

Management Advisory

OFFICE OF
**INSPECTOR
GENERAL**

UNITED STATES POSTAL SERVICE

Fiscal Year 2010 Sarbanes- Oxley Testing for Selected Business Processes

**Report Number FT-MA-11-003
May 19, 2011**

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Fiscal Year 2010 Sarbanes-Oxley Testing for Selected Business Processes

Report Number FT-MA-11-003

HIGHLIGHTS

IMPACT ON:

Financial internal control testing performed by the U.S. Postal Service's Sarbanes-Oxley (SOX) Management Controls and Integration group

WHY OIG DID THE REVIEW:

The objective of our review was to evaluate the FY 2010 SOX testing documentation to determine whether Postal Service management properly tested, documented, and reported its testing of specific key SOX financial reporting controls within the air transportation, highway transportation, compensation and benefits, personal property/equipment, and motor vehicles business processes.

WHAT OIG FOUND:

The SOX Program Management Office (PMO) properly tested, documented, and reported its examination of key SOX financial reporting controls in FY 2010 for air transportation, highway transportation, and personal property/equipment. However, for the compensation and benefits process and motor vehicles process, the U.S. Postal Service Office of Inspector General (OIG) determined the documentation was insufficient to allow it to replicate the SOX PMO's testing or reach the same conclusions. Since complete and accurate documentation of SOX testing is critical to reaching an overall conclusion on the effectiveness of

internal controls over financial reporting, providing our results to management may assist them in improving their FY 2011 SOX testing documentation and, as a result, better assessing their control environment.

WHAT OIG RECOMMENDED:

We did not make recommendations but provided our observations to assist management in its FY 2011 SOX testing.

WHAT MANAGEMENT SAID:

We did not make any recommendations in this report and, as a result, management chose not to respond formally to this report.



May 19, 2011

MEMORANDUM FOR: STEVEN R. PHELPS
MANAGER, SOX MANAGEMENT CONTROLS AND
INTEGRATION

 **for**

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Management Advisory – Fiscal Year 2010
Sarbanes-Oxley Testing for Selected Business Processes
(Report Number FT-MA-11-003)

This report presents the results of our review of the U.S. Postal Service's Sarbanes-Oxley (SOX) testing documentation completed for fiscal year (FY) 2010 for specific key SOX financial reporting controls within selected business processes¹ (Project Number 11BM001FT001). We did not make any recommendations in this report and, as a result, management chose not to respond formally to this report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Financial Reporting, or me at 703-248-2100.

Attachments

cc: Joseph Corbett
Timothy F. O'Reilly
Jessica L. Doelling
Douglas G. Germer
Harold E. Stark
Corporate Audit and Response Management

¹ We reviewed the FY 2010 SOX Program Management Office's testing documentation for specific key controls within the air transportation, highway transportation, compensation and benefits, personal property/equipment, and motor vehicles business processes.

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Introduction

This report presents the results of our review of the U.S. Postal Service's Sarbanes-Oxley (SOX) testing documentation completed for fiscal year (FY) 2010 for specific key SOX reporting controls within selected business processes² (Project Number 11BM001FT001). Our objective was to evaluate the testing documentation to determine whether Postal Service management properly tested, documented, and reported its testing of specific key SOX financial reporting controls within the five business processes selected. This review addresses financial risk. See [Appendix A](#) for additional information about this review.

We conducted our review of completed FY 2010 SOX PMO testing documentation, in part, at the request of the independent public accountant (IPA), to assist in determining the reliance that can be placed in FY 2011 and into the future on the internal control testing documentation over the five business process areas. Our review also provided management with information they can use to improve the quality and reporting of their testing of key SOX financial controls in FY 2011.

Conclusion

The SOX PMO properly tested, documented, and reported its examination of key SOX financial reporting controls in FY 2010 for air transportation, highway transportation, and personal property/equipment. However, for the compensation and benefits process and motor vehicles process, the U.S. Postal Service Office of Inspector General (OIG) determined the documentation was insufficient to allow it to replicate the SOX PMO's testing or reach the same conclusions. Because complete and accurate documentation of SOX testing is critical to reaching an overall conclusion on the effectiveness of internal controls over financial reporting, providing our results to management may assist them in improving their FY 2011 SOX testing documentation and, as a result, better assessing their control environment.

Documentation of Testing

In most instances, the documentation included a clear understanding and evidence of linkage to significant exceptions, cross-references to the tests performed, identification of individuals who performed the test and when they performed them, as well as identification of who reviewed the test documents and the dates of the reviews. In many instances, the documentation included a clear understanding and evidence of the document's purpose, source, and cross-referencing of key information. Further, for the air and highway transportation and the personal property/equipment business

² We reviewed the FY 2010 SOX Program Management Office's (PMO) testing documentation for specific key controls within the air transportation, highway transportation, compensation and benefits, personal property/equipment, and motor vehicles business processes.

processes, we concluded we could re-perform the SOX PMO’s testing based on the documentation and agreed with the testers’ conclusions.

However, opportunities exist to improve testing documentation. For example, some supporting documents were insufficient or omitted, making it difficult to corroborate the work performed and conclusions reached. For compensation and benefits, testers found exceptions they noted as insignificant, but they did not provide the documentation that supported the exceptions. This made it difficult to reach the same conclusion as the testers. For motor vehicles, testers did not follow-up on 20 vehicle maintenance facility motor vehicle inventories that were outstanding well past year-end. As a result, we did not agree with the conclusions reached by the testers for these business processes.

In addition, we found the SOX PMO could enhance the testing documentation in all areas by better identifying computer generated information and critical spreadsheets and providing a more complete explanation of the source from which samples were selected and the sampling methodologies used. Frequently, the testing documentation did not demonstrate discussion of the accuracy and completeness of the computer generated information reports and critical spreadsheets used in testing. See Table 1 for specific results including examples of well-documented testing practices and suggested improvements.

Table 1 – Results of Documentation Review

Areas Reviewed	Instances of Well-Documented Testing	Suggested Improvements
Air Transportation	<ul style="list-style-type: none"> ▪ Clearly explained when tests were not applicable and what test steps were performed. ▪ Documentation contained a test example with supporting documents and testing was adequately explained. 	<ul style="list-style-type: none"> ▪ Random selection portion of the sampling methodology used should be more clearly explained. ▪ Control description should be clearly defined. ▪ Table needed to support the results of attribute testing.
Highway Transportation	<ul style="list-style-type: none"> ▪ Well-documented attribute testing. ▪ Information was cross-indexed and linked between documents. ▪ Clearly documented test attributes. 	<ul style="list-style-type: none"> ▪ Support for at least one sample item needed. ▪ Explanation needed to support why control tests received late in the year were not performed.

<p>Personal Property/Equipment</p>	<ul style="list-style-type: none"> ▪ Clearly explained sampling procedures and selected items. ▪ Tickmark definitions were clear and use of text boxes helped with understanding what the testers did. ▪ Provided sufficient source information. ▪ Clearly linked inquiry test steps and inquiry results. 	<ul style="list-style-type: none"> ▪ Explanation needed for how the sample was determined and selected. ▪ Sample test should be performed at required time. ▪ Attribute descriptions appropriate to the tests performed are needed.
<p>Compensation and Benefits</p>	<ul style="list-style-type: none"> ▪ Narrative is sufficient and understandable. ▪ Format was complete and/or support was clear and well annotated. 	<ul style="list-style-type: none"> ▪ Documentation needed to support all exceptions found, and support needed for determinations that exceptions are insignificant. ▪ Copies of key Certifying Officer signature cards needed. ▪ Correct references needed for all items in the narrative. ▪ Action taken on computer-generated reports should be documented.
<p>Motor Vehicles</p>	<ul style="list-style-type: none"> ▪ Format was complete and/or support was clear and well annotated. ▪ Clearly indicated date of supporting computer-generated reports used as well as, for certain sub-samples taken, the number and types of transactions available and selected. ▪ Clearly indicated and explained revised sample dates. ▪ Clearly identified certain reports used. 	<ul style="list-style-type: none"> ▪ Testers should complete follow-up work. ▪ Explanations needed for random number generator and sampling methodology used. ▪ Complete vehicle information needed when testing controls. ▪ Cross-referenced vehicles should match. ▪ Testers should provide the workpaper purpose and make sure it is correctly stated.

Overall		<ul style="list-style-type: none">▪ Testers should put all test documentation in the Governance, Risk, and Compliance Manager (GRCm) system. Financial Control and Support (FCS) documentation was not in the system, and we were not always able to obtain it from FCS employees.▪ For all computer-generated reports used in testing, testers should be sure the accuracy and completeness of the reports is cross-referenced and supported.
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Recommendations

We are not making recommendations because the IPA will make the decision on whether it will use the work of the SOX PMO in its FY 2011 audit. However, we are providing this information to assist the SOX PMO in improving its FY 2011 SOX testing documentation.

Appendix A: Additional Information

Background

To comply with Section 404 of the SOX Act of 2002, Postal Service management must report on its assessment of the effectiveness of internal controls over financial reporting. It must submit an annual assessment to the Postal Regulatory Commission, which monitors and manages the Postal Service's compliance with SOX. To meet these requirements, Auditing Standard (AS) No. 5³ allows the auditor to use the work performed by internal employees or contractors working under the direction of management in its assessment of the effectiveness of internal control over financial reporting. However, the auditor should evaluate the extent to which it will use the work of others to reduce the work the auditor might otherwise perform. In consideration of the AS No. 5 guidance, the IPA requested the OIG to assist in the review of FY 2010 SOX PMO testing documentation for specific key financial reporting controls. The SOX PMO team⁴ and FCS performed the testing of the specific key financial reporting controls over the five business processes reviewed.

Objective, Scope, and Methodology

The objective of our review was to evaluate the testing documentation to determine whether Postal Service management properly tested, documented, and reported its testing of specific key SOX financial reporting controls in FY 2010 within the five selected business processes.

Following guidance outlined in AS No. 3,⁵ and in collaboration with the IPA, we identified specific key financial reporting controls and testing documentation to evaluate and developed a data collection instrument to record our review. Based on the controls and documentation specified, we accessed the SOX documentation repository, the GRCm, and extracted the FY 2010 testing documentation. For testing documentation that was not retained in GRCm, we obtained the documents from the Postal Service FCS group.

To perform the review, we examined the completed FY 2010 SOX PMO testing documentation for specific key controls within the five selected business processes. We reviewed the documents for such items as source and purpose and a linkage to findings and controls tested. We examined the documents to verify that testers organized them in a manner that provided a clear pathway to the conclusions reached and provided an understandable description of the transactions and records the testers reviewed. Based on these actions, we assessed whether the documentation contained sufficient evidence that would allow us to replicate the tests for the five business processes should the IPA determine it will use the work of the SOX PMO in its FY 2011 audit.

³ *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, Public Company Accounting Oversight Board (PCAOB), dated July 27, 2007.

⁴ Management contracted with Deloitte & Touche LLP and Global Resources to perform its FY 2010 SOX testing.

⁵ *Audit Documentation*, PCAOB, dated June 9, 2004.

We conducted this review from February through May 2011 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 April 27, 2011, and included their comments where appropriate. We did not rely on computer-generated data for the purposes of this review.

Prior Audit Coverage

The OIG has not performed prior reviews related to this objective.