBJECT: Management Advisory – Postal Service Product Costing Methodologies (Report Number MS-MA-13-002)

This report presents the results of our review of the U.S. Postal Service's Product Costing Methodologies (Project Number 13RG005MS000).

We appreciate the opportunity to provide this information to you, and hope you find it helpful. If you have any questions or need additional information, please contact Janet M. Sorensen, director, Sales and Marketing, or me at 703-248-2100.

Attachments

cc: Steven R. Phelps
Joseph E. Nash
Virginia J. Mayes
Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service's product costing methodologies (Project Number 13RG005MS000). The report responds to a request from the Postal Service's chief financial officer and executive vice president. This is the first of two reviews. The objective of this review was to describe the background and history of the Postal Service's current costing methodologies as well as identify concerns with those methodologies. The second review will address alternatives to the current costing systems. This review addresses financial risk. See Appendix A for additional information.

Currently, the Postal Service establishes the costs of its products using complex costing methodologies that have evolved over the last 40 years in response to changing guidelines from the Postal Regulatory Commission (PRC) and the law. The Postal Service's business environment has changed drastically since the Postal Reorganization Act (PRA) was enacted, with the advent and rapid growth of digital technologies, such as electronic communication. The Postal Accountability and Enhancement Act (PAEA) was passed in 2006,[1] changing pricing and performance reporting requirements for Postal Service products. Among other requirements, the PAEA requires that competitive products (for example, Express Mail) not be subsidized by customers of market-dominant products (such as First-Class Mail) and gives the Postal Service more freedom to establish prices. Also, prices for market-dominant products can increase but are subject to limits established by the Consumer Price Index.

To demonstrate compliance with this, the Postal Service uses a combination of data from manual sampling, statistical systems, and special studies to prepare its annual *Cost and Revenue Analysis* (CRA) report, which contributes to the the Regulatory Reporting and Cost Analysis annual budget of $102 million (in 2010). The CRA report aids in determining whether the statutory requirements of the PAEA are met. Information from the CRA report is also used to inform management decisions regarding Postal Service operations and its network. See Appendix B for a glossary of Postal Service costing terms used in this report.

Conclusion

Postal Service stakeholders continue to discuss whether the Postal Service's current costing methodologies are viable in today's environment, given the changes in law and the need for agility in today's rapidly changing business environment. Some critics have identified areas in need of improvement:[2]

[1] Publication. L. 109-435 (2006).
[2] *A Primer on Postal Costing Issues*, U.S. Postal Service Office of Inspector General (OIG), Risk Analysis Research Center (Report Number RARC-WP-12-008, dated March 20, 2012).

- Cost of collecting data from manual sampling, statistical systems, and special studies.

- Availability of timely cost reporting data.

- High level of costs that cannot be directly attributable to a product — known as institutional costs.[3]

This report presents the background and history of product costing at the Postal Service and the current costing methodologies and explores challenges associated with the current costing system. This report will provide a baseline of information for our second report benchmarking costing techniques in use by foreign posts and companies in similar regulated industries — which will explore potential alternatives to the current costing system in place.

Background

To fully understand how the Postal Service developed its current costing methodologies, it is helpful to consider relevant background information, such as the key principles guiding the Postal Service:[4] Specifically, the Postal Service:

- Has a *universal service obligation* that, although not explicitly stated in law, requires the Postal Service to provide affordable service throughout the U.S.

- Has a *large network responsibility* and must be ready to collect and deliver mail to roughly 150 million delivery points daily, in addition to a retail network of more than 30,000 post offices across the country, both of which carry large fixed costs.

- Is a *multiproduct firm* with common production. For example, when delivering mail to residential or business customers, a Postal Service carrier generally delivers letters and packages at the same time, although these products cost different amounts to deliver.

- Has both *economies of scale and scope.* It is cost effective to deliver more mail than less and to have all mail delivered by one carrier regardless of mail class.[5]

Historically, the Postal Service's costing requirements stemmed primarily from two laws – the PRA of 1970 and the PAEA of 2006. Before the PRA, the Postal Service allocated all costs to different classes of mail. The new regulations enacted under PRA introduced

[3] Costs that cannot be directly attributable to any product and are not variable with product volume. We are not suggesting that more costs should be attributed to products, but this issue may need to be addressed separately and costs decreased.
[4] Adapted from Dr. Michael D. Bradley, *Product Costing in the Current Economic Environment*, August 9, 2012. Also see RARC-WP-12-008, *A Primer on Postal Costing Issues*, March 20, 2012.
[5] The classes of mail are Express, Priority, First-Class, Standard, Periodicals, Package Services, Standard Post, and Special Services.

the concepts of attributable and institutional costs – attributable costs are those that can be related to a specific mail product or service.

The PAEA has a requirement that each market-dominant product cover its attributable cost and contribute to institutional costs. PAEA also defined workshare discounts[6] and required that they not exceed the costs the Postal Service avoids as a result of workshare activity except under certain conditions. Table 1 highlights the key legislative components of the PRA and the PAEA.

Table 1: Key Postal Reform Legislation

	PRA (1970)	PAEA (2006)
Rate and Costing Characteristics and Key Requirements	Rates were to be set high enough to offset costs and enable the Postal Service to break even. Required each class of mail or type of mail service bear the total estimated costs (direct and indirect) attributable to each respective class or type of mail plus some portion of all other costs not attributed to specific classes of mail. Rates were to be fair and equitable.	Postal Service product types separated into 'competitive' and market-dominant categories, with separate pricing mechanisms for these two categories. Greater pricing flexibility for market-dominant products. Subsidization of competitive products by market-dominant products was prohibited. Each competitive product required to cover its attributable costs. All competitive products shall collectively cover what the regulator determines to be an appropriate share of the institutional costs of the Postal Service. All market-dominant products are subject to a statutory, consumer price index-based price cap.

[6] Discount in the form of reduced postage provided by the Postal Service to mailers for workshare activities, such as presorting, pre-barcoding, handling or transporting mail performed by mailers. Generally, the workshare discount should not exceed the cost the Postal Service avoids as a result of the workshare activity performed by the mailer.

Postal Service Funding	Break even mandate established to require that "postal rate and fees shall provide sufficient revenues so that the total estimated income and appropriations . . .will equal as nearly as practicable. . .total estimated costs. . ."	The Postal Service is permitted to retain revenue that exceeds costs. However, the Postal Service cannot increase prices above the Consumer Price Index for market-dominant products.
Role of Regulator	The Postal Rate Commission was established to set the rates by holding hearings on rates proposed by the Postal Service.	Regulator became the PRC which, among other responsibilities, provides oversight using costing data to ensure that key requirements described previously are met. Regulator also became arbiter of appropriate cost methodologies.

Source: OIG analysis.

Current Costing Methodologies

The Postal Service prepares the CRA report annually, as part of the reporting requirements under PAEA. The PRC uses information in the CRA report to determine whether the Postal Service complied with the statutory requirement that each class or type of mail service bear direct and indirect costs attributable to that class or service. The results of the PRC review are published in the *Annual Compliance Determination Report*.[7] Further, the Board of Governors and Postal Service management use the cost estimates to evaluate workshare discounts and the pricing of new products and services.

What is the CRA report?

The CRA is a report which shows

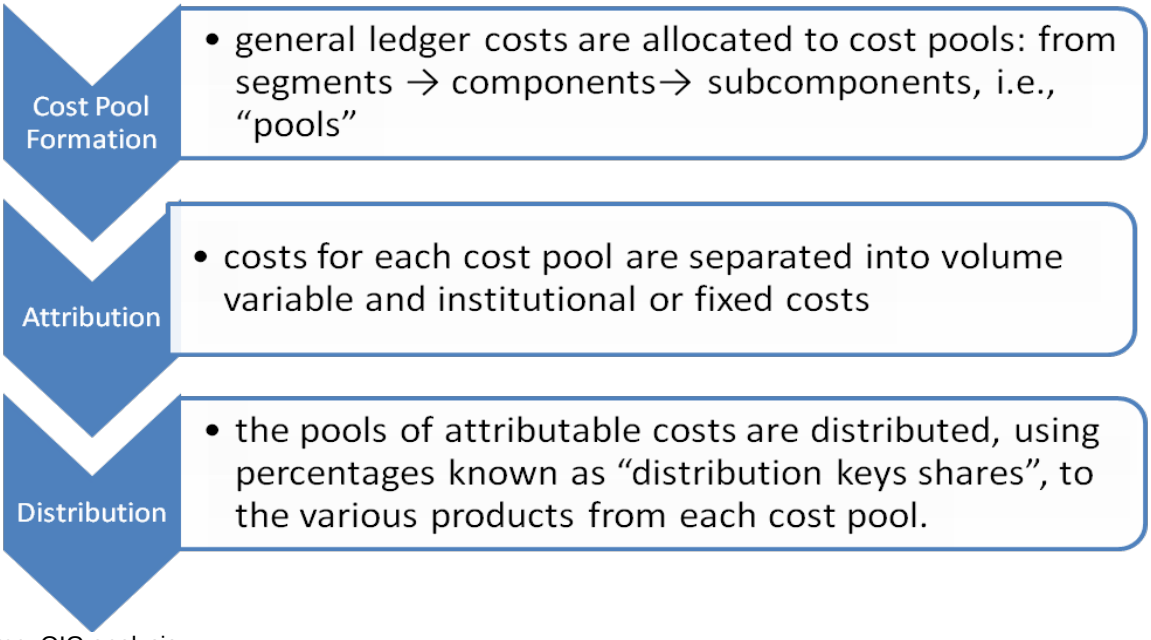
- Total revenue and total attributable costs of products and most ancillary services, with attributable costs broken down into volume-variable and product specific costs.
- Unit revenue, unit attributable cost, unit contribution margin, and cost coverage of products and most ancillary services.
- Volumes, weights and weight per piece for products.
- Number of transactions for ancillary services.
- The report also shows total institutional costs.

Costing Principles Used by the Postal Service

As described above, the Postal Service is a multiproduct firm with a large network and common costs. To determine the cost of a product, the Postal Service uses Activity-Based Costing (ABC). The first step of ABC involves dividing general accounting data into cost pools identified by function or type of resources used; the second step involves attributing costs as volume variable or fixed -- also referred to as institutional costs; and the third step distributes these costs to individual products, as described in Figure 1.

[7] The PAEA requires the PRC to file the *Annual Compliance Determination Report* annually. The report primarily focuses on Postal Service's financial transparency and compliance with pricing and service performance standards.

Figure 1: Cost Pool Formation, Attribution, and Distribution



Source: OIG analysis.

Cost Pool Formation

The Postal Service uses costs taken from the general ledger accounting records as a starting point for product costing. General ledger accounts are grouped into 18 active cost segments. Each cost segment is further divided into cost components (and sometimes into subcomponents), which form the cost pools. This grouping is necessary to help determine the volume variable and institutional portion of each cost pool.

Cost Attribution

Once the cost pools are formed, the next phase is cost attribution. Attributable costs include product specific costs — such as a product's advertising costs — and volume variable costs, which vary with the product's volume. In this step, costs attributed to each product are assigned and any remaining costs from these cost pools that are not attributable to products are determined to be institutional costs. The attributable costs reflect how changes in one factor, such as time taken to process mail, will affect total mail processing costs.

Cost Distribution

The next step involves distributing costs to individual products and services. For each product, the attributable costs from each cost segment are added to provide the total volume variable costs for processing and delivering that product. Next, any product specific costs are added to the volume variable product costs. This total, divided by its

volume, provides its unit cost.[8] For example, total Priority Mail costs would be attributed from various cost segments, such as transportation and city delivery carriers. See Appendix C for more information on the segregation of volume variable and institutional portions and the distribution of the attributable costs to products for the 18 cost segments.

The Role of Statistical Systems

To determine costs, the Postal Service draws data from its accounting system, but this data does not always provide sufficient information to determine the volume variability of the various types of costs or to allocate those costs to products. Therefore, the Postal Service uses statistical systems to assign costs of distinct operations to products. Examples of statistical systems used to provide additional information include the In-Office Cost System (IOCS), Transportation Cost System (TRACS), City Carrier Cost System (CCCS), and Rural Carrier Cost System (RCCS). See Appendix B for further information on these systems.

Challenges

Postal Service stakeholders continue to discuss whether the Postal Service's current costing methodologies are viable in today's environment, given the changes in law, trends toward digital technologies, and high costs of manual sampling that characterize current costing methodologies. Critics have largely pointed to three areas in need of improvement: the cost of data collection to generate the CRA, high institutional costs, and the frequency of reporting.

The Cost of Statistical Systems and Studies

The Postal Service spends about $102 million annually to collect and analyze cost, volume, and revenue data, as well as to monitor negotiated contracts and agreements and assist in quantifying the impact of managerial decisions regarding postal operations. This also includes the costs of management and administration of the statistical programs and preparation of the CRA. Because the Postal Service General Ledger does not provide information at the mail product and service level, manual sampling, statistical sampling and special studies are also used to identify costs at this level. To provide data for these systems, data collectors conduct almost 600,000 manual data collection readings a year.

Prior audit reports have identified potential workhour and monetary savings associated with automating some data collection activities. For example, in a prior audit report,[9] we found that, with additional system enhancements, the Postal Service could use data from mail processing systems to determine the mail processing portion of labor costs for

[8] This total does not include institutional costs. Costs that are not volume variable or product-specific are classified as institutional costs.
[9] *In-Office Cost System Inputs into the Cost and Revenue Analysis Report,* (Report Number CRR-AR-12-004), Dated May 30, 2012.

products and services. With the proper system changes, the Postal Service could obtain the census data necessary for mail processing cost determination. This would reduce dependence on manual data collection and could provide annual net savings of about $500,000. See Appendix A for prior audits regarding the costs associated with these methods.

Availability of Timely Cost Reporting Data

Currently, the Postal Service reports costing data annually as part of the annual cost reporting process. These estimates are calculated annually from a mixture of sampling systems and automated data. Under the PRC rules issued under the PAEA, the CRA is filed within 90 days of the end of fiscal year. This period typically includes time for account reconciliation, audit by external auditors, and additional reviews.

Stakeholders and some management officials are concerned that this data is too stale to support dynamic management decision making. They have observed that more timely cost information would support the organization's need to be more agile. One suggestion has been to report rolling annual data updated every time a quarter is completed, which would promote better informed and more timely management decisions. This would increase visibility into costs and could be helpful, for example, when establishing prices for negotiated service agreements (NSA) or determining workshare discounts. However, there may be some limitations associated with rolling annual data as some processing data and distribution percentages are developed on an annual basis. Additionally, statistical variation in estimates over the first few quarters of the year may not be reliable.

Solutions to stakeholder concerns about costing methodologies may require alternative approaches to these processes. For example, expanding the use of intelligent mail barcodes on all mailpieces presents an opportunity for the Postal Service to provide more timely and accurate cost data. Postal Service officials recognize the need to review other options and requested the second report in this series to assist them in their work.

High Institutional Costs

Institutional costs are costs that are not allocated or attributed to specific products or services. As discussed above, during the cost attribution phase, the attributable cost portions are determined for each cost pool. The remaining portion of costs, which do not change with changes in volume, constitute institutional costs. One concern with institutional costs is that they cannot be associated with a specific product or service, but they affect the organization's bottom line. For the Postal Service to break even, all products combined should generate sufficient revenue to cover their costs and provide contribution margins to cover the institutional costs. Information about the amount of revenue required from each product to cover institutional costs could enable management to make better business decisions regarding the product.

In fiscal year (FY) 2011, total accrued costs were about $71 billion and total attributable costs (costs associated with products) were about $41 billion. Therefore, institutional costs were about $30 billion (about 42 percent of total costs). Institutional costs varied from 12.5 percent (Cost Segment 6, City Delivery Carriers, Office Activity) to 100 percent (for Cost Segment 17, Research and Development, and Cost Segment 19, General Management Systems) within cost segments.

Appendix A: Additional Information

Background

This review responds to a request from the chief financial officer and executive vice president to provide a description of background, history, and current costing methodologies at the Postal Service. The information presented here provides a baseline for a second review and report, benchmarking Postal Service costing methodologies with those at foreign posts and other entities

Objective, Scope, and Methodology

The objective of our review was to describe the background and history of the Postal Service's costing methodologies, as well as the Postal Service's current costing methodologies. We conducted this review from November 2012 through April 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on March 26, 2013, and included their comments where appropriate.

We assessed the reliability of costing data by reviewing the 2010 and 2011 CRA reports and having discussions with Postal Service management. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
In-Office Cost System Inputs into the Cost and Revenue Analysis Report	CRR-AR-12-004	5/30/2012	$429,000 annually
Report Results: With additional system enhancements, the Postal Service could use data from mail processing systems to determine the mail processing portion of labor costs for products and services. With the proper system changes, the Postal Service could obtain the census data necessary for mail processing cost determination. This would reduce dependence on manual data collection and could provide annual net savings of about $500,000. The system enhancements would also provide important benefits to cost control, mail acceptance, and revenue protection. Management agreed with our recommendations, but did not agree with the cost estimates.			

Report Title	Report Number	Final Report Date	Monetary Impact
Revenue, Pieces, and Weight Inputs into the Cost and Revenue Analysis Report	CRR-AR-12-003	1/27/2012	$12,788,000 annually
The Postal Service could significantly reduce manual data collection for Revenue, Piece, and Weight estimation by modifying existing automated processes to collect mailpiece images for analysis and by moving sampling from delivery units to supporting processing plants. We estimate the Postal Service could save about $13 million in annual data collection costs. The Postal Service could make the hardware changes needed with existing technology, which would benefit both operational needs and statistical sampling efforts. Management agreed with the recommendations but disagreed with the assessment of the state of automated data and the cost savings estimate, indicating that the report was misleading.			
Transportation Cost System Inputs into the Cost and Revenue Analysis Report	CRR-AR-11-004	9/19/2011	$980,000 annually
Report Results: Additional planning, systems design, and system integration could enable the Postal Service to use more of the data generated by operational systems for CRA cost attribution purposes. We estimate the Postal Service could save about $980,000 in annual data collection costs. The Postal Service could make the hardware changes needed with existing technology which would benefit both operations and statistical sampling efforts. Management agreed with the recommendations but disagreed with the assessment of the state of automated data and the cost savings estimate.			
Cost and Revenue Analysis Reporting Model	CRR-AR-10-003	7/27/2010	None
Report Results: Controls over the development and maintenance of CRA reports were generally adequate. Specifically, supporting workbooks, formulas, and computer programming code are incorporated into the CRA model function as intended. The structure of the CRA model enables verification of data from the source systems against the final report. In addition, Cost Attribution personnel validate computations and cost allocations to ensure accuracy and maintain adequate supporting documentation. However, the Postal Service needs to establish proper access controls to limit file access to personnel who prepare and maintain CRA reports. In addition, the Postal Service can further enhance controls by improving CRA process documentation and following best practices in maintaining computer programming documentation for the CRA model. Management concurred with our findings and recommendations.			

Report Title	Report Number	Final Report Date	Monetary Impact
Legislation Needed to Address Key Challenges	GAO-11-244T	12/2/2010	None
Report Results: The Postal Service must modernize and restructure to become more efficient, control costs, keep rates affordable, and meet changing customer needs. To do so, the Postal Service needs to become much leaner and more flexible. Key challenges include: changing use of the mail; compensation and benefit costs that are close to 80 percent of total costs; difficulties realigning networks to remove costly excess capacity and improve efficiency; constrained capital investment, which has declined to one of the lowest levels in two decades and led to delays in buying new vehicles; lack of borrowing capacity when Postal Service reaches its statutory debt limit; and large unfunded financial obligations and liabilities of roughly $100 billion at the end of FY 2010. Management generally agreed with the report's accuracy.			
Strategies and Options to Facilitate Progress toward Financial Viability	GAO-10-455	4/12/2010	None
Report Results: The Postal Service may be able to improve its financial viability if it takes more aggressive action to reduce costs, particularly compensation and benefit costs that comprise 80 percent of its total costs, as well as increases revenue within its current authority. However, it is unlikely that such changes would fully resolve the Postal Service's financial problems, unless congress also takes action to address constraints and legal restrictions. Management agreed with the report's findings.			

Appendix B: Glossary

Accrued costs – The dollar amount associated with each category of expenses, derived from the general ledger for the fiscal year.

Activity-Based Costing – A cost allocation system that compiles costs and assigns them to activities based on relevant activity drivers. The cost of these activities can then be charged to products or customers to arrive at relevant allocation of costs than was available from the accounting systems alone.

Annual Compliance Determination Report – A report published annually by the PRC to document the Postal Service's regulatory compliance with the PAEA.

Attributable Costs – Costs associated with provision of service for the products, including product-specific costs and volume variable costs.

CCCS – An ongoing statistical data collection system that is used to distribute portions of city delivery costs that are attributable to various products.

CRA Report –The Postal Service's annual reporting vehicle for determining attributable costs by product broken down into 18 active cost segments (categories), such as Purchased Transportation, Rural Carriers, and so forth.

In-Office Cost System (IOCS) – An employee work sampling system used to distribute labor costs incurred in postal facilities by clerks, mail handlers, city carriers, and supervisors to products.

Institutional Costs – Costs that are not allocated or attributed to specific products or services. They do not change with changes in mail volume.

NSA – A customized and mutually beneficial contractual agreement between the Postal Service and a specific mailer (customer or organization). An NSA provides for customized pricing, prices, and classifications under the terms and conditions established in the NSA and may include modifications to current mailing standards and other postal requirements.

Origin-Destination Information System and the Revenue, Pieces, and Weight – The primary probability sampling system that estimates revenue, volume, and weight of mail.

RCCS – A continuous, ongoing statistical study or probability sample of rural carrier route days.

System for International Revenue and Volume/Inbound – A statistical sampling system the Postal Service uses to develop revenue, pieces, and weight estimates for

inbound First-Class Mail International and Priority Mail International and to conduct terminal dues settlements (the charges levied by the destination country to cover the costs incurred for delivering incoming international mail).

System for International Revenue and Volume/Outbound – A system that provides country-specific volume estimates to determine terminal dues for delivery of foreign destinating outbound mail.

TRACS – A statistical sampling and data collection system that provides information to assign attributable contract transportation costs to products.

Volume-Variability – The proportion by which costs change with respect to volume changes.

Worksharing – The process by which mailers perform certain mail preparation tasks and receive a discount for the work they have performed.

Appendix C: Attribution and Distribution of Costs

This appendix summarizes each of the 18 active cost segments and their components, along with their cost attribution and distribution methods. A key principle behind cost attribution is volume variability — that is, the proportion of costs that change with respect to volume changes. Costs vary in relation to changes in certain factors such as volume of mail processed or time taken to process the mail. Distribution of attributable costs to products is accomplished using distribution keys derived from statistical systems. The distribution key is a measure of the proportions of the cost driver used by individual products. In other words, it is a measure of the level of effort required to process and deliver individual products.

The source of the information in the following tables is the *Summary Description of USPS Development of Costs by Segments and Components Fiscal Year 2011*, an annual summary of the costing approach the Postal Service uses, with special reference to the CRA report. Each of the tables in this appendix identifies key elements within a cost segment, including:

- *Cost Component* – classification element for the first major subdivision of work, or cost category within a cost segment.

- *Cost Attribution*– the process of dividing component costs into attributable and institutional portions.

- *Cost Distribution* - the process of distributing the attributable portion to individual postal products and services.

Cost Segment 1.0 - Postmasters

Cost Component	Cost Attribution	Cost Distribution
1.1 - Postmasters Executive and Administrative Step Schedule (EAS)-23 and Below - The salaries, benefits, and related costs of postmasters and district managers/postmasters are covered within this cost segment and estimated from the workload analysis that uses the Expanded Postmaster Criteria System, which evaluates, ranks, and classifies postmaster positions by an index of the Workload Service Credits (WSC).	The volume variable costs of postmasters EAS-23 and below are estimated by determining the average change in minimum salary of these postmasters due to a change in WSC (such as a change in the level of activities in offices).	Costs are distributed among mail products and services based on revenue relationships determined from national Revenue, Pieces, and Weight (RPW) data.
1.2 - Postmasters EAS-24 and Above - These postmasters have duties and responsibilities that are not significantly related to the volume of mail flowing through offices that they direct. The salaries reflect longevity and merit as well as reporting requirements. Unlike the WSC used for postmasters EAS-23 and below, no set of workload evaluation criteria for evaluating higher-level postmasters is available.	There are no associated volume variable costs. All costs for this component are classified as institutional.	There are no volume variable costs to distribute.

Cost Segment 2.0 Supervisors and Technicians

Cost Component	Cost Attribution	Cost Distribution
2.1 Supervision of Mail Processing - These are the costs for first line supervision of mail processing operations. The workhours and costs for first line supervision are largely a function of the workhour-related costs of the supervised activities and supervisory span of control.	Accrued costs for first line supervision of mail processing activities are volume variable to the same degree as the accrued costs of mail processing personnel in Cost Segment 3 (see 3.1).	Volume variable costs are distributed to mail products and special services in the same proportions as volume variable mail processing direct labor costs in Cost Segment 3 (see 3.1).
2.2 Supervision of Window Service - This component includes costs for the first line supervision of window service activities in Cost Ascertainment Grouping (CAG) A-J post offices.	Accrued costs for first line supervision of window service activities are volume variable to the same degree as costs of window service clerks in Cost Segment 3 (see 3.2).	Volume variable costs are distributed to mail products and special services in the same proportion as volume variable costs of window service clerks in Cost Segment 3 (see 3.2).
2.3 Supervision of Administrative and Support Activities - This component includes costs for the first line supervision of administrative and support clerk activities involving personnel and time and attendance work. As in the case of mail processing supervision, these costs are largely a function of the workhour related costs of the supervised activity.	Accrued costs for first line supervision of personnel and time and attendance activities are volume variable to the same degree as costs for the personnel and time and attendance part of the administrative and support activities component of Cost Segment 3 (see 3.3).	Volume variable costs are distributed to mail products and special services in the same proportion as volume variable costs of personnel and time and attendance costs in the administrative and support activities component of Cost Segment 3 (see 3.3).
2.4 Supervision of Collection and Delivery - This component includes separately identified costs for the first line supervision of city delivery carriers, rural carriers, and vehicle service drivers (VSD).	Accrued costs for the first line supervision of city delivery carriers, rural carriers, and VSD are separately volume variable to the same degree as the costs for the supervised delivery service.	Volume variable costs for the first line supervision of city delivery carriers, rural carriers, and VSD are distributed to mail products and special services in the same proportion as volume variable costs for supervised delivery service.

2.5 Technical Personnel & Other Supervisory Activities - This component includes costs for managers, higher level supervisors, and technical personnel at CAG A-J Post Offices, Stations and Branches, Delivery Distribution Centers (DDCs), Processing and Distribution Centers (P&DC)/ Processing and Distribution Facility (P&DFs), Airport Mail Center(AMC)/Airport Mail Facility(AMFs), Surface Transfer Centers (STCs), International Service Centers (ISCs), Logistics and Distribution Centers (L&DCs), Network Distribution Centers (NDC)s, Remote Encoding Centers(RECs, and Customer Service Districts and for other supervisory activities not included in the other four components.	Costs for general supervisors of mail are volume variable to the same degree as mail processing costs in Cost Segment 3.1. General supervisors of delivery and collection costs are volume variable to the same degree as the composite of costs for window clerks in Cost Segment 3.2 and city delivery carriers in Cost Segments 6 and 7. Employee and labor relations technical personnel costs are volume variable to same degree of Postal Service labor in Cost Segments 1 through 12 and a portion of 18. Higher-level supervisor costs are determined by applying a special variability study. Mail processing training costs are volume variable to the same degree as mail processing costs in Cost Segment 3.1. Supervision of miscellaneous clerk activities are volume variable to the same degree as the activities supervised.	Costs of general supervisors of mail are distributed to mail products and special services in the same proportion as mail processing costs in Cost Segment 3.1. General supervisors of delivery and collection costs are distributed to mail products and special services in the same proportion as the composite of volume variable costs for window service in Cost Segment 3.2 and city delivery carriers in Cost Segments 6 and 7. Employee and labor relations technical personnel costs are distributed to mail and special services similar to Postal Service labor costs in Cost Segments 1 through 12 and part of 18. Higher-level supervisor costs are distributed in the same proportion as salary costs in Cost Segments 2 through 12. Mail processing training costs are distributed similarly to mail processing in Cost Segment 3 Supervision of miscellaneous clerk activities are distributed in the same way as the activities supervised.

Cost Segment 3.0 Clerks and Mail Handlers, CAG A-J Post Offices

Cost Component	Cost Attribution	Cost Distribution
3.1 Mail Processing - The mail processing component encompasses three major categories of activities: (1) distribution of mail, (2) operations allied to distribution of mail, and (3) miscellaneous work. The costs considered in this segment are developed from certain payroll and related accounts. Details of these accounts are shown in the Fiscal Year 2011 Cost Segments & Components Reconciliation to Financial Statements and Account Reallocations pages 3-1 through 3-3. Each of the major activity categories, in turn, consists of a large number of distinct operations.	Mail processing volume variable costs by mail product and special service are computed using the "volume variability/distribution key" method. Product volume variable costs are computed for each cost pool using employee activities reported IOCS. Non-mail processing activities are excluded from the cost pool. Since mail processing cost pools differ in the types of mail being worked, the distribution keys used to assign volume variable costs to the products of mail and special services are also computed separately for each cost pool. There are 66 mail processing cost pools. The total cost amounts for these cost pools are determined, by using a combination of payroll data, which records labor costs by broad operational groups (Labor Distribution Codes, or LDCs), and Management Operation Data System (MODS) workhours, for which finer operational detail is available.	IOCS data, partitioned according to the MODS cost pool definitions, are used to determine the amount of mail processing volume-variable costs to be distributed to subclasses in the cost pool, and to form distribution keys for the volume variable costs.
3.1.2 Allied Operations - Allied labor operations have two principal functions – preparing mail for distribution operations in the plant and processing other mail that may not require handling in piece sorting operations	There are various cost pools for allied operations. The method used to obtain the allied pool volume-variable costs is as described in Cost Segment 3.1.	The distribution of these volume variable costs are described above in Cost Segment 3.1. The distribution key formation procedure is also similar to Cost Segment 3.1.
3.1.3 Distribution Operations - Some distribution work is performed at stations and branches, as dictated by mail flow, processing windows, and service standards. This distribution work is primarily incoming secondary distribution	The total cost amounts for these cost pools are determined, as described above in Cost Segment 3.1 for mail processing, by using pay data, which records labor costs by broad operational groups.	The method used to obtain the pool volume-variable costs and distribute those volume-variable costs to products is as described above in Cost Segment 3.1.

3.1.4 Miscellaneous Operations - In addition to sorting and allied operations, clerks and mailhandlers perform numerous additional activities	There are several activities covered by this cost component. Except for customer service support operations cost pools, the total cost amounts for these cost pools are determined as described in Cost Segment 3.1.	Except for Remote Bar Code Sorting activities/cost pool, the method used to obtain the pool volume variable costs and distribute those costs to products is as described for the distribution operations in Cost Segment 3.1.3.
3.2 Window Service - Window service activities are in several groups: transactions that involve the acceptance and weighing and rating of mail classes, transactions that involve special services, sales of stamps, cards, money orders, and stamped envelopes, the setting of postage meters, and all other window activities.	Volume variable costs for window service consist of that portion of accrued costs relating to mail connected special services, direct mail, and mixed mail. Also included as volume variable are costs for activities involving money orders and those portions of the accrued costs of window service relating to stamp, card, and meter-setting activities. Costs for Post Office box work and window caller work are also considered volume variable.	Window service volume variable costs for certain mail connected special services and direct mail are distributed to classes and subclasses and special services that correspond to the activities. Costs for mixed mail are distributed by basic function. Volume variable portion of costs for stamps, cards, and meters are distributed are based on mail volume from RPW. Volume variable stamped envelope costs are distributed to stamped envelope special services. Volume variable costs for time waiting for a customer, uniform allowance costs, and overhead time costs are distributed in proportion to the costs associated with those services.

3.3 Administrative and Support Activities - Accrued costs consist of all administrative and support work costs at MODS 1 & 2 facilities, NDCs, and non-MODS facilities. Administrative and support work costs are included for clerks doing Express Mail work and performing administrative and support work regarding various category groupings of activities and activity codes.	Express Mail costs are classified as product specific. Claims and Inquiry costs are fully variable and remaining costs excluding overhead costs are classified as institutional. Personnel and Time and Attendance costs are volume variable to the same degree as labor costs in Cost Segment 1 through 12. Data Collection and Processing activities costs are variable to the same degree as mail processing and city carrier office time costs. General Administrative and Clerical activities are variable to the same degree as postal employee costs. Training costs are volume variable to the same degree as non-training costs. Quality Control and Revenue Protection work are variable to the same degree as mail processing product-specific costs relating to international claims and inquiry. Auditing and Accounting activities are considered institutional. Overhead time costs are volume variable to the same degree as other administrative and support costs.	Claims and Inquiry is distributed among mail classes and special services based on IOCS data. Personnel and Time and Attendance costs are distributed in same proportions as labor costs in Cost Segment 1 through 12. Data Collection and Processing costs are distributed based on total mail volume. General Office and Clerical activities are distributed in same proportions as labor costs in Cost Segment 2 through 12. Training costs is distributed on basis of non-training volume variable costs. Quality Control and Revenue protection is distributed in same proportion as mail processing city carrier office direct labor time. Other Miscellaneous activities are distributed as they are identified in IOCS. Overhead administrative costs are distributed in same proportions as other support costs.

Cost Segment 4.0 Clerks, CAG K Post Offices-

Cost Component	Cost Attribution	Cost Distribution
4.1 CAG K Clerks - Work includes sorting incoming mail, providing Post Office box and general delivery services, separating letter and nonletter mail, cancelling postage stamps, wrapping mail, dispatching outgoing mail, separation for destinations, and providing window services, etcetera.	Volume Variable costs consist of the accrued costs for mail processing and window service work, regarding mail connected special services, mail in the form of direct mail, and mixed mail. Costs for overhead are volume variable to the same degree as all other costs.	Volume variable costs for mail connected special services and direct mail are distributed to special services and the classes of mail represented by the activities. Costs for mixed mail are distributed to classes by basic function in the same proportions as costs for direct mail. Costs distributed to mail classes and special services are further distributed to mail products and special services based on the Cost Segment 3.1.

Cost Segment 6.0 City Delivery Carriers, Office Activity

Cost Component	Cost Attribution	Cost Distribution
6.1 In-Office Direct Labor - Carrier in-office work consists of a variety of activities whose specifics depend on the individual route. Office time on delivery routes is primarily devoted to sequencing mail for delivery.	Volume variable costs for city carrier in office direct labor activity consist of the costs for regular letter routes, and combination, parcel post, collection, Express Mail, Inter-City/Station, and Vertical Improvement Mail(VIM) routes associated with the activity codes for direct mail handling and mixed mail. Also included are costs for carriers serving these route types involving mail connected special services work and all other non-specified routes.	City delivery carrier in-office volume variable costs for mail connected special services and direct mail are distributed to the products represented by their activity codes. Costs for mixed-mail are distributed by basic function.
6.2 In-Office Support - In-office support costs comprise two categories: “overhead” and “other.” Overhead support costs include all costs for personal time and moving empty equipment. Overhead support costs also include the costs of clocking in and out, training, obtaining mail and keys, checking and preparing vehicles, and attending safety meetings to the extent these costs cannot be assigned to specific route types. The "other" support costs support both office and street activities.	Overhead in-office support costs are volume variable to the same degree as in-office direct labor costs. Other in-office support costs are volume variable to the same degree as the aggregate of Cost Segment 6.1 above and Cost Segments 7.1(Network Travel) and 7.2. (Delivery Activities).	Volume variable overhead in-office support costs are distributed to products in the same proportions as volume variable in-office direct labor costs. Other in-office support costs are distributed in the same proportions as Cost Segments 6.1, 7.1, and 7.2.

Cost Segment 7.0 City Delivery Carriers, Street Activity

Cost Component	Cost Attribution	Cost Distribution
7.1 Network Travel - Network travel time is the time spent by carriers traveling their route unrelated to volume.	Because all costs are classified as institutional, there are no volume variable costs in this component.	There are no volume variable costs to distribute.
7.2 Delivery Activities - Includes the time spent driving or walking between customer stops within the section, preparing the mail at the vehicle or while walking, the time accessing stops, and the time spent putting mail into customer receptacles. This also includes time spent on retraces to deliver deviation parcels and accountables, deviation delivery travel time, and time spent collecting mail at street collection boxes.	Volume variable costs are developed via analyses of two parts. Determining volume variable costs of parcel and accountable delivery time by analyzing how delivery time changes in response to changes in volume, and determining volume variable costs of delivering mail to customers on route sections by analyzing how delivery time responds to changes in mail volume. Product-Specific Costs – non-volume variable costs associated with Express Mail collection boxes are product specific to Express Mail.	Regular letter delivery activities on route sections are distributed to products on the basis of proportions of delivered pieces. The proportions are developed using the CCCS volume data. Separate distributions of volume variable costs for letters, flats, regular parcels, and sequenced mail are made to products on the basis of these CCCS proportions. Costs made to products within periodicals are made on the basis of national volume relationships determined from RPW data.
7.3 Delivery Support - The Delivery Support component includes the cost pools for travel to/from route and relay.	Volume variable costs - accrued delivery support cost for regular letter delivery and special purpose delivery are split into volume variable and institutional in the same proportions as their respective costs are divided between delivery activities and network travel.	Volume variable delivery support costs for regular letter delivery and special purpose delivery are distributed to products in the same proportions as their respective delivery activities costs.

Cost Segment 8.0 Vehicle Service Drivers (VDS)

Cost Component	Cost Attribution	Cost Distribution
8.1 VSD - This is salaries and benefits paid for VSD labor. VSDs provide transportation and loading/unloading service for postal facilities and their activities include a diversity of driving and other services. Their primary transportation activities include inter-station pickup and delivery, airport runs, delivery to firms, parcel and relay deliveries, and street and building collections.	**Volume Variability Costs** - VSD costs was developed from a cross-sectional analysis of FY 1993 VSD workhour usage and VSD workload components. The sources of the data for this analysis were: (1) a FY 1993 survey of plant and distribution facilities that used VSDs and (2) Postal Service Forms 4533 *Motor Vehicle Schedule,* which contains route and scheduling data. A volume variability estimate was developed from a regression model for 49 facilities identified in the survey.	Costs of VSD labor are distributed to products in the same proportions as Intra-Sectional Center Facility highway contract costs (see Cost Segment 14.1 for Highway).

Cost Segment 10.0 Rural Carriers

Cost Component	Cost Attribution	Cost Distribution
10.1 Evaluated Routes - Each evaluated rural carrier is paid a salary determined by the evaluated time for his or her route. The evaluated time is developed based on route factors such as route length; boxes served; the volume of letters, flats, parcels, and box holders delivered.	The volume variable costs of rural carrier workhours are determined from a variability analysis developed in accordance with the evaluated time and factors of workload for the most recent route evaluation for each rural route from the National Rural Mail Count. This is a four step procedure.	Volume variable costs for evaluated route and other route are distributed in a two step procedure. Because the National Rural Mail Count provides data by mail shape but not by product, these distributions are based on proportions obtained from the RCCS.
10.2 Other Routes - The costs of rural carriers other than evaluated route carriers are included in the "other routes" component. These carriers serve routes in either of two classifications: Auxiliary - "A" routes or Mileage - "M" routes.	The volume variable costs of rural carrier workhours are determined from a variability analysis developed in accordance with the evaluated time and factors of workload for the most recent route evaluation for each rural route from the National Rural Mail Count. This is a four-step procedure.	Volume variable costs for evaluated route and other route are distributed in a two step procedure. Because the National Rural Mail Count provides data by mail shape but not by product, these distributions are based on proportions obtained from the RCCS.
10.3 Equipment Maintenance - Equipment Maintenance Allowance (EMA) is paid when carriers use their own vehicles. Carriers receive a minimum allowance that increases on a mileage basis for routes exceeding 40 miles. Certain routes with a large number of stops in relation to the number of miles receive a supplemental allowance.	Volume variable costs - there are no associated volume variable costs. The costs of this component are classified as institutional.	There are no volume variable costs to distribute.

Cost Segment 11.0 Custodial and Maintenance Services

Cost Component	Cost Attribution	Cost Distribution
11.1 Custodial Services - Custodial services costs include the costs of Postal Service personnel responsible for the cleaning and protection of service facilities and the costs of contractually procured cleaning services. These space support costs are incurred to provide secure, well kept working environments.	Volume variable costs - because these costs tend to vary with the amount of space involved, they are developed in the same manner and are determined to be variable to the degree described in space support costs (see Cost Segment 15.2).	Custodial services costs are distributed to classes of mail, products and special services in the proportions described in section for space support costs (see Cost Segment 15.2).
11.2 Operating Equipment Maintenance - Costs are for the maintenance of mail processing equipment and various types of Postal Service equipment other than mail processing equipment, such as computers and window service equipment.	Volume variable costs - costs for maintenance of mail processing equipment are volume variable to the same degree as the costs of those operating the equipment. Point of Service (POS) One maintenance is volume variable as window service labor. See Cost Segment 3.2. Other operating equipment is classified as institutional.	Costs for mail processing equipment maintenance labor are distributed in the same proportions as IOCS tallies of mail processing labor for 17 of the 22 individual equipment categories in recognition of the related equipment usage. There are other distribution methods for the remaining five equipment types. POS One maintenance is distributed in proportion to window service labor (see Cost Segment 3.2).
11.3 Plant and Building Equipment Maintenance - Space support costs for building equipment maintenance are for the maintenance of such items as elevators, and heating and air conditioning systems.	Volume variable costs - variable to the same degree as described for space support costs (see Cost Segment 15.2).	Building equipment costs are distributed to classes of mail, products and special services in the proportions described for space support costs (see Cost Segment 15.2).

Cost Segment 12.0 Motor Vehicle Service

Cost Component	Cost Attribution	Cost Distribution
12.1 Personnel - This component covers the costs of personnel who perform vehicle maintenance work at vehicle maintenance facilities. Vehicle maintenance is essentially dependent on the miles of vehicle use or hours of vehicle operation.	The subcomponent shares for personnel costs are derived using the Vehicle Management Accounting System (VMAS). VMAS compiles local vehicle acquisition and maintenance cost data records from all vehicle maintenance facilities each accounting period. City Delivery Vehicles - letter routes vehicle maintenance costs are variable to the same degree as letter route labor costs in Cost Segment 7. City Delivery Vehicles – special purpose routes costs are variable to the same degree as special purpose route labor costs are in Cost Segment 7. Rural Delivery Vehicles costs are variable to the same degree as rural carrier salary costs. Vehicle Service Vehicles costs are variable to the same degree as vehicle service driver costs. Other Vehicles costs are institutional.	City Delivery Vehicles - letter routes costs are distributed in the same proportions as city letter carrier route costs in Cost Segment 7. City Delivery Vehicles - special purpose routes costs are distributed in the same proportions as costs for city delivery carrier special purpose routes in Cost Segment 7. Rural Delivery Vehicles costs are distributed in same proportions as costs for rural carriers in Cost Segment 10. Vehicle Service Vehicles costs are distributed in same proportion as costs of VSD in Cost Segment 8.
12.2 Supplies and Materials - The costs in this component are for supplies and services used in vehicle maintenance work performed by motor vehicle service personnel	Accrued costs for the six subcomponents are determined to be volume variable in the manner described for the costs of the corresponding personnel subcomponents in Section 12.1..	Volume variable costs for the six subcomponents are distributed to products in the manner described for the costs of the corresponding personnel subcomponents in Section 12.1.

12.3 Vehicle Hire - Costs covered by this component are for rental of privately owned and General Services Administration (GSA) vehicles and exclude equipment maintenance allowances paid to rural carriers for use of their vehicles	City Delivery Vehicles - Letter Routes - are volume variable to same degree as the costs of the corresponding individual components in Cost Segments 6 and 7. Vehicle Service Vehicles - Accrued costs are volume variable to the same degree as the costs of VSD in Cost Segment 8. Other vehicles costs are considered institutional.	City Delivery Vehicles - Letter Routes - Volume variable costs of the individual delivery functions are distributed to products in the same proportions as the volume variable costs of the corresponding individual components in Cost Segments 6 and 7. Vehicle Service Vehicles - are distributed to products in the same proportions as the volume variable costs of VSD in Cost Segment 8.

Cost Segment 13.0 Miscellaneous Local Operations

Cost Component	Cost Attribution	Cost Distribution
13.1 Contract Stations - Contract stations are a special kind of small office operated by a nonpostal individual under a contract with the Postal Service. These stations sell stamps and accept mail at times and places convenient to the public and provide services similar to the window service available at postal stations, branches, and smaller post offices.	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.
13.2 Carfare, Drive-out, Tolls and Ferriage - This component covers the costs of carfare, drive out agreements, and tolls and ferriage. Carfare and drive out agreements are made with city delivery carriers and postmasters for reimbursement of certain transportation expenses.	Car fare and drive-out agreements are considered variable to the same degree as the costs of city delivery carrier foot routes. Thus, they are volume variable based on the costs developed for city delivery carriers (Cost Segments 6 and 7). Costs of tolls and ferriage are classified as institutional.	Volume variable costs of carfare and drive out are distributed to products of mail and special services in the same proportions as the volume variable costs of the corresponding individual city delivery carrier components in Cost Segment 6 and 7.
13.3 Federal Reserve and Commercial Banks - Federal Reserve Banks process the redemption of Postal Service bonds. Commercial banks maintain bank accounts for Postal Service offices throughout the country.	Volume Variable Costs - Federal Reserve and commercial banks services are classified as institutional. Retail and Credit Card Fees are volume variable based on the costs developed for window service (Cost Segment 3.2).	There are no volume variable costs to distribute.
13.4 Employee Awards - Employee awards are related to the performance of individuals rather than to the volume of mail. They primarily reflect management decisions for improving morale and efficiency.	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.
13.5 Mail Equipment Shop - The Mail Equipment Shop (MES) located in Washington, DC, is operated by the Postal Service to manufacture mailbags and related locks, keys, and miscellaneous hardware. Their costs are related primarily to security standards governing the design of the equipment rather than the volume of mail.	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable. However, a portion of the costs for the MES is product specific to International Mail.	There are no volume variable costs to distribute.
13.6 CAG L Rental Allowance - Postmasters at CAG L post offices are reimbursed for facilities used for Postal Service business	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.

13.7 Other Local Operations - The remaining costs in this segment are personnel costs for purchasing field service centers and facilities field offices. Purchasing field service centers are responsible for such matters as vehicle hire and maintenance contracting, food service and cleaning services contracting, and supply management. Facilities Field Offices are responsible for matters such as facility planning, engineering specifications, and the acquisition and disposition of owned and leased properties.	Volume variable costs - because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.

Cost Segment 14.0 Transportation

Cost Component	Cost Attribution	Cost Distribution
14.1 Domestic Transportation - Domestic air transportation consists of the air conveyance of mail throughout the 50 states and U.S. territories by scheduled commercial air carriers, network shared capacity contract arrangements, and air taxi operators. Mail is carried on commercial airlines as well as shared network contracts with Federal Express (FedEx) and United Parcel Service (UPS) which provide transportation between high-volume cities.	Costs are developed separately for domestic air transportation into the following categories: Commercial Air, FedEx, UPS, Christmas, Alaska and Hawaii, and Air Taxi. All costs are considered fully volume variable.	Passenger Air - costs are distributed to products on the basis of pounds obtained from the TRACS. FedEx - costs are distributed based on cubic-feet obtained from TRACS. UPS - costs are distributed based on pounds obtained from TRACS. Holiday - costs are distributed based on two step process involving weight on tags. Alaska and Hawaii - costs are distributed based on pound-miles developed by special studies. Air Taxi - costs based on composite of costs for other domestic air categories other than Alaska non-preferential air.
14.1.2 Highway Transportation - divided in eight categories: Intra-Sectional Center Facility(SCF), Inter-SCF, Intra-NDC, Inter-NDC, plant load, contract terminal and van damage, empty equipment, and Alaskan highway. All categories are procured from individual firms under similar contracts that prescribe general conditions of transportation service.	Volume variabilities are developed for each of the categories. For five categories variabilities are developed by regressing contract annual cost against annual contract cubic foot miles of capacity and route length.	Cost Distributions are based on data developed using TRACS data.
14.1.3 - Railroad Transportation - includes conveyance by freight train and related terminal services.	Costs are developed separately for three categories: freight train, plant load, and empty equipment. Variability costs are developed by regressing contract costs against cubic foot miles and route length. Plant load and empty equipment vary to the same degree as freight train costs.	Cost distributions are based on data developed using TRACS data and a study of plant load mail.

14.1.4 - Water Transportation - consists of inter-city conveyance in some mainland and lake locations and offshore conveyance between the continental U.S. and Puerto Rico and Hawaii.	Costs for inter-city line haul transportation and that portion associated with offshore services are fully volume variable. The costs of rural features, box delivery and pickup service are classified as institutional.	Inter-city line haul costs are distributed in the sample proportions as intra-SCF highway contract costs, and offshore transportation costs are distributed in same portions as inter-NDC highway and freight rail costs.
14.2 International Transportation	Volume variable costs of international transportation are obtained from various general ledger (GL) accounts. Costs for transporting military mail are obtained from GLA. Reimbursements for those costs from the Department of Defense are obtained from GLA.	The development and distribution of volume variable costs for international transportation is not described in this document.

Cost Segment 15.0 Building Occupancy

Cost Component	Cost Attribution	Cost Distribution
15.1 Rents - This segment covers expenses for renting and leasing facilities (space provision); fuel and utilities (space support); communications services; and improvement of facility related working conditions.	Volume variable costs - the variable costs of space-related building occupancy are developed through analysis of the space occupied by each functional operation and the volume-related characteristics of the underlying work activities. Volume variable space provision costs for rents are based in part on current market rental costs, which reflect economic costs such as interest expense and depreciation expense. Consideration of the market rental costs results in these costs being fully volume variable.	Mail Processing - costs for each category is distributed based on the corresponding labor cost pool distribution in Cost Segment 3. Lobby - costs for window service space are distributed to classes of mail, products and special services in the same proportions as the costs of window service in Cost Segment 3. Mail Delivery Space - costs for mail delivery space are distributed to classes of mail, products and special services in the same proportions as the respective salary costs of city delivery carriers in Cost Segments 6 and 7 and rural carriers in Cost Segment 10. Administrative and Support - volume variable costs for mail processing equipment maintenance space are distributed to classes of mail, products and special services in the proportions described in Cost Segment 11.
15.2 Fuel and Utilities - Fuel and utility costs are incurred mainly for various heating fuels, electricity, and water. If design factors and related considerations are held constant, then fuel, utility, and other space support costs will vary with facility space requirements.	Fuel, utility, and other space support costs are apportioned among the 71 categories on the basis of relative square footage of space usage. Variability for each category of space is generally the same as the labor working in that space or has been established in past studies.	Volume variable fuel and utilities costs are distributed to classes of mail, products and special services in the same proportions as volume variable space provision costs described in Cost Segment 15.1.

15.3 Communications and Other Expenses - These space related building occupancy expenses include such items as telephone and telegraphic services, Postal Service equipment and operations moving expenses, and non-capitalized facility improvements.	Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.

Cost Segment 16.0 Supplies and Services

Cost Component	Cost Attribution	Cost Distribution
16.1 Stamps and Accountable Paper - The costs of this component are incurred for procurement of postage stamps, money orders, stamped cards, embossed stamped envelopes, aerogrammes, migratory bird hunting and conservation stamps, and miscellaneous philatelic items.	The costs associated with the procurement of postage stamps, money orders, and stamped cards are fully volume variable. The costs of miscellaneous philatelic items and migratory bird hunting and conservation stamps are subtracted from the accrued costs.	The costs of money orders are directly distributed to that special service. The costs associated with stamped cards and envelopes are directly distributed to those special services. The remaining volume variable costs are distributed to classes of mail, products and special services in the same proportions as the volume variable portion of window service costs for stamp sales. See Cost Segment 3.2 above.
16.2 Supply Personnel - The supply center maintains and distributes to smaller post offices the numerous supplies, forms, and items of equipment used by these offices.	The costs of supply center personnel are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.
16.3 Other Supplies and Services - Costs are grouped into six subcomponents for classification analysis: custodial and building supplies and services, equipment supplies and services, other miscellaneous supplies and services, advertising, and non-mail related products.	Custodial and Building Supplies and Services - Variable to the same degree as Cost Segment 15.2., space support costs. Equipment Supplies and Services - Variable to the same degree as personnel cost that use the equipment in Cost Segment 11.2., processing equipment. Other Miscellaneous Supplies and Services - variability is decided on a case by case basis. Advertising - Costs for specific products are product specific and other advertising costs are institutional. Non-Mail Related Products - are classified as institutional.	Custodial and Building Supplies and Services - are distributed in the proportions described in Cost Segment 15.2. Equipment Supplies and Services are distributed in proportions described in Cost Segment 11.2. Other Miscellaneous Supplies and Services are distributed for specific products. Advertising - are distributed as product-specific and not volume variable costs. Non-Mail Related Products - are not distributed

Cost Segment 17.0 Research and Development

Cost Component	Cost Attribution	Cost Distribution
17.1 Research and Development - Expenditures incurred primarily for developmental efforts to improve mail processing technology, construction engineering, and field industrial engineering.	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.

Cost Segment 18.0 Administration and Area Operations

Cost Component	Cost Attribution	Cost Distribution
18.1 Administration Personnel - These administration personnel costs reflect the national and area costs of managing ongoing postal operations.	Costs relating to handling of money orders and international mail are subtracted and classified as product specific. Remaining costs are institutional Inspection Service Protection Force are volume variable as described in 15.1. for space support costs. All remaining Inspection Service personnel costs are institutional.	Protection force costs are distributed in proportions described in Cost Segment 15.1.
18.2 Administration Support - These costs include supplies and services used by the personnel in this segment and miscellaneous expenses.	These costs are classified as institutional	Costs for commission on non-U.S. money orders are distributed to international money orders. All other costs are institutional.
18.3 Personnel Benefits - Corporate-wide personnel benefits that are not reported by employee category.	Prior year workers' compensation costs, prior year portion of annuitant health and earned Civil Service Retirement System (CSRS) pensions, Post Office Department and Office of Worker's Compensation health benefits, and prior year portion annuitant life insurance benefits costs, and annuity protection costs are classified as institutional	Accrued repriced annual leave, holiday leave adjustments, current-year workers' compensation costs, unemployment compensation, current-year portion of annuitant health and earned CSRS pensions, and annuitant life insurance benefits costs are distributed to the same degree as postal labor costs.

Cost Segment 19.0 General Management Systems

Cost Component	Cost Attribution	Cost Distribution
19.1 Maintenance Technical Support Center (MTSC) - The MTSC performs two activities related to the maintenance of all postal equipment except motor vehicles: it provides technical support to postal facility maintenance personnel and establishes maintenance standards for new types of postal equipment.	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.
19.2 Supplies and Services - The training related activities include non-Postal Service personnel who prepare courses and instruct at the Postal Service Management Academy and the Postal Service Technical Center and training supplies such as textbook and audiovisual materials.	Volume Variable Costs - Because the costs of this component are classified as institutional, no accrued costs are volume variable.	There are no volume variable costs to distribute.

Cost Segment 20.0 Other Accrued Expenses (Service-Wide)

Cost Component	Cost Attribution	Cost Distribution
20.1 Equipment Depreciation - Mail processing equipment includes delivery barcode sorters, facer/cancellers, flat sorting machines, and other equipment used in distribution. Other equipment depreciation includes costs for depreciation of customer service and postal support equipment such as window service equipment and computers.	Mail Processing equipment depreciation costs are variable to the same degree as costs for the personnel that operate the equipment; and are based on the mail processing labor costs pools shown in Cost Segment 3.1 POS One depreciation is volume variable as window service labor in Cost Segment 3.2.	Costs are distributed on the basis of IOCS tallies for the operation of 17 of 22 types of equipment. POS ONE depreciation is distributed in proportion to window service labor in Cost Segment 3.2.
20.2 Vehicle Depreciation - Costs are for the depreciation of motor vehicles owned by the Postal Service and are not considered city carrier, rural carrier, vehicle service driver, or other vehicle.	Depreciation costs are volume variable by vehicle category to the same degree as the costs of city delivery carrier street functions in Cost Segment 7, rural carriers in Cost Segment 10, and VSD in Cost Segment 8. Costs for other vehicles are institutional.	Motor vehicle depreciation costs are distributed to classes of mail, products and special services in the same proportions as the costs of individual city delivery carrier street functions in Cost Segment 7, rural carriers in Cost Segment 10, and VSD in Cost Segment 8.
20.3 Building and Leasehold Depreciation - The depreciation of buildings owned by the Postal Service and leasehold improvements made by the Postal Service to buildings it leases.	Volume variable space provision costs for building and leasehold depreciation are developed as described in Cost Segment 15.1.	Volume variable space provision costs for building and leasehold depreciation are distributed in proportions described in Cost Segment 15.1.
20.4 Indemnities - Covers costs of indemnities and uninsured claims and write-offs.	Indemnity costs are fully volume variable. Uninsured claims and write-offs are institutional.	Domestic mail indemnities are distributed to Express Mail and the registry, insurance, cash on delivery, special services on the basis of an analysis of domestic claims disbursements for each. The costs of international mail indemnities are distributed to International Express Mail, registry and insurance categories on the basis of a similar analysis.

20.5 Interest Expense - Costs incurred mainly as a result of borrowing money and for payments on retirement liabilities.	Volume variable costs for facilities related interest expense is based on current market rental cost and facility space variabilities. The variability for these costs is determined in the same fashion as rental costs in Cost Segment 15.1. Retirement and miscellaneous interest are institutional.	Facility-related interest is distributed as described in Cost Segment 15.1.
20.6 Other Expenses and Credits - Covers costs for a number of cost and credit categories that are broadly grouped	These costs are classified as institutional	There are no volume variable costs to distribute.