



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

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# **Fiscal Year 2013 Financial Testing Compliance Oversight Reviews**

## **Management Advisory Report**

January 8, 2014

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**Report Number FT-MA-14-005**



OFFICE OF  
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UNITED STATES POSTAL SERVICE

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# HIGHLIGHTS

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January 8, 2014

## Fiscal Year 2013 Financial Testing Compliance Oversight Reviews

Report Number FT-MA-14-005

### **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 Financial Testing Compliance group tests these key financial controls at postal units.

This report addresses key financial control testing related to business mail entry units and detached mail units, where Postal Service employees verify the eligibility of the mail and charge the mailer's account with the correct postage; plant verified drop shipments transported by the mailer from its plant to destination Postal Service facilities; and business reply mail services that provide customers with a convenient prepaid method for replying to a mailing.

The overall objective of our review was to evaluate whether the Financial Testing Compliance group properly tested, documented, and reported its examination of key Sarbanes-Oxley financial reporting controls.

We conducted these reviews in support of an 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's tests at 99 sampled units. We determined that analysts properly tested, documented, and reported their examination of 237 key Sarbanes-Oxley financial reporting controls.

### **WHAT THE OIG RECOMMENDED:**

We did not identify any exceptions; therefore, this report does not contain recommendations. We communicated our observations to the independent public accounting firm and Postal Service management throughout the year. The firm used the information to support its opinion on the fiscal year 2013 Postal Service financial statements and controls over reporting.

[Link to review the entire report](#)



January 8, 2014

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

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". There is a small black dot in the upper right corner of the box.

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

**SUBJECT:** Management Advisory Report – Fiscal Year 2013 Financial  
Testing Compliance Oversight Reviews  
(Report Number FT-MA-14-005)

This report presents the overall results of our Fiscal Year 2013 Financial Testing Compliance Oversight Reviews for business mail entry units, staged and continuous detached mail units, plant verified drop shipments, and business reply mail (Project Number 13WD001F1000).

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.

Attachment

cc: Julie S. Moore  
Corporate Audit and Response Management

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## Introduction

This report presents the overall results of our Fiscal Year (FY) 2013 Financial Testing Compliance (FTC) Oversight Reviews for business mail entry units (BMEUs) and detached mail units operating in a staged environment (staged DMUs), detached mail units operating in a continuous environment (continuous DMUs), plant verified drop shipments (PVDS), and business reply mail (BRM) (Project Number 13WD001FI000). We conduct these oversight reviews to support the independent public accounting firm's (IPA) reliance on U.S. Postal Service management's testing of Sarbanes-Oxley Act (SOX) key financial controls and to increase 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 its examination of key SOX financial reporting controls. See [Appendix A](#) for additional information about this review.

The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006) requires the Postal Service to comply with Section 404 of SOX and report on the effectiveness of key Postal Service internal controls over financial reporting. The Postal Service Board of Governors contracted with the IPA to express an opinion about these controls. FTC testers perform operational effectiveness testing on key internal controls in the field and communicate the results to stakeholders. The oversight reviews cover controls at:

- BMEUs – units that process bulk business mail.
- DMUs – Postal Service work areas or offices located at a business mailer's facility. Their key controls are categorized as either staged or continuous.
  - Staged DMUs – postage statements are presented at the time of mail acceptance and verification in a staged environment.
  - Continuous DMUs – mailers present final postage statements after mail acceptance and verification.
- PVDS – a procedure that transports verified mail to the destination mail processing facility where mail processing employees verify the mail to supporting documentation.
- BRM – a service that allows a mailer to receive mail back from customers and pay postage only for returned pieces.

## Conclusion

We observed the FTC group conduct 237 internal control tests at 99<sup>1</sup> randomly selected units. We determined the group properly tested, documented, and reported its examination of the 237 key SOX financial reporting controls at all 99 units.

During the review, the FTC group noted 16 exceptions and we agreed with its results. Specifically, for Postal Service quarters (Q)<sup>2</sup> 1 through 4, FY 2013, we observed the FTC group conduct tests for:

- Ninety-seven controls at 24 BMEUs/staged DMUs.
- Ninety-nine controls at 34 continuous DMUs.
- Sixteen controls at 16 BRM units.
- Twenty-five controls at 25 PVDS locations.

We communicated our oversight results to management via weekly discussions and quarterly interim reports. We also communicated our results to the IPA via weekly discussions and quarterly capping spreadsheets. We did not identify any exceptions; beyond the 16 identified by the FTC group; therefore, this report does not contain recommendations.

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<sup>1</sup> The FTC group conducted testing at a total of 640 units in FY 2013.

<sup>2</sup> An accounting division of the fiscal year that consists of 4 monthly accounting periods that are based on calendar months: Postal Service Q1 – October 1 through December 31; Postal Service Q2 – January 1 through March 31; Postal Service Q3 – April 1 through June 30; and Postal Service Q4 – July 1 through September 30.

## Appendix A: Additional Information

### Background

The Postal Act of 2006 requires the Postal Service to comply with Section 404 of SOX. To do so, the Postal Service must report on the effectiveness of its internal controls over financial reporting in an annual assessment to the Postal Regulatory Commission.

This report addresses key financial control testing of BRM at Postal Service units, BMEUs and DMUs operating in a staged environment, mail verification and acceptance at DMUs operating in a continuous environment, and PVDS procedures at Postal Service mail processing facilities.

- BMEUs process bulk business mail. DMUs are Postal Service work areas or offices located at a business mailer's facility. DMU key controls are characterized as either staged or continuous. In a staged environment, postage statements are presented at the time of mail acceptance and verification but in a continuous environment, final postage statements are presented after mail acceptance and verification.
- BRM is a domestic service that allows mailers to receive First-Class<sup>®</sup> mailpieces back from customers and pay postage only for the returned pieces. These pieces must have a specific address and format and postage and fees are collected when the mail is delivered to the original mailer.
- PVDS is a procedure that enables origin verification and postage payment for shipments transported by the mailer from its plant to destination postal facilities for acceptance as mail. PVDS is typically used for mailings claiming a destination entry discount or price.

### Objective, Scope, and Methodology

The overall objective of our review was to evaluate whether the FTC group properly tested, documented, and reported its examination of key SOX financial reporting controls. We conducted these oversight reviews in support of the IPA's reliance on management's testing and overall audit opinion on the Postal Service's financial statements and internal controls over financial reporting.

To accomplish our objective, we observed the FTC group conduct key financial control tests at 99 randomly selected units for BMEU/staged DMU and continuous DMU, PVDS, and BRM. In addition, we determined whether the FTC group provided supporting documentation for its work. We issued interim quarterly reports directly to Postal Service management to communicate the results of our reviews. See [Table 1](#) for units and reporting information regarding the 24 BMEUs/staged DMUs, [Table 2](#) for the 34 continuous DMUs, [Table 3](#) for the 25 PVDS units, and [Table 4](#) for the 16 BRM units.

**Table 1: BMEUs/Staged DMUs**

Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Service Quarter
1. AFL Mailing Corp, Voorhees, NJ 2. Syracuse BMEU, Syracuse, NY	FT-MA-13-010	11	0	2/14/2013	1
3. RR Donnelley DMU, Hebron, OH 4. Ames BMEU, Ames, IA 5. Presort Services Inc., Corona, CA 6. Lansing BMEU, Lansing, MI 7. Cincinnati BMEU, Cincinnati, OH 8. Berwyn World Marketing Chicago DMU, McCook, IL 9. Regulus Integrated Solutions LLC., Napa, CA 10. Tipton CDS DMU, Tipton, Iowa 11. Pitney Bowes DMU, Milwaukee, WI	FT-MA-13-016	44	3	5/20/2013	2
12. IRS DMU, Detroit, MI 13. Stevens Point, BMEU, Stevens Point, WI 14. Fairrington Transport DMU, Bolingbrook, IL 15. Washington, BMEU, Washington, D.C. 16. Tinley Park BMEU, Tinley Park, IL 17. Los Angeles BMEU, Los Angeles, CA 18. J.A.F. BMEU, New York, NY 19. San Antonio Permit, San Antonio, TX	FT-MA-13-018	24	2	8/27/2013	3
20. Trenton BMEU, Trenton, NJ 21. Columbus BMEU, Columbus, OH 22. Portland BMEU, Scarborough, ME 23. ICS Corporation, Philadelphia, PA 24. News Printing Company, Claysburg, PA	FT-MA-14-002	18	0	11/8/2013	4

Source: OIG

**Table 2: Continuous DMUs**

Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Service Quarter
1. Pitney-Bowes Presort Service, Grand Prairie, TX 2. Alaniz Metro Group, Mount Pleasant, IA 3. Pewaukee Lomira Quad Graphics, Lomira, WI	FT-MA-13-011	12	0	2/14/2013	1
4. RR Donnelley, De Pere, WI 5. Pewaukee Lomira Quad Graphics, Lomira, WI 6. Pitney Bowes Presort Services, Grand Prairie, TX 7. First Data Resources, Omaha, NE 8. RR Donnelley, Logan, UT 9. RR Donnelley, Lancaster, PA	FT-MA-13-015	28	1	5/20/2013	2
10. Arandell Corp, Menomonee Falls, WI 11. RR Donnelley Greenfield DMU, Lancaster, PA 12. Quad Graphics, Chalfont, PA 13. Quad Graphics, Martinsburg, WV 14. RR Donnelley, Warsaw, IN 15. Bell South, Alpharetta, GA 16. Instant Web Company Direct DMU, Little Falls, MN 17. RR Donnelley, Glasgow, KY 18. RR Donnelley, Baraboo, WI 19. Des Moines Presort Inc., Urbandale, IA 20. Pewaukee Hartford Quad Graphics DMU, Hartford, WI	FT-MA-13-021	25	1	8/30/2013	3
21. CSG International, Omaha, NE 22. RR Donnelley Greenfield DMU, Lancaster, PA 23. First Data Resources, Omaha, NE 24. Pewaukee Hartford Quad Graphics DMU, Hartford, WI 25. CSG International, Inc., Crawfordville, FL 26. Polaris Direct, LLC., Hooksett, NH 27. Brown Printing Company, East Greenville, PA 28. Instant Web Company Direct, Reading, PA 29. North American Mailing Services, Inc., El Paso, TX 30. AT&T Services, Inc., Houston, TX 31. DST Output, El Dorado Hills, CA 32. The Flyer, Tampa, FL 33. Pre-Sort, Inc, Bensalem, PA 34. RR Donnelley, Spartanburg, GA	FT-MA-14-004	34	6	11/19/2013	4

Source: OIG

**Table 3: PVDS**

Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Service Quarter
1. Pensacola Processing and Distribution Center (P&DC), Pensacola, FL 2. Baton Rouge P&DC, Baton Rouge, LA 3. McAllen P&DC, McAllen, TX 4. Sacramento P&DC, Sacramento, CA 5. Johnstown P&DC, Johnstown, PA	FT-MA-13-008	5	1	2/12/2013	1
6. Southern Maine P&DC, Scarborough, ME 7. Santa Clarita P&DC, Santa Clarita, CA 8. Tampa Logistics and Distribution Center (L&DC), Tampa, FL 9. Chattanooga P&DC, Chattanooga, TN	FT-MA-13-013	4	0	3/3/2013	2
10. Washington Network Distribution Center (NDC), Capitol Heights, MD 11. Des Moines NDC, Urbandale, IA 12. Springfield L&DC, Springfield, MA 13. Roanoke P&DC Center, Roanoke, VA 14. Washington P&DC, Washington, DC 15. Miami P&DC, Miami, FL 16. Chicago Metro Surface Hub, Elk Grove Village, IL 17. Western Nassau P&DC, Garden City, NY 18. Colorado Springs P&DC, Colorado Springs, CO 19. Lansing P&DC, Lansing, MI 20. Los Angeles P&DC, Los Angeles, CA	FT-MA-13-020	11	1	8/30/2013	3
21. Harrisburg P&DC, Harrisburg, PA 22. Detroit P&DC, Detroit, MI 23. Las Vegas P&DC, Las Vegas, NV 24. North Metro P&DC, Duluth, GA 25. San Francisco P&DC, San Francisco, CA	FT-MA-14-003	5	0	11/8/2013	4

Source: OIG

**Table 4: BRM**

Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Service Quarter <sup>3</sup>
1. Bush Terminal Station, Brooklyn, NY 2. Atlanta Main Post Office, Atlanta, GA 3. Falmouth Branch, Fredericksburg, VA 4. Big Sandy Post Office, Big Sandy, TX 5. Coral Springs Branch Office, Coral Springs, FL 6. San Antonio General Mail Facility, San Antonio, TX 7. Hagerstown Post Office, Hagerstown, MD 8. Bensalem Post Office, Bensalem, PA	FT-MA-13-019	8	1	8/30/2013	3
9. Neenah Main Office, Neenah, WI 10. Washington Main Office, Washington, DC 11. Oak Brook Main Office, Oak Brook, IL 12. Tucson Main Office, Tucson, AZ 13. Church Street Post Office, New York, NY 14. Waukesha Main Office, Waukesha, WI 15. Oakland Park Post Office, Columbus, OH 16. Morton Grove Post Office, Morton Grove, IL	FT-MA-14-001	8	0	11/8/2013	4

Source: OIG

We conducted these reviews from October 2012 through January 2014 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 December 19, 2013, and, because we did not make any recommendations, management chose not to respond formally.

We did not use computer-generated data to conduct the oversight 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, observed FTC analysts use *PostalOne!* reports during testing, and verified the reliability of *PostalOne!* by comparing report data to the postage payments source documentation and to the BRM invoice. We determined that the data were sufficiently reliable for the purpose of this report.

<sup>3</sup> BRM mail reviews were not conducted during Qs 1 and 2.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Business Mail Entry Unit/Staged Detached Mail Unit Reviews</i>	FT-MA-13-006	2/6/2013	None
<p><b>Report Results:</b> We found that FTC analysts did not properly test, document, and report their examination of key SOX financial reporting controls for mail verification and acceptance at three of the 27 units observed. Specifically, analysts did not test postage statement completeness at one unit and did not accurately document work performed at two units. There is an increased risk of not identifying, correcting, or reporting internal control deficiencies when analysts do not test key controls or accurately document work performed. We did not make recommendations in this report. Management took corrective action by testing the missed control and corrected documentation to accurately report work performed.</p>			
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Continuous Detached Mail Unit Reviews</i>	FT-MA-13-007	2/4/2013	None
<p><b>Report Results:</b> We observed the FTC group test at 18 of 153 sampled units. We determined that FTC analysts properly tested, documented, and reported their examination of key SOX reporting controls related to mail verification and acceptance at all 18 units. We did not identify any exceptions; therefore, we did not make any recommendations.</p>			
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Plant Verified Drop Shipment Reviews</i>	FT-MA-13-005	1/30/2013	None
<p><b>Report Results:</b> We observed the FTC group test drop shipment acceptance and verification procedures at 25 of 198 sampled units and determined the group properly tested, documented, and reported its testing results. We did not identify any exceptions; therefore, we did not make any recommendations.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Business Reply Mail Reviews</i>	FT-MA-13-004	1/29/2013	None
<p><b>Report Results:</b>                      We observed FTC group testing at 17 of 145 sampled units. We found the FTC group did not always properly test, document, and report its examinations of BRM key SOX financial reporting controls. Specifically, we observed that FTC analysts did not always follow their written test program for selecting transactions to test at two of the 17 units we visited. The testing procedures had changed, but management had not updated the test program. We did not make recommendations in this report but provided our observations to management throughout the year. The Postal Service took corrective action by updating the test program on April 19, 2012.</p>			
<i>Fiscal Year 2011 Financial Testing Compliance Oversight Reviews</i>	FI-MA-12-003	1/20/2012	None
<p><b>Report Results:</b>                      The FTC group made significant improvements in its testing of key SOX financial reporting controls in FY 2011. However, opportunities existed to improve the quality of testing and documenting results. Specifically, the FTC group did not identify testing errors in four unit reviews, did not perform steps in accordance with its program in three unit reviews, and did not adequately document its work in two unit reviews. As a result, the OIG did not always agree with FTC unit results. We did not make any recommendations in the report but provided our observations to the IPA and management throughout the year.</p>			