



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

Fiscal Year 2012 Financial Testing Compliance Oversight Continuous Detached Mail Unit Reviews

Management Advisory Report

February 4, 2013

Report Number FT-MA-13-007

February 4, 2013



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HIGHLIGHTS

Fiscal Year 2012 Financial Testing Compliance Oversight Continuous Detached Mail Unit Reviews

Report Number FT-MA-13-007

BACKGROUND:

The Postal Accountability and Enhancement Act of 2006 required 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.

This report addresses key financial control testing related to mail verification and acceptance at detached mail units operating in a continuous environment. Detached mail units are Postal Service work areas or offices located in a business mailer's facility. In a continuous detached mail unit environment, the final postage statements are presented after mail acceptance and verification.

The overall objective of our review was to evaluate whether the Financial Test Compliance group properly tested, documented, and reported their examination of key SOX financial reporting controls related to mail verification and acceptance at continuous detached mail units. 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 Financial Testing Compliance group conducting tests at 18 of 153 sampled sites. We determined that Financial Testing Compliance analysts properly tested, documented, and reported their examination of key Sarbanes-Oxley Act reporting controls related to mail verification and acceptance at all 18 sites we observed.

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 the fiscal year 2012 Postal Service financial statements and controls over continuous detached mail unit reporting.

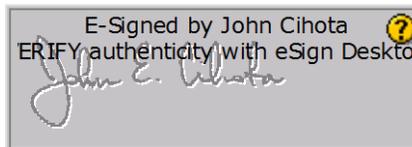
Because we made no recommendations, management chose not to respond formally to this report.

[Link to review the entire report](#)



February 4, 2013

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



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

SUBJECT: Management Advisory Report – Fiscal Year 2012 Financial
Testing Compliance Oversight Continuous Detached Mail
Unit Reviews (Report Number FT-MA-13-007)

This report presents the results of our review of the U.S Postal Service's Financial Testing Compliance Oversight work at continuous detached mail units (Project Number 12BD005FI000).

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

Attachments

cc: Joseph Corbett
Julie S. Moore
Stephen 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 Reviews for detached mail units operating in a continuous environment (continuous DMU) (Project Number 12BD005FI000). 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 the FTC group properly tested, documented, and reported their examination of key SOX financial reporting controls related to mail verification and acceptance at continuous DMUs. This review addresses financial risk. See [Appendix A](#) for additional information about this audit.

DMUs are Postal Service work areas or offices located in a business mailer's facility. In a continuous DMU environment, the final postage statements are presented after mail acceptance and verification.

Conclusion

We observed the FTC group conducting tests and reviewed their documented results at 18 of 153 sampled sites during Postal Quarters¹ (PQ) 2 through 4 in FY 2012. We found that FTC analysts properly tested, documented, and reported their examinations of key SOX financial reporting controls related to mail verification and acceptance at all sampled continuous DMUs. We did not conduct observations during PQ 1 because the FTC group was updating their test program and did not begin continuous DMU testing until PQ 2.

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 weekly discussions and quarterly capping spreadsheets. The IPA firm used the information to support its opinion 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, Table 1](#), for the list of test sites we observed and interim reports issued.)

¹ A Postal Quarter is an accounting division of the fiscal year that consists of 3 monthly accounting periods that are based on calendar months. Postal Quarter 1 – October 1 through December 31, 2011; Postal Quarter 2 – January 1 through March 31, 2012; Postal Quarter 3 – April 1 through June 30, 2012; and Postal Quarter 4, July 1 through September 30, 2012.

Appendix A: Additional Information

Background

The Postal Accountability and Enhancement Act of 2006 requires 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 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 key financial control testing at DMUs operating in a continuous environment related to mail verification and acceptance. DMUs are Postal Service work areas or offices located in a business mailer's facility. In a continuous DMU environment, the final postage statements are presented after mail acceptance and verification. To participate in on-site acceptance, the mailer/mailing agent must agree to establish a secure, safe working environment for business mail entry unit employees. This normally includes an office or work location within view of the shipping dock.

Key internal controls over financial reporting for continuous DMUs include revenue completeness assurance by testing mail acceptance initial and in-depth mail preparation verifications, mail check-in procedures, postage statement completeness, reconciling mail and hardcopy postage statements to supporting documentation, and reconciliation of the finalized postage statement. The Postal Service uses the PostalOne! system² to process postage statements and to record and track trust fund account information for authorized mailers.

Objective, Scope, and Methodology

Our overall objective was to evaluate whether the FTC group properly tested, documented, and reported their examination of key SOX financial reporting controls related to mail verification and acceptance at continuous detached mail units. 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 key financial controls that included initial and in-depth mail preparation verifications, the mail check-in procedures, postage statement completeness, reconciling mail and hardcopy postage statement to supporting documentation and reconciliation of the finalized postage statement at 18 randomly selected sites. We also determined whether the FTC group provided supporting documentation for the work performed. We issued interim reports each postal quarter to communicate the results of our reviews. Table 1 shows the 18 reviews we observed by Postal Quarter.

² PostalOne! is an integrated electronic system that records mailing transactions, receives payments and simplifies record keeping and the retrieval of mailing data.

Table 1. Number of OIG Oversight Reviews of FTC SOX Testing

OIG Oversight Review of FTC Testing			
DMU Site	Report Number	Report Date	Postal Quarter
<ul style="list-style-type: none"> ▪ Quad Graphics; Pewaukee, WI ▪ RR Donnelley Catalog Module; Lancaster, PA ▪ RR Donnelley Response Marketing; Green Bay, WI ▪ North America Mailing Services; El Paso, TX ▪ Pitney Bowes Presort Services Incorporated Group; Los Angeles, CA ▪ Broadridge Financial Solutions, Incorporated; Farmingdale, NY 	FI-MA-12-010	June 5, 2012	2
<ul style="list-style-type: none"> ▪ Print and Mailing Solutions; Benbrook, IL ▪ RR Donnelley Response Marketing; DePere, WI ▪ DST Output; Kansas City, MO ▪ Barton and Cooney; Trenton, NJ ▪ Metro Group; Mount Pleasant, IA ▪ Pitney Bowes Presort Services Incorporate Group; Compton, CA ▪ RR Donnelley Response Marketing; Warsaw, IN ▪ First Data Resources; Omaha, NE 	FI-MA-12-015	August 30, 2012	3
<ul style="list-style-type: none"> ▪ Affiliated Computer Services; Erlanger, KY ▪ Quad Graphics Incorporated; Oklahoma City, OK ▪ RR Donnelley; Bolingbrook, IL ▪ Quad Graphics Incorporated; Thomaston, GA 	FT-MA-13-003	November 1, 2012	4

Source: OIG analysis.

We conducted this review from January 2012 through February 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 assessed the reliability of computer-generated data by verifying the data to source records to determine whether Postal Service revenue was accurately recorded. Specifically, we observed FTC analysts use PostalOne! reports during testing and we verified the reliability of PostalOne! by comparing report data to the postage payments source documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2010 Quality of Postal Service Financial Testing and Compliance Results</i>	FF-MA-11-001	1/3/2011	None
<p>Report Results: The FTC group did not always report all exceptions they identified during their reviews, causing their results to not always be consistent with the OIG's results. We also noted other working paper documentation issues, such as the FTC group not providing all sampling methodology documentation to the OIG; however, this did not affect our ability to determine if FTC group's and the OIG's results were consistent. Most of the issues we identified were in reviews the FTC group conducted early in their testing schedule. 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 2011 Financial Testing Compliance Oversight Reviews</i>	FI-MA-12-003	1/20/2012	None
<p>Report Results: The FTC group made significant improvements in their testing of key SOX financial reporting controls in FY 2011. However, opportunities exist 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 the FTC group's 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>			