



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Processes and Procedures Over Improper Payments

Audit Report

Report Number
FT-AR-14-001-DR

October 22, 2013





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

We identified about \$203 million in improper payments during fiscal years 2012 and 2011 that were recoverable and available for other purposes.

Background

Improper payments are payments that should not have been made or were made in an incorrect amount. Congress passed several laws over the past few years to elevate improper payments in the federal government to the same level of importance as they are in the private sector. As a result, federal agencies have implemented programs to identify, track, reduce, report, and recapture improper payments.

The U.S. Postal Service is not required by law to implement such programs but, like most private organizations, is required to follow the Sarbanes-Oxley Act and generally accepted accounting principles.

In the private sector, improper payments threaten profitability. In the federal sector, agencies lose billions of dollars in program funds. The U.S. Postal Service Office of Inspector General identified about \$203 million in improper payments during fiscal years 2012 and 2011 that were recoverable and available for other purposes.

Our audit objective was to determine whether the Postal Service could enhance its procedures and processes that identify, track, reduce, and recapture improper payments.

What The OIG Found

The Postal Service uses several elements, such as scorecards and Sarbanes-Oxley Act controls, to identify, track, reduce, and recapture improper payments. However, management could enhance its controls by considering best practices identified during our benchmarking efforts, including using data mining to implement a continuous monitoring program over improper payments. During this time of financial uncertainty and requested legislative relief, the Postal Service's reputation with Congress and other stakeholders could be negatively impacted if it does not enhance controls in this area. Further, management does not have a process established to fully monitor and pursue restitutions and recoveries of nearly \$9 million settled by federal courts. Of this amount, we considered about \$1.2 million as monetary impact. State and local settlements may offer additional revenue-collecting opportunities.

What The OIG Recommended

We recommended management use best practices, including data mining, to implement a continuous monitoring program over improper payments and implement a process to monitor and collect court-ordered payments.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 22, 2013

MEMORANDUM FOR: JOSEPH CORBETT
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER

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

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

SUBJECT: Audit Report – Processes and Procedures Over Improper
Payments (Report Number FT-AR-14-001)

This report presents the results of our audit of Processes and Procedures
Over Improper Payments (Project Number 11BG017FF000).

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: Corporate Audit and Response Management

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Findings

Management could enhance its processes and procedures by using best practices identified in our benchmarking efforts, including the use of data mining, to implement a continuous monitoring program over improper payments.

Introduction

This report presents the results of our audit of processes and procedures over improper payments¹ (Project Number 11BG017FF00). Our audit objective was to determine whether the U.S. Postal Service could enhance its processes and procedures that identify, track, reduce, and recapture improper payments. The audit focused on the Postal Service's efforts to pay the right persons or organizations in the right amounts for the right goods and services. This self-initiated audit addresses financial and strategic risk. See [Appendix A](#) for additional information about this audit.

Improper payments occur due to inadequate recordkeeping, inaccurate program eligibility determinations, inadvertent processing errors, untimely and unreliable information to confirm payment accuracy, or fraud. These widespread problems are receiving increased attention by both the federal and private sectors. Improper payments in the government do not always represent an actual loss, but when they do, they have the effect of reducing funds for federal programs. In the private sector, improper payments threaten profitability.

Congress passed improper payment laws² to ensure payments are made to the right individuals and organizations in the right amounts for the right goods and services, as well as to elevate their importance in the federal government to the same level as they are in the private sector. Over the past several years, federal executive agencies have, by law, implemented programs to identify, track, reduce, report, and recapture improper payments. While the improper payment laws do not apply to the Postal Service, large private sector companies have processes and procedures in place to manage and monitor improper payments on a strategic level.

The private sector is engaged in addressing improper payments by using data mining³ to implement continuous monitoring programs.⁴ Based on the organizations reviewed, the savings identified from the reduction in improper payments exceeded the cost of implementing these continuous monitoring prevention programs. As a result, private sector organizations and federal executive agencies now recognize the risk of improper payments and strategically plan for their reduction.

The U.S. Office of Management and Budget (OMB), from federal agency-reported data, noted the rate of improper payments in the federal government for fiscal year (FY) 2012 was 4.3 percent, amounting to about \$108 billion. Using this rate, the potential amount for improper payments in the Postal Service, based on total expenses⁵ during FY 2012, is \$3.39 billion.

While performing the audit, we also analyzed procedures the U.S. Postal Inspection Service (Inspection Service) and U.S. Postal Service Office of Inspector General (OIG) use to account for court-ordered restitutions and recoveries. The U.S. Department of Justice (DOJ) prepares spreadsheets of amounts owed and sends statements showing restitutions and recoveries paid to the Postal Service.

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- ¹ Payments that should not have been made or that were made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. They include payments that do not account for discounts, duplicate payments, payments for goods and services not received, and payments supported by insufficient documentation or for which there is no documentation. They include the amount over or under paid – not the total amount – unless the total was paid improperly, and can include future payments.
 - ² Improper Payments Information Act (IPIA) of 2002, Public Law 107-300, November 26, 2002, and Improper Payments Elimination and Recovery Act (IPERA) of 2010, Public Law 111-204, July 22, 2010. The Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, Public Law 112-248, was signed into law on January 10, 2013. The act includes provisions that strengthen estimates of improper payments and mandates a government-wide "Do Not Pay List."
 - ³ Data mining analyzes large volumes of existing data to discover patterns, trends, and anomalies.
 - ⁴ Continuous monitoring uses software technologies to test transactions close to the time they occur, test all transactions against a comprehensive range of control rules to ensure they are in compliance, and identify any erroneous or fraudulent transactions.
 - ⁵ Total operating expenses minus depreciation and amortization.

Conclusion

The Postal Service has initiatives in place to identify, track, reduce, and recapture improper payments, including scorecards and Sarbanes-Oxley Act (SOX) control reviews.⁶ However, management could enhance its processes and procedures by using best practices identified in our benchmarking efforts, including the use of data mining, to implement a continuous monitoring program over improper payments. The Postal Service's reputation with Congress and other stakeholders could be negatively impacted during this time of financial uncertainty and requested legislative relief if it does not enhance controls in this area.

Further, management did not have a process established to fully monitor and proactively pursue restitutions and recoveries settled by the courts. This occurred because the Postal Service was not always aware of court-ordered payments until received or of federal reports containing balances owed. Outstanding court-ordered restitutions and recoveries totaled nearly \$9 million as of December 10, 2012. Of the \$9 million, about \$1.2 million relates to restitutions and recoveries resulting from Inspection Service investigations and is considered monetary impact.

A Continuous Monitoring Approach to Payments Management

Management could enhance its current processes to identify, track, reduce, and recapture improper payments by implementing a more robust continuous monitoring program. Management noted that its current policies, procedures, and internal control testing, along with supplementary initiatives, provide a process for managing improper payments. However, we believe a more robust continuous monitoring program could provide management the information it needs to identify the magnitude of improper payments and the overall effectiveness of current initiatives. Current initiatives already performed by the Postal Service, along with the availability of results from OIG audits and investigations that identify improper payments, provide information to assist in developing a continuous monitoring program. Graphic 1 identifies examples of supplementary initiatives performed by the Postal Service.

⁶ The Postal Service is required to comply with certain sections of the SOX Act of 2002 as a result of the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006). SOX Section 404 requires management to report on its internal controls over financial reporting. Section 404 concentrates on testing key financial controls and risk of material misstatement to the financial statements. It also evaluates whether controls are adequately designed to provide reasonable assurance of preventing or detecting a material financial error and whether such controls are operating as intended.

Graphic 1. Examples of Supplementary Initiatives

(Click on the area below the project title for description and example)

Source: Postal Service SOX update, May 2012, and other internal documents.

The Postal Service's control framework⁷ identifies internal controls for SOX testing by setting a threshold that determines which accounts and processes will be considered for testing. That framework focuses on the setting of financial reporting objectives to attain reasonable assurance that the financial statements are free from material misstatements.

⁷ Elements of the Committee of Sponsoring Organization (COSO) of the Treadway Commission, used by the Postal Service, form a recognized control framework for audits of financial statements as well as internal control over financial reporting.

However, the internal control testing performed by SOX cannot alone fully address improper payments because:

- The testing threshold established by the Postal Service to determine its SOX scope in FY 2012 was \$58.5 million, which would not necessarily capture potential improper payments resulting from accounts and processes below this threshold.
- A SOX program can be effective without always addressing or capturing improper payments. This occurs because SOX focuses on financial reporting objectives and controls and not operations or compliance objectives and controls.
- To determine the impact of errors or deficiencies to misstate the financial statements, management set the SOX materiality threshold for FY 2012 at \$195 million. Potential improper payments below this threshold may be excluded from coverage by the SOX program.

Not all improper payments represent a loss. Many improper payments are labeled improper because documentation to confirm payment accuracy is missing or unavailable and requires further scrutiny.⁸ However, all improper payments, whether recoverable or not, place assets at risk for loss, jeopardize the integrity of the Postal Service, and compromise the trust of its stakeholders.

The OIG previously reported recoverable transactions meeting the definition of improper payments from audits and investigations conducted in FYs 2012 and 2011 as shown in Table 1.

Table 1. Recoverable Improper Payment Transactions Found by OIG

Recoverable Costs ²	FY 2012 (In Millions)	FY 2011 (In Millions)	Both Years (In Millions)
Audits - Questioned Costs ³	–	\$54	\$54
Office of Investigation Cases - Restitutions and Recoveries	\$70	\$79	\$149
Total	\$70	\$133	\$203

² Costs that can be reclaimed. Examples include fees that should have been charged but were not or contract costs that were found to be improperly charged.

³ A cost that is unnecessary, unreasonable, unsupported or an alleged violation of law, regulation or contract.

Source: FY 2011 and 2012 OIG Semiannual Reports to Congress (SARCs) and ancillary support.

Improper payments have received increased attention not only in the federal government but also in the private sector. Beyond the financial risks addressed by SOX, private sector organizations consider additional activities when managing risk. An older but relevant study of both public and private sector organizations⁹ highlighted that the reduction of improper payments requires a strategy appropriate to the organization and its particular risks.

⁸ Without required documentation, management does not have the information to determine whether a payment was accurate, necessary, or reasonable. As a result, fraud, waste, and abuse may go undetected or timely recovery opportunities could be lost.

⁹ Government Accountability Office (GAO) report, *Strategies to Manage Improper Payments, Learning from Public and Private Sector Organizations* (Report Number [GAO-02-69G](#), dated October 2001).

Continuous monitoring efforts provide real-time data and ongoing assurance to the private and public sectors on an immediate, time-driven basis. Continuous monitoring includes a data mining component that analyzes large volumes of existing data to discover patterns, trends, and anomalies; and illustrates the value of using preventive methods to address improper payments. For example, three private sector companies have implemented an array of continuous monitoring software solutions that extend across their organizations.

- Telus Communication¹⁰ automated the review of all its payment transactions and increased the effectiveness of its payables controls. This monitoring solution resulted in the identification of duplicate payments totaling five times the total cost of implementing the continuous monitoring solution.
- Quality, Value, and Convenience (QVC)¹¹ implemented continuous monitoring software that enabled them to take a proactive and preventive role, reducing the opportunity for fraud, duplicates, and other vendor payment errors. QVC was able to pay back the initial software investment within the first month of use.
- A large Forbes Top 20 privately held corporation recently quadrupled its data mining efforts to address improper payments, identifying available savings.

Working with the Postal Service to identify key risks, the OIG has embarked on several initiatives to promote the use of data mining and support the mission of investigations and audits. For example:

- The OIG uses data mining to identify high-risk workers' compensation claims. The data has allowed agents to bring investigations to a successful resolution. OIG investigators initiated 102 cases using data from the Claimant Risk Analysis and Provider Risk Analysis Models that resulted in \$9.5 million in recoveries, restitutions, and workers' compensation payments.
- The Contract Fraud Model scores open and closed contracts to discover unusual patterns in contract growth, payment irregularities, cost outliers, and other anomalies for further analysis of improper or suspicious payments.

The Postal Service uses continuous monitoring techniques through its scorecards (as discussed in Graphic 1); however, the information is prepared monthly. The OIG models provide the Postal Service an opportunity to enhance the models to implement a robust continuous monitoring program over improper payments. Using real-time, continuous monitoring, the Postal Service could intensify its efforts to reduce fraud and other payment errors by building on its current work and strategies from private and public sector organizations. By benchmarking against organizations that have established successful programs to address improper payments, the Postal Service can effectively leverage these measures.

The Postal Service is not required by law to implement a program to identify, track, reduce, report, and recapture improper payments, but, like most private organizations, is required to follow SOX and generally accepted accounting principles. Without a focus on improper payments, the opportunity to detect fraud, waste, and abuse is not as comprehensive as it could be. Improper payments threaten profitability, which is a vital concern to the Postal Service because of repeated losses in recent years.¹² The chief financial officer of the Postal Service shared a similar concern by emphasizing the need for "prudent management of . . . financial resources."¹³ Further, as an important segment of the shipping and mailing economy and a key component of the nation's communications infrastructure, the Postal Service should exercise prudence and accountability when making financial decisions. By implementing a continuous monitoring program that addresses improper payments, the Postal Service can further strengthen its internal controls over improper payments beyond the initiatives already in place.

¹⁰ A leading telecommunications company with \$10.4 billion in annual revenue (Canadian dollars) as of 2011.

¹¹ A shopping retailer with 2011 consolidated revenue of \$8.3 billion.

¹² As of July 2009 and into 2011, the GAO added the Postal Service's financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based restructuring; *High-Risk Series An Update* (Report Number [GAO-11-278](#), dated February 16, 2011).

¹³ Letter to Postal Career Executive Service Executives, *Fiscal Responsibility and Accountability*, dated April 27, 2012.

Monitoring Court-Ordered Payments

Management did not have a process established to fully monitor and proactively pursue restitutions and recoveries settled by the courts. This occurred because the Postal Service was not always aware of these court-ordered payments until received at the ASC.¹⁴ In addition, management was not aware that a report containing the outstanding balances of improper payments¹⁵ for federal cases is available from the DOJ.¹⁶ State and local cases are handled by the jurisdiction overseeing the litigation and the balances of court-ordered restitutions and recoveries must be obtained from individual jurisdictions.

The Inspection Service, the OIG, and other authorities refer criminal and civil cases to the U.S. Attorney for litigation and potential restitutions and recoveries; however, the Postal Service is not always aware of the case outcomes. As part of an established process, the OIG will provide court-ordered settlement documents to the Postal Service when received from the courts. The Postal Service should similarly work with the Inspection Service and state and local jurisdictions to obtain similar documents so they can effectively and efficiently monitor court-ordered payments. State and local settlements may offer additional revenue collection opportunities.

At our request, the DOJ provided the OIG with an electronic spreadsheet of court-ordered restitutions and recoveries pertaining to federal cases. After eliminating duplicate entries, our review identified over \$9 million in restitutions and recoveries as of December 10, 2012. The distribution of restitutions and recoveries is shown in Graphic 2. Of the \$9 million, about \$1.2 million relates to restitutions and recoveries resulting from Inspection Service investigations and is considered monetary impact. See Appendix B for monetary impact.

Postal Service Handbook F-16 cites federal law¹⁷ that places the responsibility with the Postal Service for collecting, compromising, terminating, or suspending collection actions on debts due. The same handbook states that when the Postal Service detects an overpayment or an erroneous or improper payment, it must establish an account receivable¹⁸ and follow the protocol under the suggested billing follow-up procedures.¹⁹ We believe the Postal Service should work with the OIG, Inspection Service, and state and local jurisdictions to establish a process to account for, monitor, and collect, where cost-beneficial, court-ordered payments.



¹⁴ Electronic payments are remitted directly to the courts and transmitted to the Postal Service by means of the U.S. Treasury Intra-governmental Payment and Collection System, which is facilitated by the DOJ.

¹⁵ A transaction that should not have been made or one resulting from fraud is considered an improper payment.

¹⁶ The DOJ currently provides payment statements to the Postal Service. The statements do not provide outstanding balances. The DOJ informed the OIG that cumulative reports, with balances, can be requested at no additional cost. The DOJ retains a portion of all receipts transmitted for their services.

¹⁷ Title 39 U.S.C. §401(8), 2008(c).

¹⁸ Accounts receivable is a claim against a debtor for an uncollected amount.

¹⁹ Handbook F-16, *Accounts Receivable*, Sections 221.2, 342.11, and 431, dated February 1990.

Graphic 2. Distribution of Restitution and Recoveries
(Click for details)

TOTAL RESTITUTIONS
& RECOVERIES²

¹ Value of cases listed on the DOJ report but not claimed by either the OIG or Inspection Service.

² The \$1.2 million was verified by the Postal Service and reported as monetary impact. The OIG Office of Investigations confirmed an additional \$4.2 million was claimed in prior years' SARCs. The OIG audit identified an additional \$3.7 million in restitutions and recoveries.

Recommendations

Management generally agreed with the findings and recommendation 1 and partially agreed with recommendation 2.

We recommend the executive vice president and chief financial officer direct the vice president, controller, to:

1. Use best practices, including data mining, in the implementation of a continuous monitoring program over improper payments.

We recommend the vice president, controller:

2. Implement a process to track and collect court-ordered restitutions and recoveries.

Management's Comments

Management generally agreed with the findings and recommendation 1, partially agreed with recommendation 2, and could not validate the monetary impact of \$1.2 million.

Management agreed with the need to have processes and controls in place to detect, prevent, and recapture improper payments but disagreed that management does not use best practices of data mining and continuous monitoring to detect and prevent improper payments. Additionally, management could not validate the monetary impact as it was unclear how the information in the DOJ report can be used to quantify amounts owed to the Postal Service based on information the OIG provided.

For recommendation 1, management stated they currently monitor payments and use data mining tools to identify and prevent improper payments and continue to enhance its processes. Management noted the recommendation is complete.

Management partially agreed with recommendation 2, citing that implementation would involve a concerted effort between the OIG, Inspection Service, and other authorities. Management targets implementation of corrective action by October 31, 2013.

Management also had specific concerns with figures used in the report. Specifically:

- The potential \$3.39 billion of improper payments in the Postal Service was included without any data or reasoning to support the statement or the recoverable improper payments found by the OIG. Management added that using the amount the OIG reported as recoverable (\$203 million) would represent one-tenth of 1 percent of the total operating expenses.
- Management cited concerns with the data presented in Table 1, questioning whether the improper payments should be those of the Department of Labor (DOL) rather than the Postal Service. Consequently, without additional details provided by the OIG, they are unsure what, if any, corrective action the Postal Service can take.

They reiterated that the Postal Service is not required to comply with the improper payment acts.

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

We do not consider management's comments responsive to recommendation 1. The OIG considers management's comments responsive to recommendation 2 and corrective actions planned or in process should resolve the issues.

Evaluation of Management's Comments

We do not consider management's comments responsive to recommendation 1. We recognize the Postal Service is not required to comply with federal improper payment acts and uses scorecards and metrics (as noted in Graphic 1) to monitor some programs. However, our report also identifies successful and cost-beneficial use of real-time continuous monitoring used in the private sector to monitor their improper payments. Further, subsequent to the issuance of the draft report, the OIG identified additional instances of improper payments, including continuing to make contract payments after a contract postal unit ceased operation, paying a travel voucher without authorization for international travel, and paying incorrect labor rates on information system projects. As a result, we continue to believe the Postal Service could benefit from reviewing federal and private sector improper payment reduction activities to enhance its current processes to identify, track, reduce, and recapture improper payments. It is management's responsibility, though, to assess risk and develop processes, procedures, and controls to promptly prevent and detect unauthorized acquisition, use, or disposition Postal Service assets. Consequently, we will not pursue audit resolution of recommendation 1.

The OIG considers management's comments responsive to recommendation 2 and corrective actions planned or in process should resolve the issues. As noted in the report, the OIG is committed to working closely with the Postal Service by providing court-ordered settlement documents to the Postal Service when received from the courts. The Postal Service will need to work with the Inspection Service and other authorities as appropriate.

Regarding the \$3.39 billion of potential improper payments used in the report, we reported that the OMB noted an improper payment rate of 4.3 percent for all federal executive agencies. Since the Postal Service did not have processes in place to identify the magnitude of improper payments, we provided the \$3.39 billion figure for perspective and potential risk. The Postal Service has always requested that the OIG provide perspective so they can better comprehend the importance of the issues reported.

Similarly, the \$203 million of improper payments the OIG provided as an example of recoverable improper payments was compiled from past audits and investigations. It is not an inclusive list of improper payments, just those that were recoverable by the Postal Service. Improper payments also include other amounts that the Postal Service cannot fully determine to be recoverable (for example, payments made where supporting documentation is disposed of or not authorized). Those amounts were excluded but can be significant.

Additionally, management had specific concerns regarding \$76 million related to injury compensation claims. Since the DOL administers the Office of Workers' Compensation Program — including making payments to claimants, providers, and beneficiaries — the Postal Service is not sure what corrective action it could take. We maintain that by excluding the improper payment efforts of third parties who manage its funds, the Postal Service would limit its ability to identify and prevent improper payments. Even though the payments are outside its control, the Postal Service does have the control and ability to implement processes and procedures to reduce the risk of actions that lead to the improper payments.

Management stated they could not validate \$1.2 million in monetary impact from the information they had and the DOJ report provided by the OIG. The DOJ report showed pending recoveries of over \$34.1 million. After the audit, the Postal Service provided support for receipt of a \$25 million payment, leaving \$9.1 million in pending restitution and recoveries. We contacted the Postal Inspection Service and OIG Office of Investigations to identify their cases in the DOJ report. The Postal Inspection Service identified \$1.2 million, as explained in our report, and only this amount was reported as monetary impact. The OIG Office of Investigations confirmed \$4.2 million, but we did not claim this amount as monetary impact because it was claimed in prior years' SARCs. Our audit identified an additional \$3.7 million in restitutions and recoveries that was not corroborated by either group. Based on these points, management stated they will request assistance from the OIG on how to interpret the DOJ report and incorporate it into their recovery process.

Appendices

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Appendix A: Additional Information

Background

Most challenges associated with payment processes in the public sector are similar to those experienced in the private sector. One hurdle both sectors must first overcome is determining the nature and magnitude of the problem. According to a study of private sector companies,²⁰ some major challenges facing payment processes in a struggling economy are cost reduction and process improvement. The reduction of improper payments requires an active strategy appropriate to the organization and its particular risks. Managers then have the information they need in order to focus on problems and improve internal controls. This does not mean processes lack controls, but existing controls may need to be updated or policies and procedures added to strengthen the control system to reduce improper payments.

SOX Section 404 requires certain entities to annually assess and report on the effectiveness of their internal controls over financial reporting. SOX compliance provides some protection that the right recipient is receiving the right payment for the right reason at the right time. The Postal Service is subject to Section 404 and adopted the COSO framework²¹ for its compliance. In this context, COSO focuses on the setting of financial reporting objectives to attain reasonable assurance that the financial statements are free from material misstatement.²² However, given this inherent focus and program threshold limitations, SOX testing cannot be relied on solely to identify improper payments.

Under federal law,²³ federal executive agencies have implemented a program to identify, track, reduce, report, and recapture improper payments. These agencies are required to perform four steps: risk assessment, statistical sampling, corrective actions, and reporting. These steps, along with recovery audits, have proven to be effective in managing improper payments. The Postal Service is not required to comply with federal improper payment laws; however, these laws provide a systematic and prescribed approach for addressing improper payments.

Objective, Scope, and Methodology

Our audit objective was to determine whether the Postal Service could enhance its procedures and processes that identify, track, reduce, and recapture improper payments. To accomplish our objective, we reviewed federal guidance on payment management, interviewed key Postal Service personnel, and benchmarked private organizations and federal executive agencies to determine ways the Postal Service might improve its efforts to pay the right entities in the right amounts for the right goods and services.

As part of our benchmarking, we focused our efforts on agencies most comparable to the Postal Service. We based the selection of agencies on guidance prepared by OMB on the effective measurement and remediation of improper payments and on internal controls over financial reporting, which was revised to align with SOX. We also interviewed personnel and OIGs at the following agencies:

- U.S. Agency for International Development.
- Department of Defense.
- Department of Health and Human Service.

We conducted interviews with federal agencies responsible for the implementation or oversight of improper payment compliance to better understand the processes, challenges, and lessons learned. Those agencies included the OMB, responsible for implementing guidance covering improper payments, and the GAO. The GAO reports on the status of federal executive agencies' compliance with improper payment legislation.

²⁰ *A Struggling Accounts Payable Department Finds Success*, dated April 20, 2010, posted on DocuVantage.

²¹ COSO provides a recognized framework to help entities assess and enhance their internal control systems. Setting objectives is a prerequisite under the framework and leads to an overall strategy that includes (1) Operations - effectiveness and efficiency of operations, including performance and profitability goals; (2) Financial Reporting - preparation of reliable published financial statements; and (3) Compliance - adherence to laws and regulations.

²² Financial statement assertions support financial reporting objectives and include existence/occurrence, completeness, rights and obligations, valuation or allocation, presentation, and disclosure.

²³ IPIA of 2002 Public Law 107-300, November 26, 2002; IPERA of 2010 Public Law 111-204, July 22, 2010, with guidance from OMB issued in 2011 as Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, to OMB Circular A-123, *Management's Responsibility for Internal Controls*; and IPERIA of 2012, Public Law 112-248 signed into law January 10, 2013, and includes provisions that strengthen estimates of improper payments and mandates a government-wide "Do Not Pay List."

We researched private sector organizations to gauge their improper payment efforts and contacted OIG personnel to gain an understanding of data mining initiatives used to develop continuous monitoring models. Additionally, we had discussions with the Postal Service's independent public accounting firm to compare the Postal Service's efforts to address improper payments with those of private sector entities.

We interviewed Postal Service personnel to determine what processes and procedures are in place to track, identify, reduce, and recapture improper payments. We reviewed Postal Service accounts receivable and accounts payable, and supply management's policies to gain an understanding of the accounting and contracting procedures surrounding payments.

We contacted the DOJ to gain an understanding of their role in restitution and recovery efforts on behalf of federal agencies.²⁴ The DOJ prepares statements showing restitutions and recoveries paid to federal agencies and spreadsheets of amounts owed to federal agencies. The DOJ provided electronic spreadsheets to the OIG of court-ordered restitutions and recoveries for review. We then met with OIG investigative and legal personnel and the Inspection Service to gain an understanding of what efforts are taken to report and recapture restitutions and recoveries arising from fraudulent criminal and civil acts.

We analyzed four SARCs²⁵ to identify potential improper payments. The identified amounts provide a presumption of improper payments discovered in FYs 2012 and 2011. We focused on recoverable costs in the categories of questioned costs and restitution and recoveries. The questioned cost category aligns itself with the definition of improper payments as a cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation or contract and may or may not necessarily be indicative of a direct financial loss to the Postal Service. We also reviewed the SARCs of the agencies we benchmarked against to evaluate their findings and recommendations applicable to improper payments.

We conducted this performance audit from February 2012 through October 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 31, 2013, and included their comments where appropriate.

The DOJ provided the OIG with an electronic spreadsheet of outstanding court-ordered restitutions and recoveries. We assessed the reliability of that data by interviewing agency officials knowledgeable about the data. We also determined computer-generated data, obtained from Postal Service OIG and agency personnel, to be reliable based on interviews with individuals knowledgeable about the data and computer systems. As a result, we determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG issued the *Purchasing Compliance and Imprudent Purchases Follow-Up Audit*, (Report Number FF-AR-11-010, dated June 21, 2011) and found that the Postal Service improved the effectiveness of local purchasing activities and reduced spending using the SmartPay program since a previous audit; however, the audit identified purchases that did not contain a business meal justification or were not properly authorized, recognition gifts that were not entered into the eAwards system, employees in one district continuing to make imprudent purchases, and an opportunity to further improve the effectiveness of the Purchasing Shared Services Centers. Management generally agreed with the findings, recommendations, and monetary impact in the report.

²⁴ A transaction that should not have been made or one resulting from fraud is considered an improper payment.

²⁵ For the periods October 1, 2010-March 31, 2011; April 1-September 30, 2011; October 1, 2011-March 31, 2012; and April 1-September 30, 2012.

Appendix B: Monetary and Other Impacts

Monetary Impact

Recommendation	Impact Category	Amount
2	Questioned Costs ⁵	\$1,241,071

⁵ A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation or contract.

The DOJ provided payment statements showing remittances to the Postal Service, but the statements did not provide outstanding balances. Upon further inquiry, the DOJ informed us that cumulative reports with balances can be requested at no additional cost. At our request, the DOJ provided an electronic spreadsheet of court-ordered restitutions and recoveries of over \$9 million. The distribution of restitutions and recoveries owed the Postal Service, based on efforts of the Inspection Service, was at least \$1.2 million. The OIG Office of Investigations confirmed at least \$4.2 million. We did not claim this amount as monetary impact because it was claimed in prior year SARCs. Our audit identified an additional \$3.7 million in restitutions and recoveries that was not corroborated by either group.

Other Impact

Recommendation	Impact Category	Amount
1	Goodwill Branding ⁶	None

⁶ An adverse impact on goodwill is an actual event/problem that harms the Postal Service's reputation or a potential problem that could negatively impact the Postal Service's brand name.

Appendix C. Management's Comments

TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER



September 6, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Processes and Procedures over Improper Payments (Report Number FT-AR-13-DRAFT)

The following is provided in response to the subject report. We appreciate the opportunity to provide comments.

We agree with the need to have processes and controls in place to detect, prevent, and recapture improper payments. We disagree with the finding that management does not use best practices of data-mining and continuous monitoring. The Postal Service currently uses these techniques to detect and prevent improper payments and our controls and processes are working effectively. As the report states, the improper payments laws passed by Congress do not apply to the Postal Service.

We are unable to comment on the finding concerning "court-ordered restitutions and recoveries" of \$9.1 million or the monetary impact of \$1.2 million. The OIG provided a copy to the Postal Service of the Department of Justice (DOJ) electronic spreadsheet referenced in the report. However, it is unclear how the information on the report can be used to quantify amounts owed to the Postal Service. We cannot validate the \$9.1 million cited in Table 3: Distribution of Restitution and Recoveries or the \$1.2 million monetary impact cited in Appendix B: Monetary and Other Impacts.

We have specific concerns with the financial amounts cited in the report. First, the report includes a statement with a monetary value that has no factual basis and is purely speculative. The statement is: "The U.S. Office of Management and Budget (OMB), from federal agency-reported data, noted the rate of improper payments in the federal government for fiscal year (FY) 2012 was 4.3 percent, amounting to about \$108 billion. Using this rate, the potential amount for improper payments in the Postal Service, based on total expenses during FY 2012 is \$3.39 billion." The OIG report offers no data or reasoning to support the statement. Using the amount reported by the OIG as "recoverable improper payment transactions" for FY 2011 and FY 2012 of \$203 million, this amount would represent one-tenth of one percent of the total operating expenses minus depreciation and amortization for the two year period.

Second, we have concerns with the data presented in Table 2, "Recoverable Improper Payments Found by OIG." Table 2 cites \$149 million reported for Office of Investigation Cases – Restitutions and Recoveries in FY 2011 and FY 2012. We requested the supporting data for the \$149 million and were provided a high level summary by category. The summary included more than \$76 million related to Injury Compensation. Injury Compensation is administered by the Department of Labor (DOL) Office of Workers' Compensation Programs (OWCP). DOL provides direct compensation to providers, claimants, and beneficiaries. The Postal Service reimburses OWCP through a charge back process. If Restitutions and Recoveries of funds for Injury Compensation are considered "improper payments", then they are improper payments made by the Department of Labor, not by the Postal Service. The OIG did not provide the specific details supporting the values in Table 2, so it is unclear what, if any corrective action, Postal management can take.

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The following are the specific recommendations and management's response.

Recommendation 1:

We recommend the executive vice president and chief financial officer direct the vice president, controller to: Use best practices, including data mining, in the implementation of a continuous monitoring program over improper payments.

Management Response/Action Plan:

Management agrees with the recommendation. The Postal Service currently monitors payments and uses data mining tools to identify and prevent improper payments. We continue to enhance our process to make it more efficient and timely.

Responsible Official:

Not applicable.

Target Implementation Date:

The process is implemented.

Recommendation 2:

We recommend the vice president, controller: Implement a process to track and collect court-ordered restitutions and recoveries.

Management Response/Action Plan:

Management partially agrees with the recommendation. We will investigate opportunities to implement a process to track "court-ordered restitutions and recoveries" through coordination and communication with the OIG, Inspection Service, and other authorities. We request assistance from the OIG on how to interpret and incorporate information from the DOJ spreadsheet into the process. Management is unable, however, to implement a process to collect "court-ordered restitutions and recoveries" on its own. We are willing to work with the OIG, Inspection Service, and DOJ to pursue the enforcement of "court-ordered restitutions and recoveries" where feasible; however, the Postal Service is not the sole decision-maker with respect to the initiation, conduct, or outcome of enforcement proceedings that result in the collection of "court-ordered restitutions and recoveries."

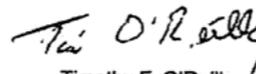
Responsible Official:

Vice President and Controller

Target Implementation Date:

December 31, 2013

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


Timothy F. O'Reilly



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

Contact us via our [Hotline](#) and [FOIA](#) forms, follow us on social networks, or call our Hotline at 1-888-877-7644 to report fraud, waste or abuse. Stay informed.

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