



# OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

## Fiscal Year 2014 Financial Testing Compliance Oversight Reviews

### Management Advisory Report

Report Number  
FT-MA-15-004

February 26, 2015





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***We determined the FTC group did not properly test or document the inquiry portion of its examination of 12 key financial reporting controls at seven units.***

### Background

The Postal Accountability and Enhancement Act of 2006 requires the U.S. Postal Service to comply with Section 404 of the Sarbanes-Oxley Act and report on the effectiveness of the agency's internal controls over financial reporting. The Financial Testing Compliance (FTC) group tests these financial controls at postal units.

This report addresses financial reporting control testing related to:

- Business mail entry units and detached mail units, where postal employees verify the eligibility of mail and charge the mailer's account;
- Plant verified drop shipments transported by mailers from their plants to postal facilities; and
- Business reply mail services that provide customers with a convenient, prepaid way to reply to mailings.

The overall objective of our review was to evaluate whether the FTC group properly tested, documented, and reported its examination of key financial reporting controls at selected postal facilities. We conducted this review in support of the independent public accounting (IPA) firm's overall opinions on the Postal Service's financial statements and internal controls over financial reporting.

### What The OIG Found

We observed the FTC group conduct 209 internal control tests at 99 of 721 randomly selected units. During the review, the FTC group reported eight exceptions and we agreed with those results. However, we determined the FTC group did not properly test or document the inquiry portion of its examination of 12 key financial reporting controls at seven units. Specifically:

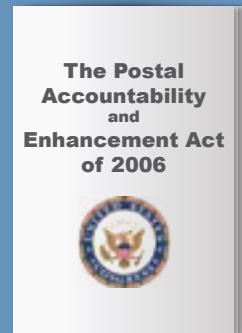
- During the inquiry portion of the examination, we did not observe analysts at five units obtain all responses related to key financial reporting control procedures performed at the units.
- An analyst at one unit did not accurately document results from the inquiry portion of the examination for the end-of-day reconciliation process.
- FTC management discarded and retested the same unit because a control performer did not provide correct responses during the inquiry portion of the examination.

### What The OIG Recommended

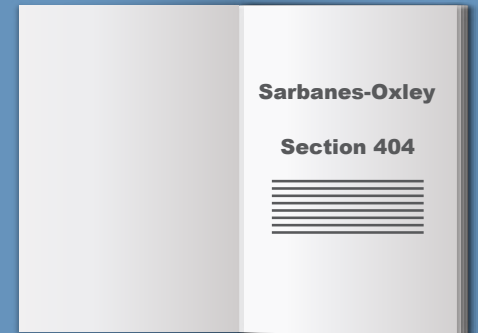
We discussed our results with management and the IPA firm throughout the fiscal year and issued interim reports. Based on discussions subsequent to the end of the fiscal year, FTC management established procedures to improve communication for future reviews. FTC management has already implemented improvements and will complete further improvements by February 2015; therefore, we are not making any recommendations.



## Fiscal Year 2014 Financial Testing Compliance Oversight Reviews - Background

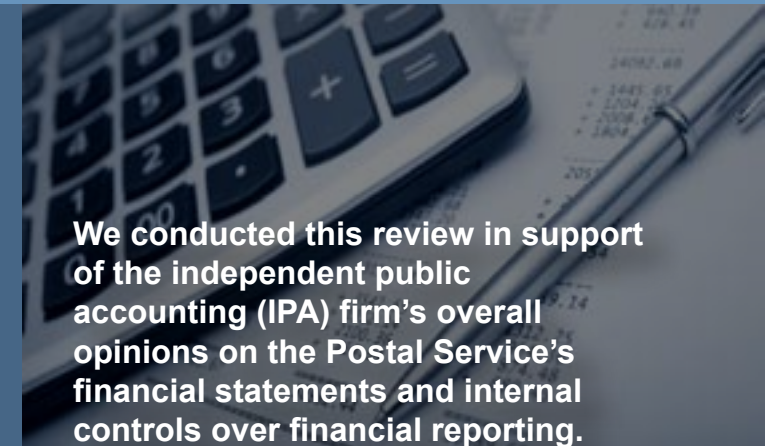


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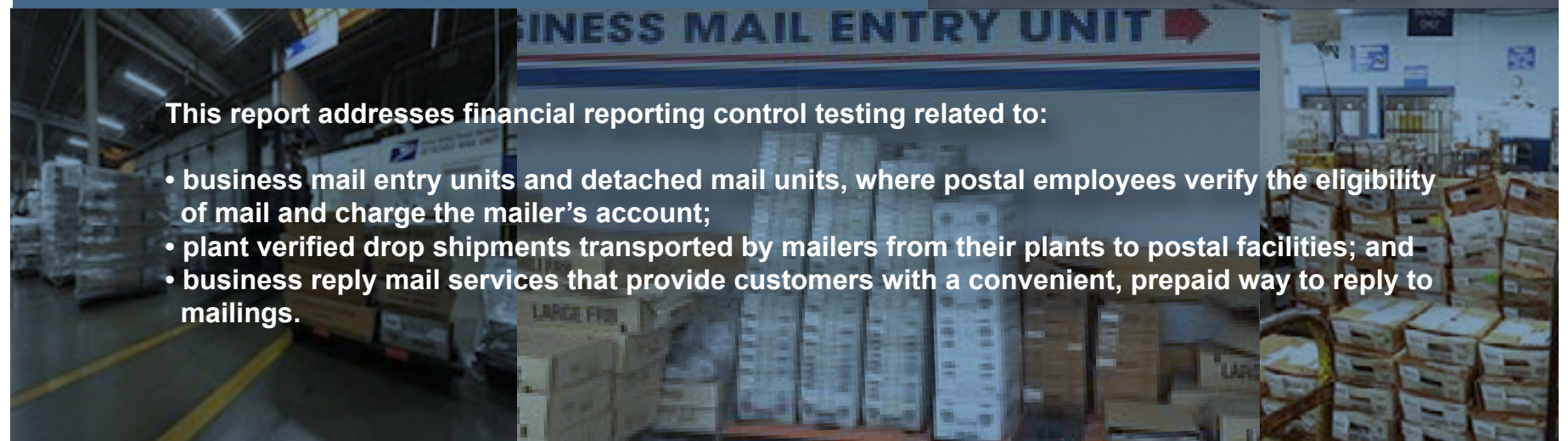


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- business reply mail services that provide customers with a convenient, prepaid way to reply to mailings.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

February 26, 2015

**MEMORANDUM FOR:** MAURA A. MCNERNEY  
VICE PRESIDENT, CONTROLLER

A rectangular box containing a handwritten signature in cursive, which appears to read "John E. Cihota".

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance and Supply Management

**SUBJECT:** Management Advisory Report – Fiscal Year 2014  
Financial Testing Compliance Oversight Reviews  
(Report Number FT-MA-15-004)

This report presents the overall results of our Fiscal Year 2014 Financial Testing Compliance Oversight Reviews for business mail entry units, staged and continuous detached mail units, business reply mail, and plant verified drop shipments (Project Number 14BR001FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance, or me at 703-248-2100.

Attachment

cc: Julie S. Moore  
Corporate Audit and Response Management

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# Findings

## Introduction

This report presents the overall results of Fiscal Year (FY) 2014 Financial Testing Compliance (FTC) Oversight Review for business mail entry units (BMEU) and detached mail units (DMU) operating in a staged environment (staged DMUs), DMUs operating in a continuous environment (continuous DMUs), business reply mail (BRM), and plant verified drop shipments (PVDS) (Project Number 14BR001FT000). Our overall objective was to evaluate whether the FTC group properly tested, documented, and reported its examination of key financial reporting controls.<sup>1</sup> See [Appendix A](#) for additional information about this audit.

The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006)<sup>2</sup> requires the U.S. Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX) and report on the effectiveness of Postal Service internal controls over financial reporting. The Postal Service Board of Governors contracted with an independent public accounting (IPA) firm to express an opinion on these controls. FTC testers conducted inquiries to assess whether persons performing key financial reporting controls maintain the necessary authority and competence to perform the control as designed. FTC testers also perform operational effectiveness testing on key financial reporting controls in the field through observation of control performers and inspection of relevant documentation<sup>3</sup> and communicate the results to stakeholders. These field level controls are a part of a suite of controls maintained as part of the Postal Service's system of internal control over financial reporting.

We conduct this oversight review to support the IPA firm's annual audit opinions on the Postal Service's financial statements and internal controls over financial reporting. Our review assists the IPA firm with reliance on management's testing and provides increased focus on the remediation of control failures. The oversight reviews cover controls at:

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

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<sup>1</sup> A key control is a control that, if it fails, means there is at least a reasonable likelihood that a material error in the financial statements would not be prevented or detected on a timely basis.

<sup>2</sup> Public Law 109-435, enacted December 20, 2006.

<sup>3</sup> Public Company Accounting Oversight Board (PCAOB) Audit Standard Number 5, Nature of Tests of Controls, states, "Some types of tests, by their nature, produce greater evidence of the effectiveness of controls than other tests. The following tests that the auditor might perform are presented in order of the evidence that they ordinarily would produce, from least to most inquiry, observation, inspection of relevant documentation, and re-performance of a control."

**This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.**

***We determined the group did not properly test or document the inquiry portion of its examination of 12 key financial reporting controls at seven units.***

***FTC management established procedures to improve communication for future reviews.***

## Conclusion

During FY 2014, we observed the FTC group conduct 209 key financial reporting control tests at 99<sup>4</sup> randomly selected units. Specifically, for FY 2014, we observed the FTC group conduct tests for:

- Eighty-eight controls at 24 BMEUs/staged DMUs.
- Sixty-five controls at 24 continuous DMUs.
- Thirty-two controls at 27 BRM units.
- Twenty-four controls at 24 PVDS locations.

During the review, the FTC group reported eight exceptions and we agreed with the results; however, we determined the group did not properly test or document the inquiry portion of its examination of 12 key financial reporting controls at seven units. See [Appendix B](#) for a summary of the FY 2014 oversight review exceptions. If FTC analysts do not properly test or document the examination of key financial reporting controls, there is an increased risk that control failures are not detected and reported.

We discussed our oversight results with management throughout the fiscal year and issued quarterly<sup>5</sup> interim reports.<sup>6</sup> We also discussed the results with the IPA during weekly meetings and provided quarterly capping spreadsheets. We reported the results of our review of the FTC group to the IPA for consideration in their final review and evaluation.

Based on discussions subsequent to the end of the fiscal year, FTC management established procedures to improve communication for future reviews. Specifically, after completing the inquiry phase of the test, FTC analysts will recap workbook questions and associated responses to reduce the risk of discrepancies during the inquiry portion of the test for U.S. Postal Service Office of Inspector General (OIG) personnel. This action is already in place for FY 2015. Also, in January 2015, applicable FTC, OIG, and IPA firm personnel met to discuss workbook questions and in and out of scope items to ensure understanding and will develop procedures for handling issues. Finally, in February 2015, FTC management will conduct a training session to further enhance learning and resolve issues to date. Therefore, we are not making any recommendations.

## Testing

FTC analysts did not follow written testing procedures at five<sup>7</sup> of 99 units we visited. Specifically, during the inquiry portion of the reviews, we did not observe FTC analysts obtain all responses related to key financial reporting control procedures performed at the units. However, FTC analysts included responses from the control performers<sup>8</sup> in the completed documentation posted to the BlueShare.<sup>9</sup> This documentation included responses to questions related to computer-generated information, BRM revenue, and

4 The FTC group conducted testing at 721 units in FY 2014.

5 The fiscal year consists of 4 monthly accounting periods that are based on calendar months: Q1 – October 1 through December 31, 2013; Q2 – January 1 through March 31, 2014; Q3 – April 1 through June 30, 2014; and Q4 – July 1 through September 30, 2014.

6 See [Appendix C](#) for reporting information.

7 (1) Morton Grove Post Office, Morton Grove, IL, BRM review conducted on April 23, 2014; (2) San Bernardino PVDS review, San Bernardino, CA, conducted May 20, 2014; (3) San Bernardino BMEU review, San Bernardino, CA, conducted May 21, 2014; (4) Boston PVDS review, Boston, MA, conducted on June 10, 2014; and (5) Executive Mailing Service DMU review, Palos Hills, IL, conducted on July 30, 2014.

8 Employees on the front lines of the business who use the processes and controls in their daily activities.

9 BlueShare sites are special private web pages created for different groups to use for task tracking, sharing documents, and collaborative team work. FTC maintains a suite of Blueshare folders containing working papers and other documentation relative to field testing activities.



***At one of the 99 units, the FTC analyst did not accurately document the examination results for the end-of-day reconciliation process.***

the retention period for drop shipment forms. At one unit,<sup>10</sup> the FTC analyst led a technician in providing a correct response after receiving several incorrect responses for one control.

FTC management did not agree with issues at four of five unit reviews, stating that completed documentation included responses for all questions. For the remaining unit review, FTC management agreed to update FY 2015 PVDS testing procedures.<sup>11</sup>

## Documentation

At one<sup>12</sup> of the 99 units, the FTC analyst did not accurately document the examination results for the end-of-day reconciliation process.<sup>13</sup> During the inquiry portion of the review, we observed the supervisor and three BMEU technicians inform the FTC analyst they were not aware the unit had assigned DMUs. However, the completed documentation posted to the BlueShare concluded the supervisor was aware the unit had three assigned DMUs. FTC management did not agree with this issue and stated that these details were not relevant to the control tested. While we agree the details did not impact the overall testing results, we maintain the completed documentation did not reflect the details of the inquiry portion of the review.

## Test Replacements

FTC management discarded and later re-tested the same unit<sup>14</sup> because a control performer was not able to provide correct responses during the inquiry portion of the review. During the review, local management replaced the control performer and the FTC analyst continued with the inquiry. FTC management agreed that if local management had not interfered with the review, a control failure could have occurred. We disagree with FTC management's decision to discard and later retest this unit since the control performer could not provide correct responses. We considered this a control failure.

<sup>10</sup> San Bernardino BMEU review, San Bernardino, CA conducted on May 21, 2014.

<sup>11</sup> See Appendix B, San Bernardino PVDS.

<sup>12</sup> Wichita Permit review, Wichita, KS, conducted on July 23, 2014.

<sup>13</sup> Employees perform a daily end-of-day reconciliation to ensure that all mail received at the unit has been processed. Specifically, employees verify the status of any mail present on the business mail work area against postage statements that have not been finalized and cleared.

<sup>14</sup> Grand Rapids Annex, Grand Rapids, MI, PVDS review conducted on July 25, 2014.



# Recommendations

We are not making any recommendations in this report.

## Management's Comments

Management disagreed with the emphasis on the reported results of the FTC reviews during the inquiry portion of the tests and asserted that the FTC properly tested, documented, and reported its examination of key financial reporting controls. They stated the OIG placed undue emphasis on the inquiry results and did not highlight that controls were evaluated to be operating effectively in all but one instance. They stated that PCAOB auditing standards state that inquiry is the least reliable form of evidence and have instructed analysts to consider a combination of inquiry, documentation, observation, and re-performance of the control. Finally, they provided extensive training to their analysts and believe the training provided to the OIG will help achieve better communication in the future.

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

## Evaluation of Management's Comments

We acknowledge management's comments regarding PCAOB standards and the inquiry portion of the tests; however, we do not opine on overall internal controls. Our review assists the IPA firm with reliance on management's testing and we continue to maintain that we must report exceptions at all portions of the tests to the IPA firm for consideration in its overall opinion. FTC management, the IPA firm, and the OIG have continued to work together to refine testing procedures and improve communications for further reviews.

# Appendices

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## Appendix A: Additional Information

***FTC testing methodology consists of three phases: inquiry, observation, and documentation review.***

### Background

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. In addition, the Postal Act of 2006 requires the Postal Service to comply with Section 404 of SOX, which was enacted in 2002<sup>15</sup> to strengthen public confidence in the accuracy and reliability of financial reporting. SOX requires management to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting; and to assess the effectiveness of such internal controls and procedures. It also requires the external auditor to attest to the effectiveness of the internal control structure and procedure for financial reporting.

Postal Service SOX Management Controls and Integration manages SOX efforts. Within that organization, the Postal Service established the FTC group to test key financial reporting controls at the field level. These tests help management assess the effectiveness of the internal control structure and procedures for financial reporting. The Postal Service also established the Financial Control and Support (FCS) group to oversee FTC's work. FTC analysts test the effectiveness of key financial reporting controls in the field for BMEU/Staged DMU, Continuous DMU, BRM, and PVDS units. In addition, FTC may re-test controls that previously failed and for which management has remediated.

FTC testing methodology consists of three phases: inquiry, observation, and documentation review. Specifically, FTC personnel conduct inquiries to assess whether persons performing key financial reporting controls maintain the necessary authority and competence to perform the control as designed. They also test key financial reporting controls through observation of the control performers and inspection of relevant documentation, and document the results in their work papers. When testing is completed analysts finish their work papers and submit them for three levels of management review. Within 30 days after the test is conducted, FTC management posts documentation to the BlueShare for OIG review.

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

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

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<sup>15</sup> Public Law 107-204, enacted July 30, 2002.

***The overall objective of our review was to evaluate whether the FTC group properly tested, documented, and reported its examination of key financial reporting controls.***

## Objective, Scope, and Methodology

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

To accomplish our objective, we observed the FTC group conduct key financial reporting control tests at 99 randomly selected units for BMEU/staged DMU and continuous DMU, BRM, and PVDS.<sup>16</sup> Our oversight reviews consisted of observing FTC analysts conduct the unit reviews of key financial reporting controls and reviewing completed documentation posted to the BlueShare.

We issued interim quarterly reports directly to Postal Service management to communicate the results of our reviews. See [Appendix C](#) for units and reporting information regarding 24 BMEUs/staged DMUs, 24 continuous DMUs, 27 BRM units, and 24 PVDS locations.

We conducted this review from December 2013 through February 2015, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on January 14, 2015, and included their comments where appropriate.

We did not use computer-generated data to conduct the oversight reviews; therefore, we did not assess the reliability of computer-generated data. For these reviews, we examined drop shipment forms completed by mailers or mailers' agents after the forms were signed and dated by Postal Service employees at DMUs and BMEUs, observed FTC analysts use PostalOne!<sup>17</sup> reports during testing, and verified the reliability of PostalOne! by comparing report data to the postage payments source documentation and to the BRM invoice. We determined that the data were sufficiently reliable for the purpose of this report.

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<sup>16</sup> The FTC group conducted testing at 721 units in FY 2014.

<sup>17</sup> An integrated electronic system that records mailing transactions, receives payments, and simplifies record keeping and the retrieval of mailing data. It is the foundation of seamless acceptance and the submission of electronic documentation for Intelligent Mail.



## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2013 Financial Testing Compliance Oversight Reviews</i>	<a href="#">FT-MA-14-005</a>	1/8/2014	None
<b>Report Results:</b> Our report determined that analysts properly tested, documented, and reported their examination of 237 key financial reporting controls. We did not identify any exceptions; therefore, we did not make any recommendations.			
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Business Mail Entry Unit/ Staged Detached Mail Unit Reviews</i>	<a href="#">FT-MA-13-006</a>	2/6/2013	None
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Continuous Detached Mail Unit Reviews</i>	<a href="#">FT-MA-13-007</a>	2/4/2013	None
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Plant Verified Drop Shipment Reviews</i>	<a href="#">FT-MA-13-005</a>	1/30/2013	None
<i>Fiscal Year 2012 Financial Testing Compliance Oversight Business Reply Mail Reviews</i>	<a href="#">FT-MA-13-004</a>	1/29/2013	None
<b>Report Results:</b> Our reports determined that FTC analysts properly tested, documented, and reported their examination of key financial reporting controls related to mail verification and acceptance at continuous DMUs and properly tested, documented, and reported its testing results of drop shipment acceptance and verification procedures. FTC analysts did not properly test, document, and report their examination of key SOX financial reporting controls for mail verification and acceptance at BMEU/staged DMUs or BRM. We provided our observations to the IPA firm and management throughout the year.			
<i>Fiscal Year 2011 Financial Testing Compliance Oversight Reviews</i>	<a href="#">FI-MA-12-003</a>	1/20/2012	None
<b>Report Results:</b> Our report determined that the FTC group made significant improvements in its testing of key financial reporting controls in FY 2011; however, opportunities existed to improve the quality of testing and documenting results. Specifically, the FTC group did not identify testing errors at four units, did not perform steps in accordance with its program in three unit reviews, and did not always agree with FTC unit results. We did not make any recommendations in the report but provided our observations to the IPA and management throughout the year.			

## Appendix B: Summary of FY 2014 Oversight Review Exceptions



Source: OIG analysis.

## Appendix C: Units and Reporting Information

BMEU/Staged DMU Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Time Customer Service DMU, Tampa, FL	FT-MA-14-006	4	0	March 3, 2014	1
Sacramento BMEU Systems, Sacramento, CA					
Saint Louis Presort, St. Louis, MO					
Omaha Printing Company, Omaha, NE					
Miami BMEU, Miami, FL					
Diamond Marketing DMU, Council Bluffs, IA	FT-MA-14-009	17	2 <sup>18</sup>	June 5, 2014	2

<sup>18</sup> Sacramento BMEU Systems, Sacramento, CA, BMEU review conducted on January 13, 2014; and Miami BMEU, Miami, FL, BMEU review conducted on March 17, 2014.

BMEU/Staged DMU Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Manasota BMEU, Sarasota, FL	FT-MA-14-010	50	1 <sup>21</sup>	September 18, 2014	3
Pittsburgh BMEU, Pittsburgh, PA					
Japs Olson DMU, Minneapolis, MN					
Salem BMEU, Salem, OR					
San Bernardino BMEU, San Bernardino, CA					
Pitney Bowes Presort DMU, Arlington, TX					
Madison BMEU, Madison, WI <sup>19</sup>					
Texas Mailhouse DMU, Austin, TX					
United Parcel Service Mail Innovations DMU, Windsor, CT					
Seattle BMEU, Seattle, WA					
Charlotte BMEU, Charlotte, NC <sup>20</sup>					
Democrat Printing & Lithographing Company DMU, Little Rock, AR					
Direct Mail Solutions DMU, Henrico, VA					

19 The FTC analyst did not follow testing procedures for Key Control 104CA184 – Mail Verification Procedures. The control was tested at an alternate unit.

20 The FTC analyst did not follow testing procedures for Key Control 104CA066 – End of Day Reconciliation. The control was tested at an alternate unit.

21 Pittsburgh BMEU, Pittsburgh, PA, BMEU review conducted on May 8, 2014.



BMEU/Staged DMU Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
North Texas BMEU, Coppell, TX	FT-MA-15-002	17	0	November 13, 2014	4
Corbin BMEU, Corbin, KY					
Hebron BMEU, Hebron, OH					
Wichita Permit, Wichita, KS					
Wheeling BMEU, Wheeling, WV					

Source: OIG analysis.

Continuous DMU Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Quad Graphics, Oklahoma City, OK	FT-MA-14-006	3	0	March 3, 2014	1
Quad Graphics, Sussex, WI (1/6/14)					
Quad Graphics, Sussex, WI (1/23/14)					
First Data Resources, Omaha, NE					
World Marketing Doraville, Quebecor World, Atlanta, GA					
DST-Output, El Dorado Hills, CA	FT-MA-14-009	28	1 <sup>22</sup>	June 5, 2014	2
Quad Graphics, Sussex, WI (2/13/14)					
Pacific Bell, West Sacramento, CA					
RR Donnelley, Strasburg, VA					
Quad Graphics, Chalfont, PA					

22 World Marketing Doraville, Quebecor World, Atlanta, GA, CDMU review conducted on February 5, 2014.

Continuous DMU Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Freedom Graphics Systems DMU, Milton, WI	FT-MA-14-010	18	0	September 18, 2014	3
United Business Mail DMU, Minneapolis, MN					
RR Donnelley Catalog Group DMU, Maple Grove, MN					
PSI DMU, Brisbane, CA					
Automated Presort USA DMU, Downers Grove, IL					
Quad Graphics DMU, Lomira, WI					
CIGNA DMU, Easton, PA					
CSG Systems Inc. DMU, Crawfordville, FL					
Quad Graphics DMU, Oklahoma City, OK	FT-MA-15-002	16	0	November 13, 2014	4
Quad Graphics DMU, Sussex, WI					
RR Donnelley Press DMU, Mattoon, IL					
Executive Mailing Service DMU, Palos Hills, IL					
RR Donnelley Press, Long Prairie, MN					
RR Donnelley, Bolingbrook, IL					
Source: OIG					

BRM Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Kettering Branch, Dayton, OH	FT-MA-14-006	1	0	March 3, 2014	1
College Station Post Office, College Station, TX					
Weston Branch, Weston, FL					
Champlain Post Office, Champlain, NY					
Tampa Main Office Window Unit Postal Store, Tampa, FL					
Phoenix Northeast Station, Phoenix, AZ	FT-MA-14-009	11	0	June 5, 2014	2
Naples Main Post Office, Naples, FL					
Providence Post Office, Providence, RI					
Parsippany Post Office, Parsippany, NJ					
Green Bay Main Office Window Unit, Green Bay, WI					



BRM Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Dallas Oaklawn Station, Dallas, TX	FT-MA-14-010	11	0	September 18,2014	3
Boone Post Office, Boone, IA					
Augusta Main Office Station, Augusta, GA					
Morton Grove Post Office, Morton Grove, IL					
Harrisburg Main Office Window, Harrisburg, PA					
Dallas Brookhollow Station, Dallas, TX					
Washington BMEU Postage Due, Washington D.C.					
Fort Worth General Mail Facility Window, Jack D. Watson, Fort Worth, TX					
San Antonio General Mail Facility, San Antonio, TX					
Lansing Main Office Windows, Lansing, MI					
Big Sandy Main Office, Big Sandy, TX					

BRM Oversight Reviews					
Units Visited	Report Number	Number of Controls Observed	Number of FTC Exceptions	Report Date	Postal Quarter
Hopkins Post Office, Hopkins, MN	FT-MA-15-002	9	2 <sup>23</sup>	November 13, 2014	4
Mattoon Post Office, Mattoon, IL					
Normandale Post Office, Minneapolis, MN					
Washington BMEU Postage Due Unit, Washington, D.C.					
Minneapolis Post Office, Minneapolis, MN					
Harlan Post Office, Harlan, IA					

Source: OIG

<sup>23</sup> Washington BMEU Postage Due Unit, Washington, D.C., BRM review conducted on August 5, 2014; and Mattoon Post Office, Mattoon, IL, BRM review conducted July 23, 2014.

**Plant Verified Drop Shipment Oversight Reviews**

<b>Units Visited</b>	<b>Report Number</b>	<b>Number of Controls Observed</b>	<b>Number of FTC Exceptions</b>	<b>Report Date</b>	<b>Postal Quarter</b>
Jacksonville Processing & Distribution Center (P&DC), Jacksonville, FL	FT-MA-14-006	1	0	March 3, 2014	1
Las Vegas P&DC, Las Vegas, NV	FT-MA-14-009	8	0	June 5, 2014	2
Fort Worth P&DC, Fort Worth, TX					
Fort Myers P&DC, Fort Myers, FL					
Melville P&DC, Melville, NY					
South Florida Logistics & Distribution Center (L&DC), Opa Locka, FL					
Rochester L&DC, Rochester, NY					
Brockton P&DC, Brockton, MA					
North Texas P&DC, Coppell, TX					

**Plant Verified Drop Shipment Oversight Reviews**

<b>Units Visited</b>	<b>Report Number</b>	<b>Number of Controls Observed</b>	<b>Number of FTC Exceptions</b>	<b>Report Date</b>	<b>Postal Quarter</b>
Oshkosh Processing and Distribution Facility, Oshkosh, WI	FT-MA-14-010	12	2 <sup>24</sup>	September 18, 2014	3
Saint Paul P&DC, Eagan, MN					
Indianapolis Mailing Processing Annex, Indianapolis, IN					
Milwaukee P&DC, Milwaukee, WI					
Rocky Mount P&DC, Rocky Mount, NC					
Des Moines Network Distribution Center, Des Moines, IA					
Pittsburgh P&DC, Pittsburgh, PA					
Lehigh Valley P&DC, Lehigh, PA					
San Bernardino P&DC, San Bernardino, CA					
Oakland P&DC, Oakland, CA					
Boston P&DC, Boston, MA	FT-MA-15-002	3	0	November 13, 2014	4
Little Rock P&DC, Little Rock, AR					
Grand Rapids Annex, Grand Rapids, MI					
Tallahassee P&DC, Tallahassee, FL					
Baltimore P&DC, Baltimore, MD					

Source: OIG

<sup>24</sup> Rocky Mount P&DC, Rocky Mount, NC, PVDS review conducted on April 25, 2014; and Pittsburgh P&DC, Pittsburgh, PA, PVDS review conducted on May 7, 2014.

## Appendix D: Management's Comments

MAURA A. MCNERNEY  
VICE PRESIDENT, CONTROLLER



February 3, 2015

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report – Fiscal Year 2014 Financial  
Testing Compliance Oversight Reviews (Report Number FT-AR-15-  
DRAFT)

Management appreciates the cooperation and courtesies provided by your staff. However, we respectfully disagree with the emphasis placed on the reported results of Financial Testing Compliance (FTC) reviews during the inquiry portion of the tests.

We have provided extensive training to our analysts following the guidance outlined in Public Company Accounting Oversight Board (PCAOB) Auditing Standard (AS) 5:

"45. Procedures the auditor performs to test operating effectiveness include a mix of inquiry of appropriate personnel, observation of the company's operations, inspection of relevant documentation, and re-performance of the control."

"50. The following tests that the auditor might perform are presented in order of the evidence that they ordinarily would produce, from least to most: inquiry, observation, inspection of relevant documentation, and re-performance of a control. Note: Inquiry alone does not provide sufficient evidence to support a conclusion about the effectiveness of a control."

The OIG report states "FTC analysts did not follow written testing procedures at five of 99 units we visited. Specifically, during the inquiry portion of the reviews, we did not observe FTC analysts obtain all responses related to key financial reporting control procedures at the units."

As indicated above, conclusions are reached through inquiry, observation, inspection of relevant documentation, and re-performance of a control. Inquiry is the least reliable which is why we have instructed our analysts not to ask every question during inquiry but to take into account a combination of inquiry, observation, documentation and re-performance of the control.

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Repeated statements that FTC did not test and properly document throughout the report place undue emphasis on the results on inquiry only and do not highlight the fact that the controls were evaluated to be operating effectively in all but one instance.

In the case of Grand Rapids, the FTC analyst encountered a situation where management replaced a control performer during the test. This situation was unprecedented in FTC history and management opted to discard the test and retest the same site at a later time. After further evaluation, we have decided that should a similar circumstance occur in the future, an exception will be declared. This was a judgment call by FTC management at the time, not a failure to test properly.

In conclusion, based on all the above as well as other guidance in PCAOB AS 5, management asserts that FTC properly tested, documented, and reported its examination of key financial reporting controls.

We thank you for the opportunity to document our concerns and look forward to better communication in the future. We believe the training provided to OIG personnel by SOX management will go a long way toward achieving that goal.



Maura A. McNerney

cc: Manager, Corporate Audit and Response





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