



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

**Fiscal Year 2012 Financial Testing
Compliance Oversight Business Mail
Entry Unit/Staged Detached Mail Unit
Reviews**

Management Advisory Report

February 6, 2013

Report Number FT-MA-13-006

February 6, 2013



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HIGHLIGHTS

Fiscal Year 2012 Financial Testing Compliance Oversight Business Mail Entry Unit/Staged Detached Mail Unit Reviews

Report Number FT-MA-13-006

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 at business mail entry units and detached mail units operating in a staged environment. Business mail entry units process bulk business mail. Detached mail units are Postal Service work areas or offices located in a business mailer's facility. In a staged detached mail unit environment, employees finalize and stage a single mail run and attach the associated postage statement for acceptance and verification.

Our objective was to evaluate whether the Postal Service properly tested, documented, and reported their examination of key financial reporting controls for mail verification and acceptance at business mail entry and staged 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 testing at 27 of 219 sampled sites. We found that analysts did not properly test, document, and report their examination of key financial reporting controls for mail verification and acceptance at three of the 27 sites observed. Specifically, analysts did not test postage statement completeness at one site and did not accurately document work performed at two sites. These errors occurred because data collectors and managers did not provide adequate oversight and review. The risk of not identifying, correcting, or reporting internal control deficiencies increases when analysts do not test key controls or accurately document work performed.

WHAT THE OIG RECOMMENDED:

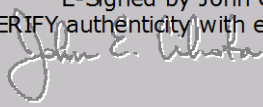
We did not make recommendations in this report but provided our observations to the independent public accounting firm and Postal Service management throughout the year. Management took corrective action by testing the missed control and corrected documentation to correctly report work performed. The firm used the information to support its opinions on the fiscal year 2012 Postal Service financial statements and controls over financial reporting.

[Link to review the entire report](#)



February 6, 2013

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

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop


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

SUBJECT: Management Advisory Report – Fiscal Year 2012
Financial Testing Compliance Oversight Business Mail Entry
Unit/Staged Detached Mail Unit Reviews
(Report Number FT-MA-13-006)

This report presents the results of our review of the U.S. Postal Service's Financial Testing Compliance work at business mail entry units/detached mail units (Project Number 12BD002FI000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice 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 Reviews for business mail entry units (BMEU) and detached mail units operating in a staged environment (staged DMU) (Project Number 12BD002FI000). We conducted these oversight reviews to support the independent public accounting (IPA) firm's reliance on U.S. Postal Service's management testing of the 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. For this review, we specifically evaluated whether the FTC group properly tested, documented, and reported their examination of controls related to mail verification and acceptance at business mail entry and staged DMU. This audit addresses financial risks. See [Appendix A](#) for additional information about this audit.

BMEUs process bulk business mail and acceptance employees verify that mail is properly prepared and revenue is recorded timely. DMUs are Postal Service work areas or offices located in a business mailer's facility. Mail verification procedures for DMUs and BMEUs are identical. In a staged DMU environment, employees present postage statements at the time of mail acceptance and verification.

Conclusion

We observed the FTC group conducting tests at 27 of 219 sampled sites during postal quarters 1 through 4 of FY 2012. 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 business mail entry and staged DMU at three of the 27 sites we observed. Specifically, the analysts did not test the key control over completed postage statements at one site and did not accurately document work performed regarding mail check-in and verification at two sites. The risks of not identifying and correcting internal control deficiencies and reporting incorrect overall results increase when analysts do not test key controls or accurately document work performed.

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. Because the IPA firm used the information to support its opinions on FY 2012 Postal Service financial statements and controls over financial reporting, and Postal Service resolved the issues during the year when we brought these matters to its attention, we are not making any recommendations in this report.

Financial Testing Compliance Audit Program

FTC analysts did not follow their written test procedures at one of 27 sites we visited. Specifically, the analysts did not test the key control for postage statement completeness at a staged DMU. The test procedure required the analysts to perform the test at the BMEU that provides oversight to the DMU when the DMU uses only electronic postage statements. Instead, the analysts documented that they did not test the control because of the unavailability of hard copy postage statements at the DMU. Further, the analyst did not go to the oversight BMEU site to perform the test. The FTC group manager stated this error occurred due to an oversight. When we brought this matter to the FTC group's attention, management stated the FTC analysts returned to the host BMEU and conducted the test as required.

Financial Testing Compliance Documentation

At two of 27 sites, the FTC analysts did not properly document their examination of key SOX financial reporting controls. Specifically, at one site, the FTC analysts correctly noted in their documentation that an exception occurred when the bulk mail technician failed to perform a required test during the initial verification of a periodicals mailing. However, in the same document, analysts contradicted this exception by stating that all mailings passed the initial cursory review and further stated that there were no exceptions. The group manager stated this error occurred due to an oversight. Management agreed with our finding, took corrective action, and revised and posted corrected documentation and properly reported the exception.

At a second site, the FTC analyst did not properly document the observation for the mail check-in control step.¹ The analyst erroneously documented in his work papers that he did not test the control because the facility had not yet started the mailing process at the facility on the day of testing. In addition, the analyst documented that employees did not complete the check-in process in PostalOne!² for the selected transaction, indicating an exception. However, the analyst properly documented in the report documentation that the control was tested and provided a copy of the postage statement that he observed during the check-in process. This exception occurred because the analyst entered information related to a different test site on the supporting documents for this site, and FTC reviewers did not catch the error. FTC management agreed with our finding and, as a result, management took corrective action and revised their work papers.

See Table 1 in [Appendix A](#) for the list of test sites we observed, report number, and dates we issued these interim reports.

¹ Upon arrival of mail at a unit, mail acceptance personnel check in postage statements by entering required fields into the PostalOne! system. The purpose of the check-in process is to create a record of the mailing in PostalOne!.

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

Recommendations

We are not making recommendations in this report because management took corrective action. Further, we provided our observations to the IPA firm and Postal Service management throughout the year via interim quarterly reports.

Management's Comments

Management agreed in principal with all findings and that there were opportunities for documentation improvements in the three instances cited. However, they stated they did not agree with our assertion that the findings represent a high risk of reporting an incorrect result. Management maintained their assessment is based on the comprehensive quality review that exists at the end of each quarter – a review designed to identify these types of issues before final submission to the external auditors. In addition, management stated this review process traces each control activity's final written conclusions back to the original finding identified at the time of testing, ensuring that the final written and printed documents are in agreement with the documentation contained within the analysts' documentation. Finally, management described the actions they took to address the findings we had reporting throughout the fiscal year.

See [Appendix B](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the findings as management has identified the underlying factors that led to the findings and corrective actions should resolve the issues identified in the report. We agree with management that these issues do not represent a high risk of reporting an incorrect result but rather an increased risk, as noted in our conclusion.

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 key financial control testing at BMEU and DMU operating in a staged DMU. BMEUs process bulk business mail, and acceptance employees verify that mail is properly prepared and ensure acceptance employees recorded the revenue.

DMUs are Postal Service work areas or offices located in a business mailer's facility. Mail verification procedures for DMUs and BMEU are identical. In a staged DMU environment, mailers present postage statements at the time of mail acceptance and verification.

Most of the mailings entered at a BMEU and staged DMU are presorted and receive a discounted rate. Presorting mail is a work-sharing incentive that offers discounted postage rates to customers for performing some of the work associated with mail processing. Unless business mailings are properly prepared to qualify for the discounts claimed, the Postal Service incurs increased processing costs.

Key internal controls over financial reporting for BMEUs and staged DMUs include revenue completeness assurance by testing mail acceptance initial and in-depth mail preparation verifications, the mail check-in procedures, postage statement completeness, and end-of-day recompilations. In addition, the Postal Service uses the PostalOne! system 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 for mail verification and acceptance at business mail entry and staged DMUs. 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 control tests that included the initial mail acceptance and the in-depth mail preparation verifications, mail check-in procedures, postage statement completeness, and end of day recompilations at 27 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 27 sites we observed by postal quarter.³

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

OIG Oversight Review of FTC Testing			
Site Visited	Report Number	Report Date	Postal Quarter
<ul style="list-style-type: none"> ▪ Mac Direct ▪ Belton BMEU ▪ Hart Hanks ▪ Twin Cities BMEU ▪ Great Falls BMEU ▪ Long Beach Permit BMEU ▪ Regulus DMU 	FI-MA-12-005	March 1, 2012	1
<ul style="list-style-type: none"> ▪ South Hackensack BMEU ▪ Source Link DMU ▪ Milwaukee Pitney Bowes DMU ▪ Conshohocken BMEU ▪ Sebastapol BMEU ▪ Pitney Bowes Presort Services DMU ▪ Incorporated DMU ▪ Walled Lake BMEU 	FI-MA-12-009	May 29, 2012	2
<ul style="list-style-type: none"> ▪ Dallas Permit ▪ Skokie BMEU ▪ Advance Response Systems DMU ▪ IMS Western New York DMU ▪ Fox Valley Presort Solutions DMU ▪ Red Bank BMEU ▪ Milwaukee BMEU ▪ Tribune Direct Marketing DMU ▪ Cawood DMU ▪ Medco Health DMU ▪ Louisville AMF BMEU 	FI-MA-12-011	August 16, 2012	3
<ul style="list-style-type: none"> ▪ Columbus BMEU ▪ Vista BMEU 	FT-MA-13-001	October 31, 2012	4

Source: OIG analysis.

We conducted this review from October 2011 to February 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

³ 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.

We provided a discussion draft copy of this report to management on January 2, 2013, and, because we did not make any recommendations, management chose to respond formally to the discussion draft copy in lieu of a scheduling a formal exit meeting.

We assessed the reliability of computer-generated data by verifying it 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 PostaOne! by comparing report data to the postage payments source documentation. We determined that the data were sufficiently reliable for the purpose of this report.

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	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 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	1/3/2011	None
<p>Report Results: The FTC group did not report all exceptions they identified during their reviews, causing their results to not always be consistent with the OIG's results. We did not make any recommendations in the report but communicated issues to Postal Service management throughout the year.</p>			

Appendix B: Management's Comments

TIMOTHY F. O'REILLY
Vice President, Controller



January 17, 2013

JUDY LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report – Fiscal Year 2012 Financial Testing Compliance Oversight Business Mail Entry Unit/Staged Detached Mail Unit Reviews

Thank you for the opportunity to respond to your audit of the Fiscal Year 2012 Financial Testing Compliance Oversight for: Business Mail Entry Unit/Staged Detached Mail Unit Reviews.

Although there were no recommendations made in the report, we agree that there are opportunities for documentation improvements in the three identified instances. Management agrees in principle with the findings; however, management does not agree with the assertion that the identified findings represented a high risk of reporting out an incorrect result. This assessment is based on the comprehensive quality review process that exists at the end of each quarter which is specifically designed to identify these types of mismatches prior to final submission to the external auditors. This comprehensive review process traces each of the control activity final written conclusions back to the preliminary finding identified at the time of testing. This matching ensures that the final written and printed documents are in agreement with the documentation contained within the analyst workbook. In reviewing each of the three findings, management has identified the underlying factors that led to the finding and instituted corrective action necessary to strengthen compliance. Listed below is a recap of the three identified findings and the actions taken:

- Long Beach BMEU Review posted on December 13, 2011. In this review, the FTC analyst correctly noted in the control evaluation that an exception occurred when the bulk mail technician failed to perform a required Flat Deflection test during the initial verification of a Periodicals mailing. However, in a supporting workbook, a "Y" was inadvertently entered in one of the data fields instead of an "N" indicating that this mailing passed the flat deflection test. This inadvertent error did not materially alter the final conclusion of the control.
- Pitney Bowes PSI DMU, Langhorne, PA review posted on March 6, 2012. In this review, one of the reviewers mistakenly posted information from another site observation. This error occurred as a result of having multiple reviews being completed on the same day by the same reviewer. The remaining four controls tested at this facility were correct. To ensure that this type of error does not happen in the future, management took immediate action instituting a revised review process that includes a final approval by the FTC analyst as part of the quality review process.
- IMS of Western New York DMU, Buffalo, NY posted on May 17, 2012. We agree with the finding that the FTC analyst did not follow the test script regarding performing the postage statement completeness test at the host BMEU when the SDMU they are reviewing only uses electronic postage statements. Instead of traveling to the host office, the analyst documented the control as "not tested" based on the fact that the hard copy postage statements are not used at the test site. This was found to be an isolated oversight on the tester's part and follow-up training was given to ensure that the language in the test scripts is well understood. In fact, testers returned to the host BMEU on June 15, 2012 and completed a follow-up test to ensure compliance with this control was adequately documented.

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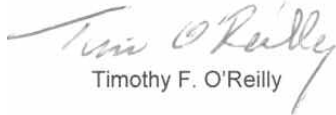
- 2 -

Once again, management is appreciative of the feedback from your team, as well as an opportunity to respond to the findings. This sharing of information helps us to better standardize our documentation and to continually improve our processes. If you have any other questions or need additional information please contact Janet Meddick, Manager, Financial Control and Support (A) at (202)268-2652.

In light of the above, we do not believe a formal exit meeting is necessary. However, we do ask that the OIG incorporate these statements in your final report.

The proposed findings for BRM are acceptable in their current format.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.



Timothy F. O'Reilly

cc: Joseph Corbett
Julie Moore
Steven Phelps
Janet Meddick
Douglas Germer
Corporate Audit and Response Management