



January 3, 2011

VINCENT H. DEVITO JR  
VICE PRESIDENT, CONTROLLER

SUBJECT: Management Advisory – Fiscal Year 2010 Quality of Postal Service  
Financial Testing and Compliance Results (Report Number FF-MA-11-001)

This report presents the results of our review of the quality of Financial Testing Compliance (FTC) work at business mail acceptance (BMA) units, postal retail units (PRU), and mail processing centers (Project Numbers 10BD005FF000 and 10BD005FF001).<sup>1</sup> The objectives of our report were to determine if the FTC review results agreed with the U.S. Postal Service Office of Inspector General (OIG) results and to evaluate the quality of FTC work. We conducted this review in support of the independent public accounting firm's (IPA) overall audit opinion on the U.S. Postal Service's internal controls over financial reporting. See [Appendix A](#) for additional information about this review.

The Postal Service must prepare and submit annual reports on Sarbanes-Oxley Act of 2002 (SOX) compliance to the Postal Regulatory Commission (PRC) beginning with fiscal year (FY) 2010. To comply with SOX, the postmaster general and the chief financial officer must report on the effectiveness of the Postal Service's internal controls over financial reporting. FTC tests key financial reporting controls and senior Postal Service leaders use the results to identify and correct internal control deficiencies. The results of the Postal Service's overall SOX assessment are reported to the PRC. The Postal Service's Financial Control and Support (FC&S) group oversees the work of the FTC.

## Conclusion

FTC did not always report all exceptions they identified during their reviews, causing their results to not always be consistent with the OIG's results. Further, we were sometimes unable to determine if the OIG's and FTC's results were consistent because of insufficient FTC supporting documentation. We also noted other working paper documentation issues, such as FTC not providing all sampling methodology documentation to the OIG; however, this did not affect our ability to determine if FTC's

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<sup>1</sup> Project Number 10BD005FF000 was initiated to review the results of FTC's work conducted February through July 2010. Project number 10BD005FF001 was to review the results of FTC's July through September 2010 work on the effectiveness of management's remediation efforts conducted.

and the OIG’s results were consistent. Most of the issues we identified were in reviews FTC conducted early in their testing schedule. Given that FTC was a newly formed group and analysts were learning new jobs and implementing new review programs, we expected these results. Throughout the year, we communicated these issues to the FC&S manager. In later reviews, we found that there were fewer issues and improved FTC reviews.

**Consistency and Quality Issues Identified but Improvements Made**

While we identified a number of issues during our examination of FTC reviews, the number of examinations with issues declined. Table 1 presents the OIG’s examination results by FTC testing period.

**Table 1: OIG Examination Results**

OIG Examination Results Categorized by Significance	Number of Examinations with Issues OIG Identified in FTC Reviews (by review period)			
	FTC Testing February - September 2010 (of 60 OIG Examinations) <sup>2</sup>			Post- Remediation Testing <sup>3</sup> August and September 2010 (of 24 OIG Examinations)
	Total	February-May 2010 (of 34 OIG Examinations)	June-September 2010 (of 26 OIG Examinations)	
Level I - FTC results not consistent with the OIG’s results (for example, not all exceptions were reported).	18	15	3	3
Level II - FTC supporting documentation was insufficient to determine OIG agreement with FTC conclusions.	17	12	5	0
Level III - Supporting documentation issues that did not cause the FTC to incorrectly report results or to be inconsistent with OIG results.	35	30	5	0

Source: OIG Analysis

<sup>2</sup> Each FTC review could have one or more exceptions in each of levels I, II and III.

<sup>3</sup> The Postal Service performs remediation, or correction of a design or operating deficiency, for the internal control gaps identified during process documentation and operating effectiveness gaps identified during testing. FTC re-tested controls they had previously determined as failed after the Postal Service remediated those controls.

### FTC's Results Were Not Always the Same as the OIG's Results

FTC results were not always consistent with OIG results. For example, in some reviews, FTC did not always report the exceptions they noted during their reviews, causing their results to differ from the OIG's results.

FTC analysts stated these differences occurred primarily due to an FTC analyst error or oversight, or because the FTC analyst did not consider the exceptions reportable. The OIG and the IPA considered all exceptions reportable and communicated that to the Postal Service.

We identified this issue primarily in the early FTC reviews:

- In 15 of 34 FTC reviews conducted from February through May 2010.
- In three of 26 FTC reviews conducted from June through September 2010.
- In three of 24 post-remediation reviews.

### Insufficient Documentation

FTC analysts did not always provide supporting documentation sufficient for the OIG to determine consistency between FTC- and OIG-reported results. For example, we noted FTC analysts did not always document interviews with management and unit personnel or document whether they confirmed that permit holder permit accounts were current and up-to-date. In addition, the working papers that FTC provided did not include documentation to support the type of mail verifications they performed; inquiries of BMA management and personnel to determine critical times and identification of BMA personnel by tour; or an explanation of whether they used required reports to execute the steps.

FTC analysts stated these issues generally occurred due to an FTC analyst error or oversight in documenting work performed. Additionally, in some cases, FTC personnel stated they did not include system reports in their supporting documentation because the reports were too large. As a result, we were unable to determine whether the FTC analysts executed the program properly or how they reached their conclusions. While we agree that some reports may be too large to include in supporting documentation, FTC analysts should document what reports they used, how they used them, and the reason for not including some reports in the working papers. It is critical to carefully note and report the work performed to ensure those evaluating the work can determine whether the conclusions reached are fully supported so that management can confidently report on the state of internal controls.

We again identified this issue primarily in the following early FTC reviews:

- Twelve of 34 FTC reviews performed from February through May 2010.
- Five of 26 FTC reviews performed from June through September 2010.

We found no instances in any of the 24 post-remediation reviews.

### Other Documentation Issues

During our examinations, we identified instances in which working paper documentation could be improved. However, the documentation was sufficient for us to reach the same conclusions as FTC. For example,

- Mailing Activity reports<sup>4</sup> were not annotated to indicate days tested.
- Postage statements statistically selected for testing were replaced with other postage statements without explanation.
- The number of postage statements reviewed per the Mailing Activity report was different from what was in FTC documentation.
- Spreadsheets did not contain legends to explain notations.
- Supporting documentation showed that FTC reviewed one accountability while other supporting documentation showed they reviewed two.

We identified these issues in 30 of 34 FTC reviews conducted from February through May 2010 and in five of 26 FTC reviews conducted from June through September 2010. We did not note any instances during the 24 post-remediation reviews. Although FTC managers provided a variety of causes for the above issues, we believe the overall cause was the challenge arising from forming the new FTC organization.

It is critical that FTC report all exceptions noted during their reviews and fully document all work performed. Without this critical information, management will be unable to assess the true nature of control failures and will be severely limited in their ability to take corrective action.

After the first few reviews, the OIG provided feedback to the FC&S manager regarding the issues noted. Based on that feedback, FTC revised their review programs and suspended their reviews for 1 week (in April 2010) to provide additional training to the FTC analysts. After the training, we identified these types of issues less frequently. In addition, FC&S took corrective action to address the issues we brought to their attention throughout the review process. Because the number of issues we identified significantly declined beginning with the June FTC reviews, we are not making recommendations in this report.

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<sup>4</sup> The *PostalOne! Mailing Activity Report* provides the detailed mailing data by permit and mailing date. FTC uses this data to determine postage statement sample size and statement selection.

## Management's Comments

Management agreed with the findings and reiterated that they took corrective actions throughout the year. See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

We agree with management's comments that corrective actions were taken throughout the year.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda Libician-Welch, director, Field Financial – West, or me at 703-248-2100.

- Signed by Linda J. Libician-Welch  
VERIFY authenticity with ApproveIt

**for**

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

Attachments

cc: Joseph Corbett  
Steven R. Phelps  
Corporate Audit and Response Management

## **APPENDIX A: ADDITIONAL INFORMATION**

### **BACKGROUND**

The Postal Accountability and Enhancement Act of 2006 required the Postal Service to comply with Section 404 of SOX by September 30, 2010. SOX requires management to assess its internal controls over financial reporting annually and obtain an opinion regarding the effectiveness of those controls from its IPA.

In addition to Section 404, the Postal Service must comply with other sections of SOX that are closely associated with that section. For example, Section 302 requires the chief executive officer and chief financial officer to certify that financial statements and other financial information in the quarterly and annual reports fairly present, in all material respects, the financial condition, the results of operations, and the cash flows of the Postal Service. The chief executive officer and chief financial officer must also certify and that they are responsible for establishing and maintaining disclosure controls and procedures as well as internal controls over financial reporting. The Postal Service submits an annual assessment on the effectiveness of its internal controls to the PRC, who monitors and manages Postal Service compliance with SOX.

The Postal Service created a SOX Program Management Office (PMO) within the Finance organization to lead the SOX implementation efforts. The FTC, established in late FY 2009, reports to the PMO through the FC&S manager. The FTC consists of 22 teams with about 179 employees divided into three divisions — East, Central, and West. FTC analysts test the effectiveness of key financial controls in the field in support of SOX compliance for PRUs, BMA units, and plant verified drop shipments (PVDS) at mail processing centers and post offices. The FTC also tests controls that management has remediated to determine if the corrective action is effective. In FY 2010, the FTC conducted PRU and BMA testing from January through July 2010 and PVDS testing in September 2010. In addition, in August 2010, the FTC conducted BMA re-testing on controls that management had remediated.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our review were to determine whether the FTC's results agreed with the OIG's results and to evaluate the quality of the FTCs' work. We conducted this review in support of the IPA's overall audit opinion on the U.S. Postal Service's internal controls over financial reporting. Specifically, we examined the FTC's testing of key financial reporting controls developed for evaluating SOX compliance.

To accomplish our objectives, we initially planned to perform this work in conjunction with our financial installation audits of Post Offices (PO) (Project Number 10BD001FF000) and business mail entry units (BMEU) (Project Number 10BD002FF000) in support of the annual audit of the financial statements. However, in consultation with the IPA, we decided to maintain separate samples for the financial

installation work and the examinations of the FTC reviews. Thus, we used three approaches to examine the FTC reviews:

- Desk examinations during which we reviewed FTC working papers only.
- On-site examinations during which we reviewed FTC working papers and conducted limited re-testing of FTC tested controls.
- Concurrent examinations during which we were on-site at the same time as the FTC and observed FTC analysts conducting their reviews.

We judgmentally selected 84 FTC reviews for examination as shown in Table 2.

**Table 2: Number and Type of OIG Examinations of FTC Reviews**

Type of FTC Review	FY Quarter in Which FTC Performed the Reviews	Type and Number of OIG Examinations			
		Desk	On-Site	Concurrent	Total
PRU	II, III	11	11	0	22
BMA	II, III, IV	11	11	6	28
PVDS	IV	0	0	10	10
Post Remediation BMA	IV	0	0	24	24
<b>Totals</b>		22	22	40	84

Source: OIG Analysis

We conducted this review from March 2010 through January 2011 in accordance with the *Quality Standards for Inspections*.<sup>5</sup> We discussed our observations and conclusions with management officials on December 16, 2010, and included their comments where appropriate. We assessed the reliability of computer-generated data by verifying it to source records. We determined that the data were sufficiently reliable for the purposes of this report.

## PRIOR AUDIT COVERAGE

The OIG did not identify any prior audits or reviews related to the objective of this audit.

<sup>5</sup> The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) last promulgated these standards in January 2005. Since then, [The Inspector General Act of 1978 as amended by the IG Reform Act of 2008](#) created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections are not amended to reflect adoption by the CIGIE. As a result, we still reference the PCIE and ECIE.

## APPENDIX B: MANAGEMENT'S COMMENTS

VINCENT DeVITO  
VICE PRESIDENT, CONTROLLER



December 23, 2010

JOHN E. CHIOTA  
DEPUTY ASSISTANT INSPECTOR GENERAL  
for FINANCIAL ACCOUNTABILITY

SUBJECT: Response to Draft Management Advisory – Fiscal Year 2010 Quality of Postal Service  
Financial Testing and Compliance Results (Report Number FF-MA-11-DRAFT)

Below is the response to your audit of Financial Testing Compliance (FTC) work at business mail acceptance units (BMA), postal retail units (PRU), and mail processing centers (Project Numbers 10BD005FF000 and 10BD005FF001) in Fiscal Year 2010. Although there were no recommendations in the report, there were opportunities for improvement identified. Management agrees with the findings and implemented actions to address the OIG recommendations made in reports issued early in the fiscal year.

The opportunities for improvement identified were in the areas of enhanced workpaper documentation and outlining sampling methodology. These issues were identified early in the year and quickly addressed through a robust training effort and an enhanced review process. The training focused on workpaper preparation, test script standardization and increased knowledge surrounding control evaluations. In addition, to make certain all aspects of the review are thoroughly and accurately documented, enhanced higher level reviews were conducted to ensure all appropriate documentation is included, that documentation supports testers' conclusions, and that results are consistent across the all reviews.

Management is appreciative of the feedback from your team as it provided a better standardized workpaper documentation process which continues to improve. We appreciate the opportunity to provide feedback for this draft report. If you have any questions or need additional information, please contact Douglas Germer, Manager, Financial Control and Support at 202-268-8522.

A handwritten signature in black ink, appearing to read "V. DeVito", written over a circular stamp or seal.

Vincent H. Devito  
Vice President, Controller

cc: Joseph Corbett  
Steven R. Phelps  
Corporate Audit Response Management