

**U.S. POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL**



**OFFICE OF AUDIT
FY 2010 AUDIT PLAN**

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BACKGROUND

U.S. Postal Service Office of Inspector General (OIG) audits and reviews are designed to protect assets and revenue, ensure efficient and economical mail delivery, and safeguard the integrity of the postal system. Additionally, our special studies provide insight on quantitative issues involving Postal Service operations and economic matters. The results of our work are presented in published reports and semiannual reports to Congress. We also provide results of our work throughout the year to the Board of Governors (Board), particularly the Audit and Finance Committee. As adjunct members, we attend key Postal Service committee meetings, such as those sponsored by the Capital Investments Committee and the Sarbanes-Oxley/Business Process Redesign Steering Committees. We perform audits and reviews in compliance with the standards published by the Comptroller General of the United States, the American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board, the Institute of Internal Auditors, and the Council of the Inspectors General on Integrity and Efficiency.

This fiscal year (FY) 2010 audit plan focuses on those projects that provide Postal Service management with information to address the emerging strategic issues and major risks and management challenges they are facing. In October 2008, the Postal Service published its *Vision 2013: Five-Year Strategic Plan for 2009-2013*, which articulated three goals: focus on what matters most to customers, leverage the Postal Service's strengths, and embrace change. We ensure that our audit work addresses these goals.

We refined our overarching risk assessment process and prioritized audit projects that address risk factors in strategic, financial, and operational areas. The Deputy Assistant Inspectors General for Audit (DAIGA) advise the Assistant Inspector General for Audit (AIGA) on the major risks facing the Postal Service in their program area and propose audits based on these risks and stakeholder concerns, as well as follow-up reviews of previously audited areas that had significant control weaknesses. The AIGA, DAIGAs, and directors maintain professional relationships and outreach with postal management to ensure open communication and full coverage of issues and challenges facing the Postal Service.

We are continuing to enhance our Performance and Results Information Systems (PARIS) models with data visualization techniques. We developed these models to identify operational and financial risks and enable Office of Audit (OA) staff to review postal functions nationwide while also identifying areas of emerging risk. This fundamentally changed the way the OIG examines and monitors risk. In the short time we have used the PARIS models, OA has completed significant risk-based work, resulting in millions of dollars of savings to the Postal Service. OA directorates are working closely with stakeholders, the OIG's Risk Analysis Research Center (RARC), and others to implement additional PARIS models. OA shares PARIS model results and underlying data with the Office of Investigations, the Board, Postal Service management, and other key stakeholders. Investigative staff found they could use the models to analyze trends and criminal investigations. Postal Service management uses PARIS information to help identify risks within their districts and areas. OA is working to make the results and data more readily available and visually appealing to all stakeholders.

MISSION AND ORGANIZATION

Mission

Conduct and supervise objective and independent audits and reviews of Postal Service programs and operations to:

- Prevent and detect fraud, waste, and misconduct;
- Promote economy, efficiency, and effectiveness;
- Promote program integrity; and
- Keep the Governors, Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.

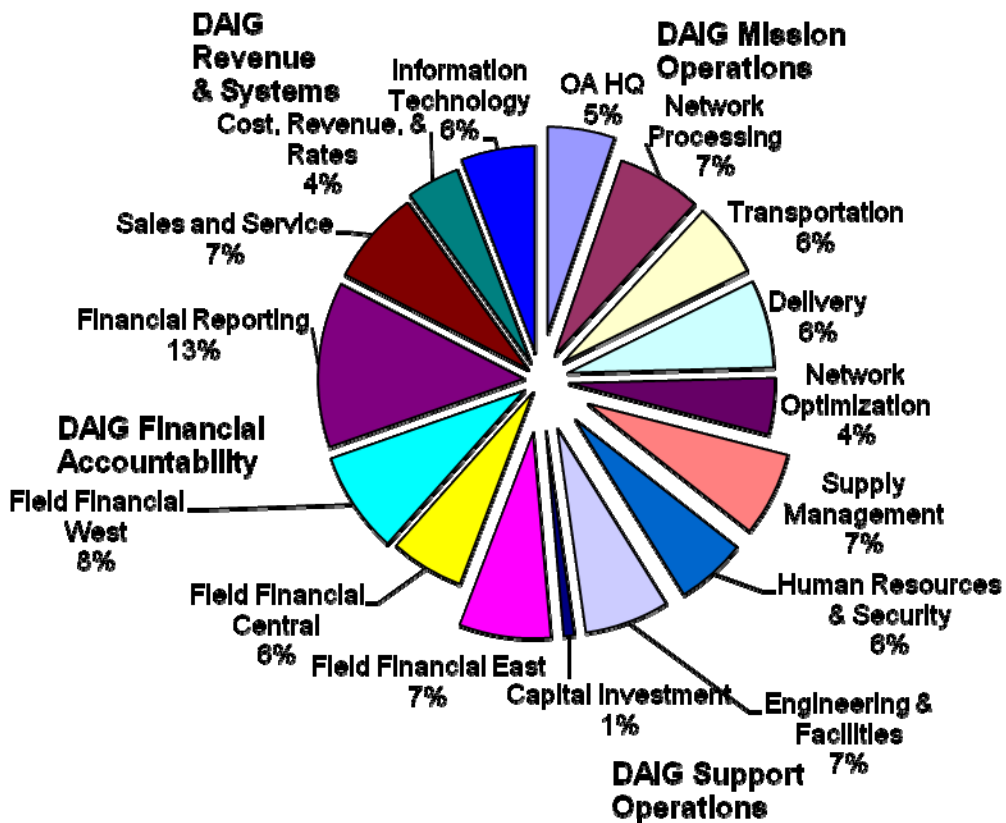
Organization

Under the leadership of the Inspector General, the AIGA is responsible for OA. DAIGAs report to the AIGA and oversee audit programs focused on Mission Operations, Support Operations, Financial Accountability, and Revenue and Systems. Generally, our audit resources are aligned with those of the Postal Service vice presidents and major functional areas, allowing us to focus our efforts where there is the greatest potential risk to Postal Service management and operations.

ALLOCATION OF RESOURCES BY AUDIT DIRECTORATE

OA has four major programs composed of 15 directorates and a headquarters staff. Percentages of our FY 2010 resources dedicated to these Postal Service functions are shown in Chart 1.

Chart 1: FY 2010 Allocation of OA Resources by Audit Areas



MANAGEMENT CHALLENGES FACING THE POSTAL SERVICE

We address the following management challenges facing the Postal Service:

- **Cost Control and Reduction of Energy Consumption** – The Postal Service must control costs and reduce energy use to maintain universal service. The Postal Service must compare contract analysis assumptions with actual performance to determine whether it should continue to outsource products and services or perform them internally.
- **Revenue, Brand Protection, and Growth** – The Postal Service must manage its pricing of products and services to ensure maximum revenue and provide greater value to its customers.
- **Labor and Management** – The Postal Service must ensure its compensation and benefit costs are effectively aligned in anticipation of further reductions in revenue. The Postal Service must analyze labor dispute settlements to assess whether there are recurring scenarios that could be avoided.
- **Preserving Integrity and Security** – The Postal Service must provide a secure infrastructure for the nation's mail system – despite threats of terrorism or natural disaster – to safeguard its resources (employees, facilities, and applications) and protect and maintain the integrity of its proprietary and customer data.
- **Strategic Direction and Infrastructure Challenges** – The Postal Service must increase its effectiveness and efficiency and ensure that products and services are self-sustaining while balancing legal considerations and stakeholder views.
- **Technology Improvements and Information Transparency** – The Postal Service must optimize its use of technology and provide information that better meets the needs of its managers and stakeholders.
- **Customer Service** – The Postal Service must balance its public service obligation with the need to remain commercially viable.
- **Regulatory Challenges** – The Postal Service must comply with legal and regulatory mandates.
- **Public Outreach** – The Postal Service must educate stakeholders and the public about the financial challenges it faces and the fact that it is funded by ratepayers not tax dollars.

RISK-BASED PLANNING PROCESS

Based on a formal risk assessment of the Postal Service, OA uses a risk-based planning process to identify audit opportunities. This approach helps us direct resources toward top priorities and critical areas for attention, based on the potential for adverse effects on the Postal Service. To that end, we group Postal Service issues and challenges into three overarching risk categories—Strategic, Financial, and Operational. We then articulate specific risk factors that confront the Postal Service within each category.

OA executives conduct the top-down strategic aspect of the process after obtaining pertinent information from Postal Service officials and OIG management. Once the risk categories and risk factors are identified and aligned, OA executives assess each factor by determining the likelihood it will occur and the impact on the Postal Service if it does occur. Each risk factor is rated Low, Medium, or High, and the ratings are captured in risk matrices for each category.

OA directors conduct the bottom-up tactical aspect of the process by identifying and prioritizing audit work based on the highest risk factors impacting their program area. They also coordinate their planning efforts to address cross-functional issues, where applicable. Further, where necessary, OA redeploys resources or reassigns work from one directorate to another to ensure it addresses the highest risk.

Using our risk-based planning process and risk deployment approach allows us to identify the most important bodies of work that need to be performed, and then position ourselves to do that work. This more agile approach enhances our value to the Postal Service.

The FY 2010 Audit Plan communicates our audit priorities to the Postal Service, the Board, Congress, and other interested parties. Our plan also includes mandatory audits that are required by statute. If significant and unexpected events occur during the year, OA will adjust the plan accordingly.

SELECT WORK BY RISK AREA

Strategic Risk

The Strategic Risk category includes big picture, long range issues that affect the Postal Service's overarching strategic direction. Strategic risk factors are those that may impede the Postal Service's ability to be effective and efficient or ensure that its products and services are self-sustaining and balance legal considerations and stakeholder views.

Some examples of big picture, long-range issues in the Strategic Risk category include:

- Network streamlining.
- Strategic vision for automation.
- Strategic workforce planning.
- Viability of the Postal Service business model.

Select Work Performed Under Strategic Risk in FY 2009

Audits and reviews we performed during FY 2009 included:

- *Benchmarking Postal Service Parcel Productivity* – We assessed the process the Postal Service used to drive productivity improvements by benchmarking with the U.S. private sector.
- *Retail Technology Strategy: Automated Postal Centers* – We identified the benefits of deploying Automated Postal Centers (APC) to non-Postal Service locations and assessed the Postal Service's plans for APC deployment to such locations.
- *Custodial Maintenance: Nationwide* - We assessed whether the Postal Service used its custodial maintenance resources in the most effective and efficient way and identified opportunities for the Postal Service to reduce cleaning costs nationwide.
- *Area Mail Processing Communications* – We reviewed the Postal Service's Area Mail Processing (AMP) communications process regarding potential consolidations and closures. We focused on communication with stakeholders and the impact of stakeholder interest on the AMP process and consolidation efforts.

Examples of Planned Work Under Strategic Risk in FY 2010

During FY 2010, we anticipate conducting work related to:

- *Cost Analysis of Delivery Types: Centralized, Curbside, Door-To-Door* – We will evaluate cost effectiveness and the viability of maintaining each postal mail delivery type.

- *Postal Service 6-Day Delivery* – We will evaluate viable alternatives to 6-day delivery to reduce Postal Service operating costs.
- *Rigid Work Rules* – We will determine how the Postal Service’s work rules affect its ability to optimally leverage human resources.
- *Network Distribution Centers Initiative* – We will assess the planning, execution, and impacts associated with phase 1 of the activation and identify key issues and risks.
- *Enterprise Architecture* – We will determine whether the enterprise architecture is leveraged sufficiently to optimize current and planned business processes and support strategic goals and objectives.

Financial Risk

The Financial Risk category pertains to the critical financial risk the Postal Service faces as it, like other companies, deals with the economic slowdown affecting the nation. Factors exacerbating financial risk include the crisis in the financial industry, increases in energy costs, significant declines in mail volumes, and mandated annual payments to pre-fund retiree health benefits. The anticipation of further declines in volume means the Postal Service still faces major challenges to cut costs and increase revenues.

Examples in the Financial Risk category include issues with a clear financial impact, such as:

- Employees on leave without pay, limited duty, workers’ compensation.
- Financial systems.
- Financial fraud.
- Pricing.

Select Work Performed Under Financial Risk in FY 2009

Work we performed during FY 2009 included:

- *Postal Service’s Relocation Policy* – We reviewed the Postal Service’s relocation policy and determined whether its relocation benefits were comparable to other federal and private sector companies.
- *Fiscal Year 2008 SmartPay® Purchase Card Program* – In support of the audit of the U.S. Postal Service’s financial statements, we reviewed and determined whether SmartPay purchase card transactions were supported and complied with Postal Service policies and procedures.
- *Financial Installation Audits-Business Mail Entry Units and Post Offices, Branches and Stations* – We established whether financial activities were reasonably and fairly represented in Postal Service accounting records. We also determined whether internal

controls were in place and effective.

- *Financial Reporting Information under the Postal Accountability and Enhancement Act of 2006* – We looked at whether the Postal Service, as required by the Postal Accountability and Enhancement Act of 2006, provided the appropriate amount and type of financial reporting information to its stakeholders.

Examples of Planned Work Under Financial Risk in FY 2010

In FY 2010, we plan to conduct work that addresses:

- *Postal Service Pricing* – We will assess the Postal Service's pricing structure.
- *PostalOne! Electronic Manifests* – We will evaluate controls over electronic manifests.
- *Sarbanes Oxley Work Mandated by the Postal Act of 2006* – We will assist external auditors in opining on management's assertion of internal controls over financial reporting at September 30, 2010.
- *Accuracy of Financial Control and Support Reviews* – We will determine whether the OIG agrees with the results of the Postal Service Financial Control and Support Group reviews of key financial reporting controls.

Operational Risk

The Operational Risk category focuses on issues related to daily postal operations. These risk factors potentially affect the Postal Service's ability to provide timely, reliable delivery and customer service across all access points. Operational risk factors pertain to the quality of postal services and the end-to-end service performance of all mail as well as the assurance that postal products and services meet customer expectations by being responsive, consistent, and easy to use.

Issues in the Operational Risk category are those related to daily postal operations, such as:

- Planning and monitoring work.
- Revenue operations.
- Contracting process.
- Security of the mail.
- Customer Service.

Select Work Performed Under Operational Risk in FY 2009

Work we performed in FY 2009 included:

- *Assessment of Overall Plant Efficiency* – We assessed the overall efficiency of the Postal Service’s processing and distribution network.
- *Fuel Management Consumption Strategies for Surface Network Operations* – We assessed the effectiveness of the Postal Service’s consumption strategy for reducing the use of fuel within surface network operations.
- *Postal Service Oversight of Extra Highway Transportation Contract Trips* – We determined how effectively management monitored and controlled costs of extra highway transportation trips.
- *Address Quality* – We evaluated Undeliverable as Addressed mail for the purpose of identifying primary contributors and causes.
- *Management of Delivery Point Sequencing - Nationwide* – We determined whether management had adequately implemented processes and key oversight controls to increase and sustain city delivery point sequencing percentages and reduce operating costs.
- *Intelligent Mail Barcode Project Planning and Application Development Life Cycle* – We analyzed the Postal Service’s plan to implement the Intelligent Mail Barcode Project, which management designed to help customers manage business processes, track cash flows, and maintain customer relationships.

Examples of Planned Work Under Operational Risk in FY 2010

Work we plan to do in FY 2010 includes:

- *Revenue Protection Strategic Report* – We will identify the causes of revenue leakage within the Postal Service and identify solutions for mitigating the risks.
- *Excess Space/Land* – We will determine how much space and land the Postal Service has versus how much they need.
- *Mail and Internet Voting* – We will determine whether sufficient controls are in place to address the mail and internet voting processes.
- *Review of Sunday Mail Processing Operations* – We will determine whether mail processing operations could be reduced or eliminated.

- *Data Leakage* – We will determine whether adequate controls exist to prevent disclosure of sensitive Postal Service customer and proprietary information.
- *Contract Management* – We will determine how effectively essential Postal Service contract data is tracked and maintained in contract files and automated information systems.