

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2015

Docket No. ACR2015

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 19

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 19, issued on March 7, 2016. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Eric P. Koetting

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
March 14, 2016

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

1. In its responses to CHIR No. 14,¹ the Postal Service states: "When an employee works in an office where MODS and TACS operation codes are not used, Q18A03 is left blank, resulting in the '---' in the Q18A03 data field." The Postal Service further states that "[a] subset of small offices does not use TACS, and these are generally in CAGs G, H, J, K and L." Responses to CHIR No. 14, question 2f. For each of the following CAG Group-Universe Sum totals provided by the Postal Service,² please provide the number of offices that do not use MODS and TACS operation codes.
- a. CAG Group G-Universe Sum: 3,200;
 - b. CAG Group H/J-Universe Sum: 8,806; and
 - c. CAG Group K/L-Universe Sum: 12,880.

RESPONSE:

Below are the number of offices that did not record operation codes in TACS.³

- a. CAG Group G: 1,507
- b. CAG Group H/J: 7,506
- c. CAG Group K/L: 12,305

¹ Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 14, February 23, 2016, question 2d. (Responses to CHIR No. 14).

² *Id.* question 4a.

³ No clock ring data were recorded in TACS for these offices during pay period 20 (near the end of FY2015). Some of these offices may have recorded data in TACS earlier in the year, but had been closed by the end of year.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

2. The Postal Service Office of Inspector General audit report, "Sunday Parcel Delivery Service," details the usage of hubs for Sunday delivery operations.⁴
- a. How many Sunday parcel delivery service hubs operated in FY 2015?
 - b. Please provide the IOCS finance numbers for the Sunday parcel delivery hubs that operated in FY 2015.
 - c. Please refer to Responses to CHIR No. 14, question 4a, Table 1. How many Sunday parcel delivery service hubs were included in the FY 2015 IOCS Panel Offices total?
 - d. Please refer to Responses to CHIR No. 14, question 4a, Table 1. How many Sunday parcel delivery service hubs were included in the FY 2015 IOCS Sampled Offices total?
 - e. Were any IOCS sampling changes made in FY 2015 to increase the number of hub-certain IOCS sampled offices?
 - i. If changes were made, please specify the method and purpose of the sampling changes.
 - ii. If no sampling changes were made, please specify why Sunday parcel delivery service hubs did not merit a sampling modification similar to what was done for international mail (*i.e.*, modification of the IOCS sampling selection to include offices with higher volumes of international mail).

RESPONSE:

- a. 2,097.
- b. Please see the list in the Excel file Chir19Q2_SundayHubsList.xls attached to this response electronically.
- c. 920.
- d. 913.
- e. No changes were made to sample Sunday delivery service hubs. The sampling modifications for International Mail involve sampling employee time within specific facilities (e.g., ISCs) at higher rates than at other facilities in the same sampling

⁴ See United States Postal Service Office of Inspector General Sunday Parcel Delivery Service, Report No. DR-AR-15-002, December 5, 2014, at 4 n.2.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

stratum. This was introduced because there are a large number of International products with small volumes (and associated costs) that are concentrated in a small number of facilities with dedicated International Mail operations. Those International Mail products would otherwise have much higher sampling coefficients of variation (CVs) for their cost estimates. Increasing the number of readings in facilities that handle more International Mail helps to reduce the CVs for each of these small products. This situation does not apply to the products handled at Sunday delivery service hubs.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

3. Please provide an Excel or SAS file containing a unique IOCS record identifying key (e.g., concatenating Q01 || Q02A || Q02B) and the following associated IOCS record variables: F7, F9247, F9248, F9403, F9404, F9405, F9406, F9407, F9247, F9248, F9476, and F9477.

RESPONSE:

An Excel file, Chir19Q3_IOCSData.xls, with the requested data, is attached to this response electronically. Column A contains a variable concatenating Q01 || Q02A || Q02B.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

4. The following questions relate to the FY 2015 IOCS dollar weight⁵ and its adjustments to the FY 2015 cost pool accrued cost of all MODS 1 & 2 offices, and to the accrued aggregate facility cost for all non-MODS offices.⁶ The adjustment is made by multiplying the IOCS dollar weight by a factor. For IOCS MODS offices, this factor is the ratio of the cost pool accrued dollars (from the pay data system and MODS hours from all MODS 1 & 2 offices) to the cost pool IOCS dollars.⁷ For IOCS non-MODS offices, this factor is the ratio of the total accrued dollars of the non-MODS offices (total accrued costs for all non-MODS offices derived independently from IOCS) to the total IOCS non-Mods offices dollars.⁸ The following questions relate to the dollar differences between the accrued pay data system/MODS work hours and independently derived dollars, and the IOCS dollars used in the adjustment factor.
- a. For the IOCS non-MODS offices, please explain the reason(s) why the total accrued costs for non-MODS offices (derived independently from the IOCS) is higher than the IOCS dollars.
 - b. For the IOCS MODS 1 & 2 offices, please explain why the IOCS dollars are higher than the accrued dollars from the pay data system and MODS work hours for the following cost pools:⁹
 - i. "MANL;"
 - ii. "MANP;"
 - iii. "MANF;"
 - iv. "1PLATFRM;"
 - v. "INTL ISC;"
 - vi. "LD43;"
 - vii. "LD44;"
 - viii. "2WINDOW;"

⁵ The IOCS dollar amount assigned to the sample observation that reflects the sample design and accrued costs for CAG and craft group and is the value in the IOCS field "F9250."

⁶ See Docket No. R2006-1, Direct Testimony of Eliane Van-Ty-Smith on Behalf of the United States Postal Service (USPS-T-11), May 3, 2006, at 3 n.2.

⁷ See Docket No. R2006-1, Library Reference USPS LR-L-55, May 3, 2006, at II-19.

⁸ The accrued dollars total is entered in the "NONMOD1" SAS program in the USPS-FY15-7 SAS programs folder, GFY=4102307.593, and the IOCS dollars are in "Table I-4B" of the SAS Output Tables "nonmod1.html" file, in Library Reference USPS-FY15-7, December 29, 2015.

⁹ The accrued pay data system and MODS work hours dollars are in USPS-FY15-7, "USPS-FY15-7 SAS Programs/Tables" filepath, Excel file "DOLWGT15; and the IOCS dollars can be found in USPS-FY15-7, "USPS-FY15-7 SAS Output Tables" folder, "mod1pool.html" file.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

- ix. "REGISTRY;" and
- x. "EXPRESS."

RESPONSE:

As a general matter, a cost pool's accrued costs ("pool costs") and the total cost-weighted IOCS tallies associated with the cost pool ("IOCS costs") may differ for several reasons. The pool costs are derived from census-type data, whereas the IOCS costs are sample-based. IOCS data, like data from any sampling system, are potentially subject to both sampling and non-sampling error. Also, as the Postal Service noted in Docket No. R97-1 when the current method for developing MODS-based pool costs was initially under review, the pool costs and corresponding IOCS costs embody somewhat different implicit assumptions regarding wage rate variations within Cost Segment 3:

Both the IOCS cost allocation system and the MODS-based cost pool system can accommodate variations in wage rates within mail processing to some extent. IOCS does this primarily by allocating costs to tallies separately for each craft (and CAG)... This approach recognizes that the average clerk wage is different from the average mailhandler wage. However, the IOCS cost weighting system does not account for variations in wage rates within crafts... This is a limitation of the IOCS cost weighting mechanism since there are, indeed, within-craft variations in wage rates... Note that the proportions of time within the operations are correctly measured, so that it is appropriate to use the IOCS tally costs to form cost pool-specific distribution keys...

In contrast, the MODS-based cost pool system accounts for wage variations by LDC by design. This is because the MODS cost pool amounts are based on Pay Data System compensation totals by LDC. (Docket No R97-1, Response of United States Postal Service Witness Degen to DMA/USPS-13(d), Tr. 18/8137-38.)

Additionally, some differences between pool costs and IOCS costs may arise due to challenges in matching IOCS tallies to cost pools. Differences between IOCS costs and pool costs can result from inaccurately recorded or missing MODS operation numbers in IOCS, because supervisors edit the operation code for TACS clock rings and/or aggregated workhours subsequent to IOCS readings, or prediction errors in cases where

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

tallies with missing or invalid MODS codes are assigned to cost pools based on the employee's recorded activity. (See also Docket No. R97-1, Response of United States Postal Service Witness Degen to DMA/USPS-13(e), Tr. 18/8138-39). The pool costs incorporate an assumption that effective hourly rates are constant within LDCs (i.e., LDC-level costs from the Pay Data System are allocated to cost pools in proportion to workhours); this reflects a limitation of the MODS workhour data, which do not identify workhours by craft. However, some cost pools are comprised of operations in multiple LDCs—notably the MODS AFSM100 and FSS pools—and the corresponding pool costs apply separate hourly rates to the subsets of hours associated with each LDC.

The net effect of these differences can be substantial for individual cost pools, though there is no clear direction of difference—i.e., IOCS does not systematically overstate or understate costs for all cost pools. Overall, the current methodology reflects a judgment that the census-based pool costs are reliable for determining the levels of costs whereas the IOCS data are valid for estimating activity proportions for use in distribution keys.

- a. The primary cause of the difference for non-MODS costs is a data processing error whereby expenses formerly assigned to Cost Segment (CS) 4 were not included in the cost weighting pools for the FY2015 IOCS tallies for CS 3. An older version of the expenses for cost weighting, based on the ACR2014 methodology, was inadvertently used following issuance of Commission Order No. 2387 in late November, which authorized the methodology change to merge CS 3 and CS 4. The former CS4 costs are included in the total accrued costs. The effect is that the former CS4 costs are allocated over all non-MODS tallies, rather than just the subset of tallies in CAGs H-L. This error will not affect FY2016 IOCS data. Otherwise, the difference appears to be due largely to the IOCS sample data underestimating the non-MODS portion of costs for CAG C post offices, relative to MODS.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

- b. i. A possible factor contributing to the MANL difference is that the IOCS tallies show that a higher fraction of MANL tallies are full-time clerks, compared to LDC 14 as a whole.
- ii. MANP is a relatively small cost pool (5 percent of accrued costs for MODS LDC 14) and has a somewhat higher than average share of tallies with missing or invalid MODS codes; the difference may reflect difficulties in distinguishing operations in MANP from similar package sorting operations in the manual Priority cost pool.
- iii. The MANF cost pool, like MANL, has a higher fraction of tallies for full-time clerks, relative to LDC 14 as a whole, which may contribute to the observed difference.
- iv. A possible factor contributing to the difference for 1PLATFRM is the classification of work recorded under the TACS default code for LDC 17. IOCS underestimates costs in the 1PRESORT cost pool where the default operation code is assigned. Some (and possibly much) of the work for employees clocked into the LDC 17 default code is likely to constitute platform activities; however, assigning the tally to 1PLATFRM based on the observed activity, rather than the operation number, can lead to the observed difference in the costs.
- v. The INTL ISC pool costs reflect the actual expenses incurred in mail processing LDCs (LDCs 11-14, 17-18) at ISCs. The difference partly reflects unit labor cost differences between the ISCs and other facilities in the same IOCS cost weighting stratum. Also, generally IOCS costs will tend to overestimate the levels of costs for individual facilities or small subsets of facilities such as the ISCs, as they include allocations of costs for facilities in the IOCS frame that are not included in the IOCS sample to sampled facilities.
- vi.-viii. A possible factor contributing to the difference for the LD43, LD44, and 2WINDOW pools is the issue noted in the response to part a. Since IOCS underestimated non-MODS costs relative to MODS costs for CAG C post offices, and CAG C tallies as a whole are controlled to actual CAG C expenses, this will

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

lead to IOCS costs overestimating costs from MODS CAG C. This will largely affect Function 4 cost pools (LDCs 41-49). Since the LD43, LD44, and 2WINDOW (i.e., LDC 45) MODS cost pools correspond to LDCs, the pool costs reflect the actual expenses incurred for the operations in question. Additionally, the 2WINDOW cost pool has a relatively high fraction of tallies assigned based on the observed IOCS activity rather than the MODS operation code. This may lead to differences to the extent some of the 2WINDOW tallies reflect window-related activities associated with LDC 48 operations rather than LDC 45 window service.