

# In-Office Cost System Follow-up

## AUDIT REPORT

Report Number 24-161-R25 | May 28, 2025



# Table of Contents

## Cover

## Highlights..... 1

Background ..... 1

What We Did ..... 1

What We Found ..... 1

Recommendations and Management's Comments..... 1

## Transmittal Letter..... 2

## Results..... 3

Introduction/Objective..... 3

Background ..... 3

Finding: IOCS Sampling Processes and Costs ..... 4

Recommendation..... 5

Postal Service Response..... 5

OIG Evaluation..... 6

## Appendices..... 7

Appendix A: Additional Information..... 8

Scope and Methodology ..... 8

Prior Audit Coverage ..... 9

Appendix B: Management's Comments ..... 10

## Contact Information ..... 13

# Highlights

## Background

The In-Office Cost System (IOCS) is the U.S. Postal Service's primary probability sampling system used for estimating the cost of processing mail and parcels. The data collected from IOCS enables the Postal Service to allocate the labor costs from the handling of mail, parcels, and related activities performed by clerks, mail handlers, city carriers, and supervisors to all mail classes and rate categories. The Postal Service uses the data collected from IOCS to allocate about \$21 billion per year in costs to mail products. The Postal Service uses the allocated costs to each mail category collected from IOCS to determine prices. Therefore, collecting consistent, accurate data is essential.

## What We Did

Our objective was to evaluate whether corrective actions the Postal Service took in response to our recommendations related to IOCS sampling processes properly addressed the issues. Specifically, we followed up on whether corrective actions related to IOCS sampling improved processes for conducting readings, reiterated policies, and piloted an additional sampling methodology.

## What We Found

We found that Postal Service management's corrective actions sufficiently addressed our prior report's findings and recommendations. Specifically, the Postal Service implemented the IOCS Cluster sampling methodology for city carriers, which reduced both rescheduled and cancelled readings and allowed better attribution of labor costs to products; reiterated policy that data collectors should verify sample employees' work status in advance of scheduled IOCS readings; generally completed process reviews; and began piloting another IOCS sampling methodology that runs through fiscal year (FY) 2026 to more accurately attribute clerks' and mail handlers' labor costs. In addition, we identified potential cost savings of more than \$6 million in FY 2024 based on the methods used to perform IOCS readings.

## Recommendations and Management's Comments

We made one recommendation to remedy the identified issue and the Postal Service agreed with the recommendation. The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendation as corrective action should resolve the issue identified in the report. Postal Service management's comments and our evaluation are at the end of the finding and recommendation. See [Appendix B](#) for management's comments in their entirety.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

---

May 28, 2025

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

*Lazerick C. Poland*

**FROM:** Lazerick Poland  
Acting Deputy Assistant Inspector General  
for Finance, Pricing, and Human Capital

**SUBJECT:** Audit Report – In-Office Cost System Follow-up  
(Report Number 24-161-R25)

This report presents the results of our audit of In-Office Cost System Follow-up.

All recommendations require U.S. Postal Service Office of Inspector General's (OIG) concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesy provided by your staff. If you have any questions or need additional information, please contact Christa Owens, Director, Finance and Pricing Directorate, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit Response Management



# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the In-Office Cost System (IOCS) Follow-up (Project Number 24-161). This is a follow-up to our IOCS sampling processes audit report issued May 22, 2020.<sup>1</sup> Our objective was to evaluate whether corrective actions the Postal Service took in response to our recommendations related to IOCS sampling processes properly addressed the issues. See [Appendix A](#) for additional information about this audit.

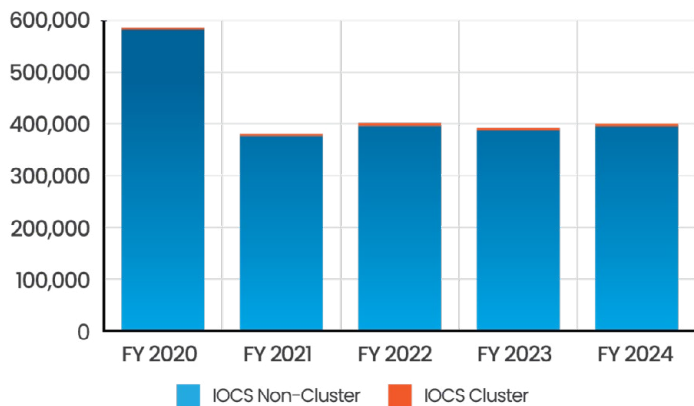
## Background

IOCS is the Postal Service’s primary probability sampling system used for estimating the cost of processing mail (e.g., letters, flats) and parcels. The Postal Service uses the data collected from IOCS to allocate about \$21 billion per year in labor costs from the handling of mail, parcels, and related activities performed by clerks, mail handlers, city carriers, and supervisors to all mail classes and rate categories, and to the provision of special services.<sup>2</sup> An IOCS reading consists of a data collector observing and recording the activity that a selected employee performs at a designated time during a specific workday. In addition, the data collector records the characteristics (e.g., indicia, special services, weight) of any mail or mail transportation equipment that the sampled employee is handling using the Computerized On-Site Data Entry System (CODES)<sup>3</sup> software installed on their laptop. The Postal Service uses the allocated costs to each mail category collected from IOCS to determine prices. Therefore, collecting consistent, accurate data is essential.

The Postal Service currently uses both IOCS Non-Cluster and IOCS Cluster sampling methods to collect data. The IOCS Non-Cluster method samples individual clerks and mail handlers at one specific moment in time, while the IOCS Cluster method samples clusters of city carriers within specified

blocks of time. With IOCS Cluster sampling, the data collector will receive a list of six employees who are to be sampled and continuously conduct the readings over an extended period. The Postal Service scheduled an average of 430,667 IOCS readings per year from FY 2020 through FY 2024, as noted in Figure 1.

**Figure 1. Number of Scheduled IOCS Readings, FY 2020 – FY 2024**



Source: Developed by the OIG using information from the Postal Service’s Annual Compliance Reports (ACR)<sup>4</sup> from FY 2020 through FY 2024.

## Prior Audit Findings

In our prior audit, we found opportunities for the Postal Service to improve the efficiency of its IOCS sampling processes. A significant number of data collector readings did not collect mail characteristic data and could not be used to attribute costs to products since the IOCS Non-Cluster sampling methodology was not designed to replace unavailable employees (e.g., in a leave status) with available employees. In addition, although policy requires data collectors to verify sampled employees’ leave status prior to visiting a location, there was no process in place to validate if verification occurred, which resulted in an increase in cancelled and rescheduled readings. Further, we found that the IOCS Cluster sampling pilot was more efficient than the IOCS Non-Cluster sampling

<sup>1</sup> U.S. Postal Service Office of Inspector General (OIG), *In-Office Cost System Sampling Processes*, Report Number 19-032-R20, May 22, 2020.  
<sup>2</sup> Any service available for a fee that supplements or enhances mail or mail services.  
<sup>3</sup> This system is the platform to provide an automated mechanism for the field data collection systems.  
<sup>4</sup> The ACR analyzes cost, revenue, rates, and quality of service for all products. Further, it reports whether revenue for each mail class and service type covers its attributable costs, which are costs directly or indirectly caused by product.

methodology; however, additional opportunities existed to increase its efficiency such as reducing idle time between readings and expanding the pilot to include other employee crafts. In response to our report, the Postal Service implemented the IOCS Cluster sampling methodology in FY 2020 for city carriers; reiterated policy that data collectors should verify sampled employees' work status in advance of scheduled IOCS readings; documented the methodology and analysis used to ensure sufficient IOCS samples were capturing mail characteristics data; and piloted the IOCS Cluster sampling methodology to expand to clerks and mail handlers.

## Finding: IOCS Sampling Processes and Costs

Although the Postal Service sufficiently addressed our prior report's findings and recommendations, we identified an opportunity for cost savings.

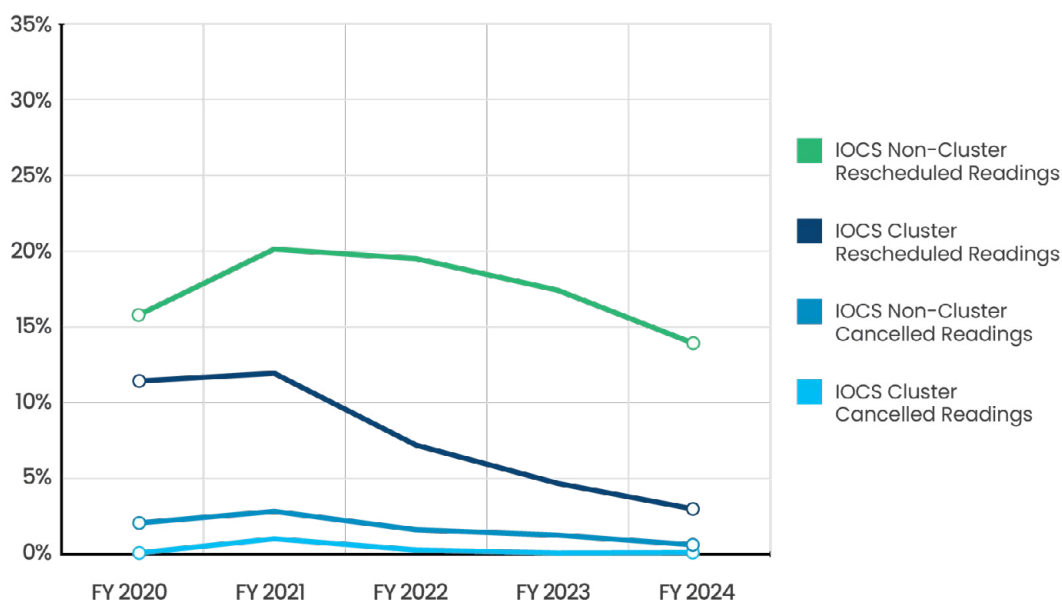
### IOCS Cluster Sampling Methodology Implementation

We found both rescheduled and cancelled readings decreased from FY 2020 through FY 2024 after the IOCS Cluster sampling methodology's

implementation (see Figure 2). The Postal Service petitioned the Postal Regulatory Commission<sup>5</sup> to use the IOCS Cluster sampling methodology and obtained approval in September 2020 to better attribute labor costs to products for mail handled by city carriers.<sup>6</sup> The IOCS Cluster's design gives data collectors the ability to complete multiple readings on-site. In addition, the IOCS Cluster sampling methodology includes an algorithm used to randomly select an alternative employee if the originally selected employee is unavailable, which results in less rescheduled and cancelled readings. Furthermore, for IOCS Non-Cluster sampling, we found the Postal Service reiterated changes to existing data collection policies and procedures related to verification of leave status prior to visiting a location through a policy letter,<sup>7</sup> which contributed to the decline in rescheduled and cancelled readings. Currently, the Postal Service is piloting another IOCS sampling methodology through FY 2026 to more accurately attribute clerks' and mail handlers' labor costs.

**Figure 2. IOCS Rescheduled and Cancelled Readings, FY 2020 – FY 2024**

Source: Developed by the OIG using information from the Test Status Statistics Report<sup>8</sup> from FY 2020 through FY 2024.



<sup>5</sup> The PRC is an independent establishment of the executive branch of the U.S. government that has regulatory oversight over many aspects of the Postal Service. Title 39 of the U.S. Code of Federal Regulations § 3050.11 notes any interested party, including the Postal Service, may submit a petition to the PRC to initiate a notice of proceeding to change an Accepted Analytical Principle for attributing postal costs to products, which may improve the quality, accuracy, or completeness of the data (or analysis of such data) contained in annual periodic reports to the PRC.

<sup>6</sup> U.S. Postal Service, *Petition Of The United States Postal Service For The Initiation Of A Proceeding To Consider Proposed Changes In Analytical Principles (Proposal Three)*, June 11, 2020.

<sup>7</sup> Quarterly policy letters are issued to supervisors of statistical programs and district regional managers that prescribe new or changes to existing data collection policies and procedures (e.g., changes in handbooks, guides, forms, and CODES software).

<sup>8</sup> The *Test Status Statistics Report* provides information about a district's readings for each CODES application, such as unapproved, canceled, and rescheduled readings.

### Data Collector Process Reviews

We found data collectors generally had completed process reviews from FY 2020 through FY 2024. We performed observations of a supervisor of statistical programs (SSP) conducting process reviews for two data collectors. The data collectors generally followed policies and procedures during their process reviews. Additionally, we interviewed the SSP and data collectors and determined that they had the knowledge of the policies and procedures for conducting process reviews and IOCS readings, respectively. Process reviews are the primary method of quality control to ensure the integrity of the data collected by IOCS, enable proper data collection, and identify potential training opportunities.

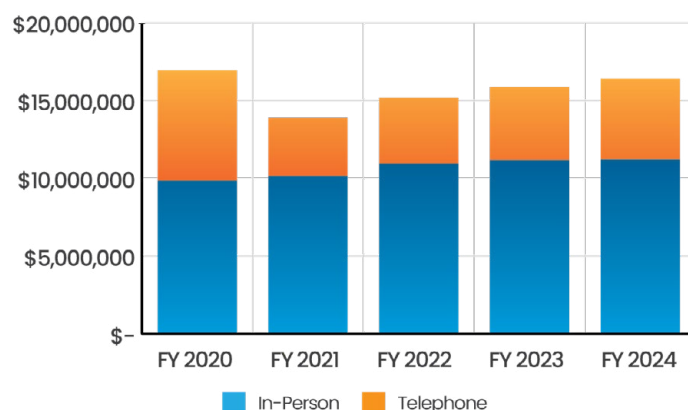
### IOCS Readings Cost Savings

We found opportunities for potential cost savings based on the methods used to perform IOCS readings. The cost to conduct an IOCS reading includes travel, training, salary, and benefits. Specifically, on average, it cost more per year to complete IOCS readings in-person rather than over the telephone from FY 2020 through FY 2024, as shown in Figure 3. In FY 2023 and FY 2024, the Postal Service incurred an additional \$12.4 million in costs by performing readings in-person rather than by telephone.<sup>9</sup>

Management's preference is for IOCS readings to be completed by trained data collectors that can scan barcodes to obtain and validate data. However, *the Postal Service's Handbook F-45: In-Office Cost System (IOCS)* notes that data collectors may use the telephone to conduct IOCS readings as an alternative method.

A primary goal of the Delivering for America 2.0 Plan<sup>10</sup> is to achieve financial stability, generating enough revenue to cover operating costs and obligations. The additional cost to complete IOCS readings in-person rather than over the telephone unnecessarily increases the Postal Service's costs, which are used to determine prices.

Figure 3. Cost of IOCS Readings, FY 2020 – FY 2024



Source: Developed by the OIG using information provided by the Postal Service.

### Recommendation

We recommend that the **Vice President of Pricing and Costing** analyze and document potential cost savings attributable to in-person versus telephone sampling methods used to collect data for the In-Office Cost System.

### Postal Service Response

Management agreed with the finding and recommendation but disagreed with the monetary impact. See [Appendix B](#) for management's comments in their entirety.

Regarding the finding, management agreed that its corrective actions sufficiently addressed the prior report's findings and recommendations.

Regarding the recommendation, management agreed to further analyze and document potential cost savings attributable to on-site versus telephone sampling methods for IOCS. Management will document the results of this analysis in a report that it will submit to the OIG. The target implementation date is August 31, 2025.

Regarding the monetary impact, management disagreed that the Postal Service could save \$6.2 million per year by converting IOCS

<sup>9</sup> The OIG considers the \$12.4 million to be supported questioned costs.

<sup>10</sup> U.S. Postal Service, *Delivering for America 2.0: Fulfilling a Promise*, September 30, 2024.

readings from an on-site sampling method to a telephone sampling method. If work hours could be repurposed to other activities by converting readings from on-site to telephone, management disagrees that this would be worth the trade-off in data quality as on-site readings are the preferred method. Management stated that our monetary impact calculation does not factor in the following: IOCS Cluster readings conducted in the morning do not have the same cost as IOCS Cluster readings conducted in the afternoon, and it is not feasible or practical to conduct IOCS Cluster readings in the morning by telephone; on-site Non-Cluster IOCS Readings are typically conducted at the data collector's domicile location so it does not result in travel time cost savings; and for any readings in processing facilities that are not co-located with data collection resources, those workhours might

be repurposed for another activity and therefore not result in work hour savings.

#### **OIG Evaluation**

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issue identified in the report.

Regarding the monetary impact, we calculated potential cost savings as a maximum amount based on data of costs for IOCS readings that we analyzed during the audit. We recognize that there are additional factors management needs to consider when analyzing and documenting the potential cost savings. Our recommendation provides management with the opportunity to incorporate those factors into its analysis and documentation.



# Appendices

<b>Appendix A: Additional Information</b> .....	8
Scope and Methodology .....	8
Prior Audit Coverage .....	9
<b>Appendix B: Management's Comments</b> .....	10

# Appendix A: Additional Information

## Scope and Methodology

The scope of our audit included actions implemented by management over the Postal Service's IOCS sampling processes from FY 2020 through FY 2024. Specifically, we followed up on corrective actions taken by management to address our prior findings and recommendations related to the IOCS sampling processes.

To accomplish our objective, we:

- Tested the operational effectiveness of the actions taken by the Postal Service's IOCS sampling processes including submitting petitions with the Postal Regulatory Commission to change the IOCS sampling methodology, updating IOCS data collection policies and procedures, providing IOCS data collection trainings, and completing IOCS data collector process reviews.
- Observed in-person IOCS readings and annual data collector process reviews completed concurrently in St. Louis, Missouri.
- Interviewed Pricing and Costing management and personnel at Postal Service Headquarters and field offices to better understand the IOCS sampling processes.
- Consulted with the Postal Regulatory Commission's Office of Accountability & Compliance to further our understanding of the Postal Service's IOCS sampling processes.
- Interviewed external stakeholders from the mailing industry to discuss their perspective on how the Postal Service can improve the quality, accuracy, or completeness of its data collected by IOCS (or analysis of such data) that is included in annual periodic reports to the Postal Regulatory Commission (e.g., ACR).
- Reviewed and analyzed quantitative and qualitative information about the Postal Service's IOCS sampling processes, including the ACR and related folders of supporting documentation

(e.g., ACR folders) from FY 2020 through FY 2024. For example, we reviewed the preface and analyzed information from the Postal Service's ACR folder titled *In-Office Cost System (IOCS) Documentation* that describes the design of both IOCS Non-Cluster and IOCS Cluster methodologies.

- Reviewed laws and regulations applicable to the Postal Service's IOCS sampling processes.

We conducted this performance audit from September 2024 through May 2025 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on May 2, 2025, and included its comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the IOCS internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following three components were significant to our audit objective: control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we did not identify any internal control deficiencies that were significant within the context of our objective but noted an area of opportunity for cost savings as discussed in our report.

We assessed the reliability of quarterly training and assessments data, IOCS readings data, and process reviews data by interviewing knowledgeable officials from the Postal Service’s Cost Systems & Analysis, and Statistical Programs groups. We also performed logical tests of completeness and reasonableness on key fields. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>In-Office Cost System Sampling Processes</i>	To evaluate IOCS sampling processes to identify opportunities for improved efficiencies.	19-032-R20	May 22, 2020	\$0

# Appendix B: Management's Comments



May 19, 2025

VICTORIA SMITH  
ACTING DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: *In-Office Cost System Follow-Up (24-161-DRAFT)*

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *In-Office Cost System Follow-up (24-161-DRAFT)*.

Management agrees with the OIG's finding that the Postal Service sufficiently addressed the prior report's findings and recommendations. However, as discussed in meetings held prior to the issuance of this draft report, management disagrees with the OIG's assessment that the Postal Service could save \$6.2 million per year by converting IOCS readings from an on-site sampling method to a telephone sampling method. Furthermore, even if workhours could be repurposed to other activities by converting readings from on-site to telephone, management disagrees that this would be worth the trade-off in data quality. As the OIG noted in their report, management prefers on-site readings over phone readings so that a trained data collector can physically observe the employee's activity and any mailpiece being handled and can scan barcodes to validate and enhance data quality.

The OIG's calculation assumes that there would be savings from converting all types of IOCS readings from on-site to telephone, including IOCS-Cluster tests conducted in the morning, non-cluster readings at mail processing facilities, and non-cluster readings at post offices. Management disagrees.

First, for IOCS-Cluster morning tests, the OIG's calculation assumed that if these readings were converted to phone readings, the amount of time spent would be comparable to that taken for IOCS-Cluster afternoon telephone readings. This is not the case. IOCS-Cluster afternoon telephone readings are conducted primarily when carriers are not in the office but rather are on the street. These afternoon readings are quick to perform because there are few questions to answer once it is determined that the carrier is on the street. Additionally, telephone readings in the afternoon may be performed on carriers who are on leave or not scheduled to work that day. These readings too are completed quickly. In contrast, IOCS-Cluster morning tests are performed on carriers who are identified to be working that day, and for much of the morning, the readings are conducted on carriers who are working in the office and potentially handling mail or packages. These readings take longer to conduct because there are additional follow-up questions to determine the carrier's activity and to collect information on the mailpiece characteristics. Therefore, it is not accurate to assume that IOCS-Cluster morning tests could be conducted for the same cost as IOCS-Cluster afternoon telephone tests. Aside from that fact, it is also not feasible or practical to conduct IOCS-Cluster morning tests by



phone, since the IOCS-Cluster design provides for readings to be done on a rotation of six carriers at one facility throughout the morning. Calling the same office every 5 or 10 minutes for the entire morning, or alternatively, tying up the delivery supervisor or other respondent on the phone for multiple hours in the morning to answer the data collector's questions, when they have other work to attend to, is patently absurd. Therefore, the IOCS-Cluster savings should be removed entirely from the OIG's monetary impact. This would reduce the monetary impact by approximately \$1.8 million in FY 2024 based on the OIG's methodology (112K readings conducted at a savings of \$16.07 per reading).<sup>1</sup>

Second, for the On-Site Non-Cluster IOCS Readings, 83 percent are conducted at plants and mail processing (function 1) facilities. In many cases, these facilities are also the data collector's domicile location. Therefore, there would be no savings in travel time for converting these on-site readings to telephone readings. In fact, it may *add* workhours to the reading because instead of simply walking out to the facility floor, the data collector may have to make multiple phone calls to attempt to get a respondent on the phone. As part of its response to the OIG's recommendation, discussed below, the Postal Service plans to analyze how often this is the case—that non-cluster on-site readings are scheduled at the same facility where a data collector is domiciled. It is expected that a significant portion of the remaining \$4.4 million of the OIG's projected savings will be reduced as a result of this analysis.

Lastly, for any readings in processing facilities that are not co-located with data collection resources, or for the remaining 17 percent of on-site non-cluster readings that are conducted at post offices, management does not agree that the Postal Service can capture any actual savings by converting these readings to telephone. Statistical Programs employs a primarily full-time data collection staff, and reducing the time spent conducting IOCS readings by approximately 15 minutes each would not allow for any reduction in headcount, given how the readings are distributed across time and geography. At best, these workhours might be repurposed for another activity. However, management does not agree that repurposing these workhours to other activities is the best use of data collection resources, given that there would be a trade-off in data quality by converting on-site readings to telephone. Additionally, when readings are conducted via telephone there is an opportunity cost for the phone respondent, who could be using that time for another activity more directly related to their day-to-day responsibilities.

In conclusion, management does not agree that the Postal Service could effectuate any reduction in expenses as a result of converting IOCS readings from on-site to telephone, much less \$6.2 million per year.

---

<sup>1</sup> The OIG's monetary impact Tables 2 and 3 misleadingly label the rightmost column as "Total Cost Savings." In fact, however, the figures represented in that column for the Non-Cluster and Cluster rows are the total cost that the OIG expects the Postal Service would *still* incur if they were to convert on-site readings to telephone. The "Totals" row of that column does calculate a savings figure, as a difference between the sum of the figures above it and the corresponding total in the "Cost by Program" column. The Postal Service points this out to avoid any confusion that might result from comparing the Postal Service's calculation of \$1.8 million in savings reduction for IOCS-Cluster to the OIG's table which appears to suggest a *savings* of approximately \$700 thousand for IOCS-Cluster. In fact, the OIG's table reflects the expectation that the Postal Service's *remaining* cost to conduct IOCS-Cluster readings would be approximately \$700 thousand per year.

The following are our comments on the one recommendation.

Recommendation 1: We recommend that the Vice President of Pricing and Costing analyze and document potential cost savings attributable to in-person versus telephone sampling methods used to collect data for the In-Office Cost System.

Management Response/Action Plan:

Management agrees with this recommendation.

Management will further analyze the potential cost savings, or lack thereof, that may be attributable to on-site vs. telephone sampling methods for IOCS, as described above. Management will document the results of this analysis in a report submitted to the OIG.

Target Implementation Date: 08/31/2025

Responsible Officials:

Director, Cost Systems & Analysis and Sr. Director, Statistical Programs

E-SIGNED by SHARON.D OWENS  
on 2025-05-19 17:19:45 EDT

---

Sharon D. Owens  
Vice President, Pricing and Costing

*cc: Corporate Audit & Response Management*

# OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE



Contact us via our [Hotline](#) and [FOIA](#) forms. Follow us on social networks. Stay informed.

1735 North Lynn Street, Arlington, VA 22209-2020  
(703) 248-2100

For media inquiries, please email [press@uspsoig.gov](mailto:press@uspsoig.gov) or call (703) 248-2100