



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Fiscal Year 2012 Financial Testing
Compliance Oversight Plant Verified
Drop Shipment Reviews**

Management Advisory Report

January 30, 2013

Report Number FT-MA-13-005



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HIGHLIGHTS

January 30, 2013

Fiscal Year 2012 Financial Testing Compliance Oversight Plant Verified Drop Shipment Reviews

Report Number FT-MA-13-005

BACKGROUND:

The Postal Accountability and Enhancement Act of 2006 requires the U.S. Postal Service to comply with Section 404 of the Sarbanes-Oxley Act and report on the effectiveness of the agency's key internal controls over financial reporting. The Postal Service established the Financial Testing Compliance group to test these key financial controls at postal units.

Drop shipment is mail that a mailer or authorized third party transports at the mailer's expense. In return, the mailer receives discounted prices for transporting the mail. Drop shipment mailers are required to present mail along with a completed drop shipment form. Postal Service mail acceptance employees use the form to verify the mail type, number of mailpieces, and total revenue and, once this is done and revenue is recorded, signs and dates the form. Mailers transport the verified mail to the destination mail processing facility where mail processing employees ensure the form is complete and reconciles it to the mail.

Our objective was to evaluate whether the Postal Service properly tested, documented, and reported their examination of the key financial reporting control related to the drop shipment acceptance and verification process. The key financial control for drop shipments ensures that mail is not

inducted into mail processing without an accurate and complete drop shipment form. We conducted this review in support of the independent public accounting firm's reliance on management's testing and overall audit opinions on the Postal Service's financial statements and internal controls over financial reporting.

WHAT THE OIG FOUND:

We observed the testing of drop shipment acceptance and verification procedures at 25 of 198 sampled sites and determined that drop shipments were properly tested and documented and results were properly reported.

WHAT THE OIG RECOMMENDED:

We did not identify any exceptions; therefore, this report does not contain recommendations.

We communicated the results of our observations to the independent public accounting firm and Postal Service management throughout the year. The firm used the information to support its opinions on fiscal year 2012 Postal Service financial statements and controls over drop shipment financial reporting. Because we made no recommendations, management chose not to respond formally to this report.

[Link to review the entire report.](#)



January 30, 2013

MEMORANDUM FOR: TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

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

SUBJECT: Management Advisory Report – Fiscal Year 2012
Financial Testing Compliance Oversight Plant Verified Drop
Shipment Reviews (Report Number FT-MA-13-005)

This report presents the results of the U.S. Postal Service's Fiscal Year 2012 Financial Testing Compliance Oversight of Plant Verified Drop Shipment Reviews (Project Number 12BD001FI000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice M. Millett, director, Finance, or me at 703-248-2100.

Attachments

cc: Joseph Corbett
Julie S. Moore
Steven R. Phelps
Janet F. Meddick
Corporate Audit and Response Management

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Introduction

This report presents the overall results of our fiscal year (FY) 2012 Financial Testing Compliance (FTC) Oversight Plant Verified Drop Shipment (PVDS) Reviews (Project Number 12BD001000). We conducted these oversight reviews to support the independent public accounting (IPA) firm's reliance on U.S. Postal Service's management testing of Sarbanes-Oxley Act (SOX) key financial controls and to provide increased focus on the remediation of control failures in the field. Our overall objective was to evaluate whether FTC properly tested, documented, and reported their examination of key SOX financial reporting controls for the plant verified drop shipment acceptance and verification process. This review addresses financial risk. See [Appendix A](#) for additional information about this review.

Drop shipment mail is verified at origin by Postal Service employees assigned to either a detached mail unit¹ (DMU) at a mailer's plant or a business mail entry unit (BMEU). Drop shipment mailers are required to present mail along with a completed drop shipment form.² Postal Service mail acceptance employees use the form to verify the mail type, number of mailpieces, and total revenue. Once this is done and revenue is recorded at origin, the employee completes the form with the verification date and signature. Mailers transport verified mail to the destination mail processing facility where Postal Service mail processing employees ensure the form is complete and reconciled to the mail being dropped. The key financial control for drop shipments ensures that mail is not inducted into mail processing without an accurate and complete drop shipment form. The form also serves as the basis to reconcile volume and document load irregularities at the destination postal facility.

Conclusion

We observed the FTC group conducting tests of drop shipment acceptance and verification procedures and reviewed their documented results at 25 of 198 sampled sites during postal quarters (Q)³ 1 through 3, FY 2012. We found that FTC analysts properly tested, documented, and reported drop shipment acceptance and verification procedures at all sampled sites. FTC personnel identified testing errors at two of the 25 observed sites and adequately documented their work. We agreed with the FTC results for the sampled sites. We did not conduct observations during Q 4 since drop shipment controls were generally functioning as designed.

We communicated our oversight results to management via weekly discussions and by issuing quarterly interim reports. We also communicated our results to the IPA firm via

¹ Postal Service work areas or offices located at a business mailer's facility.

² Postal Service Form 8125, Plant Verified Drop Shipment (PVDS) Verification and Clearance.

³ An accounting division of the fiscal year that consists of 3 monthly accounting periods that are based on calendar months. Q 1 – October 1 through December 31; Q 2 – January 1 through March 31; Q 3 – April 1 through June 30; and Q 4 – July 1 through September 30.

weekly discussions and quarterly capping spreadsheets. The IPA firm used the information to support its opinions on FY 2012 Postal Service financial statements and controls over financial reporting. We did not identify any exceptions; therefore, this report does not contain recommendations. As a result, management chose not to respond formally to this report. (See [Appendix A](#) for the list of test sites we observed and interim reports issued.)

Appendix A: Additional Information

Background

The Postal Accountability and Enhancement Act of 2006 required the Postal Service to comply with Section 404 of SOX. To comply with Section 404 requirements, the Postal Service must report on the effectiveness of the agency's key internal controls over financial reporting. It must submit an annual assessment to the Postal Regulatory Commission who monitors and manages the Postal Service's compliance with SOX.

This report addresses PVDS key financial controls testing at Postal Service facilities. PVDS is a revenue protection process and is highly visible at all processing facilities. Mailers are required to enter mail with a drop shipment form and employees must verify and reconcile the form with the containers of mail being entered to ensure that all mail on the drop shipment has been properly paid for and documented.

PVDS is a procedure that enables origin verification and postage payment for shipments transported by the mailer from the mailer's plant to destination postal facilities for acceptance as mail. PVDS is typically used for mailings claiming a destination entry discount or price.

The key internal control over financial reporting for PVDS includes ensuring the mail volume received and verified at the originating postal facility matches the shipment being dropped at the plant and that any irregularities are documented. Receiving personnel also confirm that the shipment form is complete and accurate.⁴

Objective, Scope, and Methodology

The overall objective of our review was to evaluate whether the Postal Service properly tested, documented, and reported their examination of key financial reporting controls related to the drop shipment acceptance and verification process. We conducted these oversight reviews in support of the IPA firm's reliance on management's testing and overall audit opinions on the Postal Service's financial statements and internal controls over financial reporting.

To accomplish our objective, we observed FTC staff conducting PVDS key financial control tests that included reconciling volume, documenting load irregularities, and ensuring the form was complete and accurate for the required fields at 25 randomly selected PVDS sites. In addition, we determined whether the FTC group provided supporting documentation for the work performed. We issued interim reports directly to Postal Service management each quarter to communicate the results of our reviews.

⁴ The required fields are class of mail, processing category, number of pallets, origin Post Office, signature of verifying employee or approved legend, round stamp, and entry office.

Table 1 identifies the 25 sites we observed and the number of reviews we observed by quarter.

Table 1: Number and Type of OIG Oversight Reviews of FTC SOX Testing

Sites Visited	Report Number	Report Date	Quarter
<ul style="list-style-type: none"> • Chicago Metro Surface Hub • Southern Connecticut Processing and Distribution Center (P&DC) • Mid-Florida P&DC 	FI-MA-12-004	February 10, 2012	1
<ul style="list-style-type: none"> • St. Paul P&DC • Anaheim P&DC • Columbus General Mail Facility • Cape Girardeau P&DC • Michigan Metroplex P&DC • Fort Lauderdale P&DC • East Texas P&DC • Harrisburg P&DC 	FI-MA-12-006	May 16, 2012	2
<ul style="list-style-type: none"> • Albuquerque P&DC • Eau Claire P&DC • Pocatello P&DC • Lafayette P&DC • Westchester P&DC • Miami P&DC • Johnson City Processing and Distribution Facility • Curseen-Morris P&DC • Indianapolis Mail Processing Annex • Jacksonville National Distribution Center • Holt Annex Macon P&DC • Knoxville Processing P&DC • San Francisco P&DC • Portland P&DC 	FI-MA-12-013	August 17, 2012	3

Source: OIG analysis.

We conducted this review from November 2011 through January 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We provided a draft copy of this report to management on January 2, 2013, and, because we did not make any recommendations, management chose not to respond formally to this report.

We did not use computer generated data to conduct the oversight PVDS reviews; therefore, we did not assess the reliability of computer generated data. For these reviews, we examined drop shipment forms completed by mailers or mailers' agents after the forms were signed and dated by Postal Service employees at DMUs and BMEUs.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2011 Financial Testing Compliance Oversight Reviews</i>	FI-MA-12-003	January 20, 2012	None
<p>Report Results: The FTC group made significant improvements in their testing of key SOX financial reporting controls in FY 2011. However, opportunities existed to improve the quality of conducting tests and documenting test results. Specifically, the FTC group did not identify testing errors in four site reviews, did not perform steps in accordance with their program in three site reviews, and did not adequately document their work in two site reviews. As a result, OIG did not always agree with FTC site results. We did not make any recommendations in the report but provided our observations to the IPA firm and Postal Service management throughout the year.</p>			
<i>Fiscal Year 2010 Quality of Postal Service Financial Testing and Compliance Results</i>	FF-MA-11-001	January 3, 2011	None
<p>Report Results: The FTC group did not report all exceptions they identified during their reviews, causing their results to sometimes be inconsistent with the OIG's results. We did not make any recommendations in the report but provided our observations to the IPA firm and Postal Service management throughout the year.</p>			