



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

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**Fiscal Year 2012 Financial Testing  
Compliance Oversight  
Business Reply Mail Reviews  
Management Advisory Report**

January 29, 2013

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**Report Number FT-MA-13-004**



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# HIGHLIGHTS

January 29, 2013

## Fiscal Year 2012 Financial Testing Compliance Oversight Business Reply Mail Reviews

Report Number FT-MA-13-004

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### **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.

Business Reply Mail is a domestic service that allows a mailer to receive First-Class mailpieces back from customers and pay postage only for the pieces returned to the mailer from the original distribution. These pieces must have a specific address and format, and the Postal Service collects postage and fees when the mail is delivered back to the original mailer.

Our objective was to evaluate whether the Postal Service properly tested, documented, and reported its examination of key financial reporting controls related to confirming that revenue was accurately recorded and invoices were printed before mail was provided to Business Reply Mail customers.

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 Business Reply Mail testing at 17 of 145 sampled sites and determined that examinations of key Business Reply Mail financial controls at two of the 17 sites were not always properly tested, documented, and reported. Specifically, testing procedures had changed, but management had not updated the test program. When procedures change and are not properly updated to the test program, there is an increased risk that testers may follow outdated procedures resulting in inaccurate test outcomes.

### **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. Postal Service took corrective action by updating the test program on April 19, 2012. The firm used the information to support its opinions on the fiscal year 2012 Postal Service financial statements and controls over financial reporting. Because we made no recommendations, management chose not to respond formally to this report.

[Link to review the entire report](#)



January 29, 2013

**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 2012 Financial  
Testing Compliance Oversight Business Reply Mail Reviews  
(Report Number FT-MA-13-004)

This report presents the results of our review of the U.S. Postal Service's Financial Testing Compliance work at Business Reply Mail units (Project Number 12BD006FI000).

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  
Stephen R. Phelps  
Janet F. Meddick  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our fiscal year (FY) 2012 Financial Testing Compliance (FTC) Oversight Reviews for Business Reply Mail (BRM) units (Project Number 12BD006FI000). We conducted these oversight reviews to support the independent public accounting (IPA) firm's reliance on U.S. Postal Service management's testing of Sarbanes-Oxley (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 confirming revenue is accurately recorded and invoices are printed before mail is provided to BRM customers. This review addresses financial risk. See [Appendix A](#) for additional information about this review.

BRM is a domestic service that allows a mailer to receive First-Class mailpieces back from customers and pay postage only for the pieces returned to the mailer from the original distribution of BRM pieces. These pieces must have a specific address and format. In addition, postage and fees are collected when the mail is delivered back to the original mailer.

## Conclusion

The FTC group did not always properly test, document, and report their examinations of key SOX financial reporting controls that ensure revenue is accurately recorded and invoices are printed before mail is provided to BRM customers. Specifically, we observed that FTC analysts did not always follow their written test program for selecting transactions to test at two of the 17 sites we visited. The testing procedures had changed, but management had not updated the test program. If testing procedures change, and they are not properly documented, there is an increased risk that FTC analysts may follow the outdated testing procedures, causing test results to be inaccurate.

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 through 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 management resolved the issue when we brought this matter to their attention, we did not make recommendations in this report.

## Financial Testing Compliance Review Program

FTC analysts did not follow their written test program at two of 17 sites we visited. Specifically, FTC analysts followed verbal instructions for selecting sample transactions

for observation. The written test program required analysts to use a report<sup>1</sup> that did not include official government<sup>2</sup> BRM accounts. Therefore, on January 13, 2012, management informed analysts of this error and provided an additional report<sup>3</sup> to use for this test that included all BRM accounts. However, management did not update the written test program to require analysts to obtain these reports, because the manager was trying to limit the number of program changes. As a result, FTC analysts in other locations might not have properly identified the correct universe from which to select transactions for observation. Management updated the test script to include both reports on April 19, 2012.

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

## Recommendations

We did not make recommendations in this report because management addressed the issue during the audit. As a result, management chose not to respond formally to this report.

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<sup>1</sup> Balances Report that displays the permit information, company name, location, cost center, last invoice date, current balance, fee status, and the last fee payment date.

<sup>2</sup> The Official Mail Accounting System (OMAS) is an automated system where postage statement data are entered for federal agency official business mail. The Postal Service invoices the federal agencies based on the information entered. Federal agencies use the system to monitor their mailings and postage costs. Official mail is mail authorized by federal law to be sent by U.S. government officials, often without postage prepayment. It includes franked mail sent by members of Congress and penalty mail sent by U.S. government agencies.

<sup>3</sup> The Transaction Summary Report provides a list of all business mail transactions for a mailing facility for a specific business day or time frame.

## Appendix A: Additional Information

### Background

The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of SOX Act. 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, which monitors and manages the Postal Service's compliance with SOX requirements.

This report addresses key BRM financial control testing at Postal Service units. BRM is a domestic service that allows a mailer to receive First-Class mailpieces back from customers and pay postage only for the pieces returned to the mailer from the original distribution of BRM pieces. These pieces must have a specific address and format. In addition, postage and fees are collected when the mail is delivered back to the original mailer.

The PostalOne! System<sup>4</sup> supports BRM accounts and interfaces with the Point of Service One System<sup>5</sup> to provide a single point of entry for deposits and fee payments. BRM invoices are system-generated from the PostalOne! System and represent a receipt for payment. The invoices also ensure BRM revenue has been recorded in PostalOne! before release of the mail.

The key internal controls over financial reporting for BRM are to confirm that revenue is accurately entered into PostalOne! and invoices are generated to ensure correct payment before the release of the mail.

### Objective, Scope, and Methodology

Our overall objective was to evaluate whether FTC properly tested, documented, and reported their examination of key SOX financial reporting controls confirming revenue is accurately recorded and invoices are printed before mail is provided to BRM customers. 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 confirming that BRM revenue was accurately collected and recorded at 25 randomly selected sites. We also determined whether FTC provided supporting

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<sup>4</sup> PostalOne! is an integrated electronic system that records mailing transactions, receives payments, simplifies record keeping, and the retrieval of mailing data.

<sup>5</sup> The Point of Sale One terminal system is the primary hardware and software system used to conduct sales transactions during the Post Office check-out process.

documentation for the work performed. We issued interim reports each postal quarter<sup>6</sup> to communicate the results of our reviews. Table 1 shows the 17 sites we observed by postal quarter.

**Table 1: Number of OIG Oversight Reviews of FTC SOX Testing**

OIG Oversight Review of FTC Testing			
Site	Report Number	Report Date	Postal Quarter
<ul style="list-style-type: none"> <li>▪ Farmingdale Post Office</li> <li>▪ Charlotte Downtown Station</li> <li>▪ Ranson Post Office</li> </ul>	FI-MA-12-008	May 21, 2012	2
<ul style="list-style-type: none"> <li>▪ Medical Center Station</li> <li>▪ Azalea Station</li> <li>▪ Sacramento Post Office</li> <li>▪ Las Vegas Post Office</li> <li>▪ Pierre Main Post Office</li> <li>▪ Columbia Main Post Office</li> <li>▪ Philadelphia Post Office</li> <li>▪ Nashville Post Office</li> <li>▪ Spring Valley Station</li> </ul>	FI-MA-12-012	August 16, 2012	3
<ul style="list-style-type: none"> <li>▪ Dallas Main Post Office</li> <li>▪ Atlanta Main Post Office</li> <li>▪ Springfield Main Post Office</li> <li>▪ Phoenix Main Post Office</li> <li>▪ Oklahoma City Business Mail Entry Unit</li> </ul>	FT-MA-13-002	October 31, 2012	4

Source: OIG.

We conducted this review from February 2012 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 7, 2013, and, because we did not make any recommendations, management chose not to respond formally to this report.

We assessed the reliability of computer data by verifying them 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 BRM invoice. We determined that the data were sufficiently reliable for the purposes of this report.

<sup>6</sup> 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.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2011 Financial Testing Compliance Oversight Reviews</i>	<a href="#">FI-MA-12-003</a>	1/20/2012	None
<p><b>Report Results:</b>                      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>	<a href="#">FF-MA-11-001</a>	1/3/2011	None
<p><b>Report Results:</b>                      FTC 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 provided our observations to the IPA firm and Postal Service management throughout the year.</p>			