

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



**OFFICE OF AUDIT  
FY 2012 AUDIT PLAN**

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## Mission and Organization

### Mission

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

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

### Organization

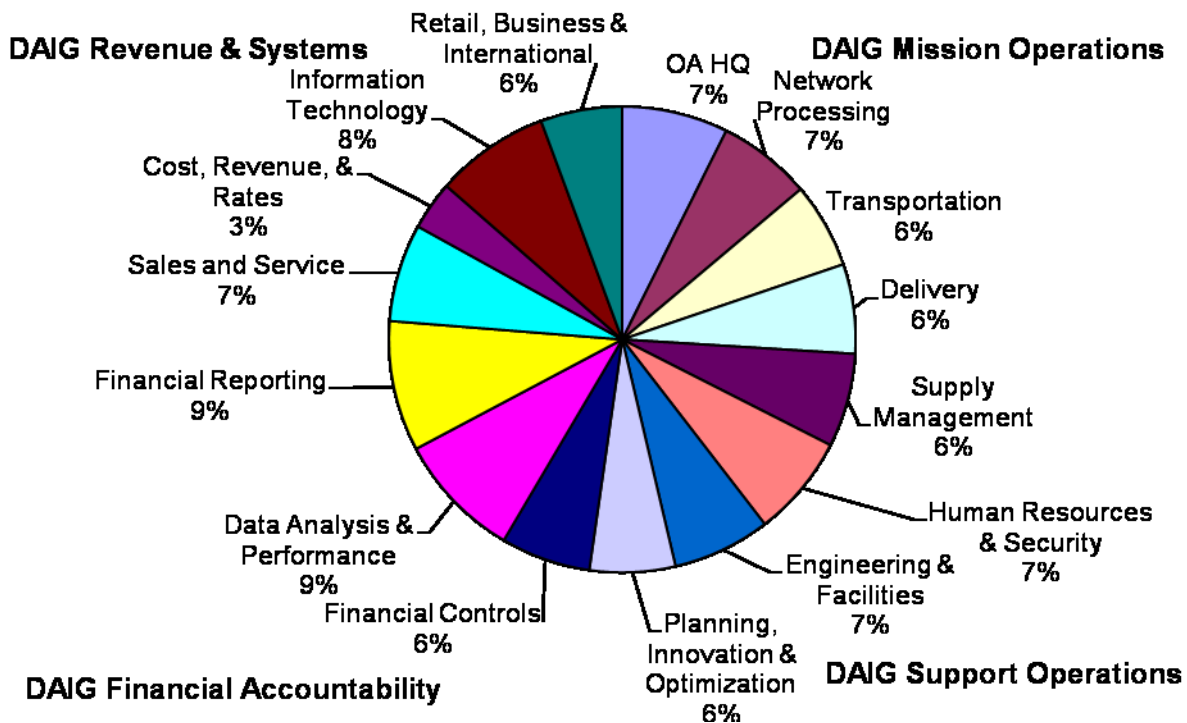
#### *Office of Audit*

Under the leadership of the Inspector General (IG), the Assistant Inspector General for Audit (AIGA) is responsible for the Office of Audit (OA). Four Deputy Assistant Inspectors General for Audit (DAIGA) 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 14 directorates and a headquarters staff. Percentages of our fiscal year (FY) 2012 resources dedicated to these Postal Service functions are shown in the following chart:

**FY 2012 Allocation of OA Resources by Audit Area**



## 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. The results of our work are presented in published reports and *Semiannual Reports to Congress*. We also provide advice throughout the year to the Board, particularly the Audit and Finance Committee, and we attend key Postal Service committee meetings as non-voting members, such as the Capital Investments Committee. Our audits and reviews are performed in compliance with the standards published by the comptroller general of the U.S., the American Institute of Certified Public Accountants, and the Council of the Inspectors General on Integrity and Efficiency.

The FY 2012 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.

The AIGA, DAIGAs, and directors also maintain professional relationships and outreach with Postal Service executives and other stakeholders to ensure open communication and full coverage of issues and challenges facing the Postal Service.

## Value Propositions

For FY 2012, we reintroduced the value proposition concept. To that end, we asked various Postal Service vice presidents what we could work on that would add the greatest value—something that they are challenged with that we may be able to size or identify solutions to, in partnership.

Examples of value propositions we will be working on include the following:

- **Status Report on Plant Infrastructure:** We will evaluate the Postal Service's progress in right-sizing the mail processing infrastructure and assess impacts on customers, employees and service.
- **Delivery Unit Optimization:** We will assess the effectiveness of delivery unit optimization efforts nationwide for potential savings and efficiencies in implementation.
- **Data Center Consolidation:** This project will focus on identifying redundant processes or underutilized computing capacity to determine whether cost saving opportunities exist by consolidating two or more Postal Service data centers. The Office of Management and Budget published a 25-point plan to reform federal information technology management that includes a goal to consolidate at least 800 federal data centers by 2015 and create a government-wide marketplace for data center availability. We will explore the Postal Service's future role in this initiative, as well as opportunities to achieve cost savings and increased operating efficiency.
- **Efficiency at the Los Angeles International Service Center (ISC) and Cleveland Plant:** We will assess operational efficiency at the Los Angeles ISC and the Cleveland Processing and Distribution Center.
- **Improving the Customer Experience:** We will evaluate the Postal Service's methods for utilizing customer feedback and improving public perception of the Postal Service.
- **Excess Land Holdings:** This audit focuses primarily on solutions for excess parking space and land, and will estimate the extent and value of excess exterior space nationwide.

## **Risk-Based Planning Process**

Our FY 2012 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.

Using our overarching risk assessment process, we prioritized audit projects that address risk factors in strategic, financial, and operational areas. Specifically, the DAIGAs advise the 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 on previously audited areas with significant control weaknesses. 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. 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. In conducting this assessment, we include trending analysis of our risk model data (discussed in the next section) to evaluate associated risk. Each risk factor is rated Low, Medium, or High, and the ratings are captured in risk matrices for each category.

OA directors and team members 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 areas.

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.

## Risk Models

We continue to enhance our Performance and Results Information Systems (PARIS) models with data visualization techniques. These models identify operational and financial risks, and enable OA staff to conduct reviews of Postal Service functions on a nationwide basis, while also identifying areas of emerging risk — fundamentally changing the way the OIG examines and monitors risk.

We present quarterly summary results and trend analyses of these risk models to key Postal Service executives and stakeholders. In addition to an enterprise-wide risk model, we have the following 16 risk models: Network and Delivery Optimization, City Delivery Efficiency, Maintenance, Real Estate, Green, Surface Transportation, Air Transportation, Cost and Controls, Bank Secrecy Act, Human Capital Optimization, Workplace Environment, Revenue Generation and Assurance, Retail Customer Service, Supplier Solvency, Cost Revenue and Rates, and Security. We continue to build new risk models, such as: Mail Processing Machines, Plant and Retail Infrastructure, and Security.

These models:

- Rank districts by risk indicators.
- Provide diagnostics on districts with potential issues/best practices to guide audit visits.
- Allow for continuous auditing of functional areas and promptly addressing of emerging issues.
- Identify systemic issues and trends.

We regularly evaluate ways to maximize the data we gather for these models, and work with our data miners to identify additional continuous auditing applications. In addition, Postal Service management uses PARIS information to help address risks within their districts.



## Select Audit 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.

#### **Select Audit Work Performed in FY 2011**

- ***Global Positioning System (GPS):*** Various opportunities exist to enhance the use of GPS at the Postal Service. GPS technology has been implemented on only 3 percent of delivery vehicles and not on any of the trucks that transport mail. the Postal Service could develop an end-to-end, single-sourced GPS platform and back-office accountability for the entire fleet of vehicles and trucks with a focus on taking costs out of the delivery and transportation system.
- ***Modes of Delivery:*** The Postal Service has converted and assigned some delivery points to more efficient delivery modes; however, much more could be done to minimize costs nationwide. The Postal Service should develop a comprehensive strategic plan to aggressively move from existing door-to-door delivery to curbside delivery, which could save more than \$4.5 billion a year. Future strategies should also evaluate savings opportunities associated with conversion of curbside to centralized delivery — which could save the Postal Service an additional \$5.1 billion — and mandate centralized delivery for new delivery points.
- ***Innovation Process for Competitive and Market-Dominant Products:*** We determined that management should increase its efforts to support a culture of innovation that would support advancements within current statutory authority. This includes a comprehensive innovation strategy and a more disciplined process for the development and implementation of market-based initiatives
- ***Market Intelligence:*** We determined that the Postal Service could benefit from a stronger integrated market intelligence strategy that incorporates best practices used by leading companies to target new and existing customers and make more informed business decisions.
- ***Intelligent Mail:*** We identified barriers to mailer participation in the full service Intelligent Mail program and highlighted challenges for using barcode scans to automatically confirm revenue on postage statements.

## **Examples of Work Planned for FY 2012**

- ***Postal Service Revenue Potential with Government Mail:*** Our audit will focus on identifying opportunities for increasing government agencies' use of the Postal Service mailing and shipping services.
- ***Process for Changing Policy When Changes Occur in the Postal Service:*** We plan to review the efficiency of the overall Postal Service process to update policies as a result of changes in Postal Service operations or significant management decisions.
- ***Revenue Generation and Protection in Retail, Business, and International Areas:*** In a series of reviews which focus on First-Class Mail® (FCM), our objectives are to identify opportunities for increasing FCM volume and assess controls for safeguarding FCM revenues.
- ***Postal Service Advertising/Use of Creative Mailpieces to Promote Volume Growth:*** Our audit will evaluate the incentives the Postal Service offers advertisers and their effectiveness in achieving desired results.
- ***Maximizing Use of Data in Managing Operations:*** With the new strategic initiatives and the Postal Service's precarious financial condition, we plan to launch a comprehensive review (through all functional areas within the Postal Service) of the data currently available to Postal Service managers.
- ***Traversing the Digital Divide – Strategy Implementation:*** This will be the third report in a series on the role of the Postal Service in the digital age, and will address the legal and organizational changes needed for a successful implementation of the strategy previously laid out.
- ***Revisiting the Cost Performance Index (CPI) -Only Price Cap Formula:*** This report will explore expanding the current Postal Accountability and Enhancement Act CPI-only price cap to incorporate productivity, recurring unfunded cost burdens, and one-time cost adjustment factors as normally done in other regulated industries.
- ***Alaska Bypass and its Cost to the Postal Service:*** The Postal Service carries pallets of goods via air to remote Alaskan towns and villages at Parcel Post rates. This report will examine the related public policy issues and its cost to the Postal Service.

## 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.

### Select Audit Work Performed in FY 2011

- **Periodicals Mail Costs:** We found that manual costs attributed to Periodicals continue to rise.
- **FY 2010 Selected Information Technology General Controls:** Infrastructure level internal controls in the areas we tested were properly designed and operating effectively. However, by strengthening controls over database and server security settings, the Postal Service can reduce the risk of a compromise that could negatively affect the confidentiality, integrity, and availability of information resources and data.
- **Substantial Savings Available by Prefunding Pensions and Retirees' Health Care at Benchmarked Levels:** We identified and benchmarked prefunding levels of public and private sector entities for both pensions and retiree health benefits and determined that substantial cost saving opportunities existed for the Postal Service.
- **Leveraging Assets to Address Financial Obligations:** We presented the results of our review to determine whether an opportunity exists for the Postal Service to leverage the substantial wealth it holds in assets (building and land) to address its annual mandatory funding obligations.
- **Postal Service Work Rules and Compensation Systems:** Our audit determined that certain contract provisions and compensation arrangements limit the Postal Service's ability to manage its human resources effectively and efficiently and that limits on the use of part-time employees reduce workforce flexibility and increase workhours.

### Examples of Audit Work Planned for FY 2012

- **Financial Statements/Sarbanes-Oxley:** We will assist external auditors in opining on management's assertion of internal controls over financial reporting at September 30, 2012.
- **IT Security/Vulnerability Audit:** We will conduct several audits in the IT security area, and will also issue a report on the overall state of Postal Service IT security.
- **Impacts of Limited/Light Duty:** The objective of this audit is to determine how the Postal Service can best use its limited duty and rehabilitation employees.

- **Accounting Procedures for Post Office Closures:** We intend to review whether the Postal Service is properly accounting for revenue, expenses, assets and inventory when closing a unit. We want to review existing guidance and the associated process to determine whether it is sufficient; analyze data to determine if expenses were valid; and ensure property/items are properly accounted for.
- **Insurance Claims:** We plan to review the insurance claim program to evaluate whether the controls over processing these claims can be strengthened. Based on discussions with Postal Service management, there has been a significant rise in claims filed from certain ZIP Codes™ and suggested there may be some issues at those sites, including incorrect processing of claims by employees.
- **Field Sales Branch:** We plan to review the effectiveness of the support provided by the Field Sales Branch (at the St. Louis ASC) to postal retail units.
- **Controls over Meters:** In response to a hotline request, we intend to review whether controls over meter activity, specifically processing of meter refunds, are effective.

## 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.

### **Select Audit Work Performed in FY 2011**

- ***Evaluation of Major Transportation Technology Initiatives:*** We assessed the planning, implementation, functionality, and results of four transportation technology initiatives. Although the Postal Service expensed more than \$300 million on these initiatives, none of them achieved all of their intended results.
- ***Assessment of Overall Processing Plant Efficiency:*** The Postal Service made substantial progress by reducing workhours in the network from the previous year. Plants that were the least productive in FY 2009 reduced over 13.3 million workhours and improved productivity by over 9.3 percent. However, we found the Postal Service had not yet fully adjusted workhours in response to declining mail volume because of poor economic conditions nor achieved all possible efficiencies in mail processing operations.
- ***National Assessment of City Delivery Efficiency 2011 – Office Performance:*** In fiscal year 2010, the U.S. Postal Service made substantial progress by reducing 14.7 million carrier workhours from city delivery operations from the previous year. Moreover, during the same period, the Postal Service maintained or improved delivery service. However, 21 districts used more minutes per route than the average carrier route in the nation. If Postal Service least productive districts were brought up to the average productivity level, they could save more than \$88 million in 1 year.
- ***Postal Service Performance During the 2010 Fall Mailing Season:*** During the 2010 Fall Mailing Season, the Postal Service had more than 3.4 billion delayed mailpieces, a 37-percent increase compared to the same period last year. This adversely impacted service and resulted in approximately \$10.9 million in revenue at risk.
- ***Management of the Highway Contract Route (HCR) Voyager Card Program:*** The Postal Service could more effectively manage and control its HCR Voyager Card Program. We found the Postal Service did not always ensure that HCR suppliers purchased only authorized grades of fuel or remained within the contract limitations on number of fuel gallons purchased. These conditions occurred because the Postal Service did not always follow Fuel Management Program (FMP) requirements.
- ***Workshare Discounts Exceeding Avoided Costs:*** We found that justifications for 19 workshare discounts that exceed avoided costs by about \$104 million were not supported by detailed documentation. Additionally, although the educational, cultural, scientific ,or

informational exception justifies discounts that exceed avoided costs, the Postal Service did not support the reasonableness of these discounts.

- ***Nationwide Facility Optimization:*** We conducted work related to facility optimization nationwide. We estimated that at least 24 percent of Postal Service interior space is not being used effectively.
- ***Contract Management Data:*** Postal Service officials did not adequately collect and maintain contract data in the Contract Authoring Management System and should improve procedures for validating contract data and create policies and processes to ensure data integrity; data integrity issues are projected to total over \$4.5 billion for contracting actions occurring in FYs 2008 and 2009.

### **Examples of Audit Work Planned for FY 2012**

- ***Efficiency of the Processing and Distribution Network:*** We plan to assess the overall efficiency of the processing and distribution network for FY 2011.
- ***Biohazard Detection System (BDS) Follow-up:*** This audit is focused on whether the Postal Service can further align the costs of BDS with a reduced threat level.
- ***Acquisition Process – Solicitation, Pricing and Proposal Analysis:*** We will assess the contract solicitation process and evaluate how Postal Service contracting officers perform cost and pricing data analysis of contractors' proposals before award or renewal.
- ***City Delivery Street Efficiency:*** We will assess the carrier workhour to workload ratio.
- ***Cloud Computing:*** This project will focus on identifying potential cost saving opportunities associated with out-sourcing computing support for cloud services from a cloud provider.
- ***FedEx Minimum Volumes:*** We will determine what opportunities exist to increase flexibility of FedEx contract minimums based on mail volume fluctuations and declines.
- ***Network Distribution Center (NDC) – Transportation Realignments:*** We will look at the service impacts of NDCs and whether this realignment was efficient and economical.
- ***Use of Scan Data:*** This audit will assess why scanning rates are low, and offer solutions for improvement. It will also look at technologies (such as mobile vs. stationary devices, GPS, Radio Frequency Identification) and opportunities to upgrade systems, and examine passive scans rather than active (human-performed) scans.

## Appendix A: Management Challenges Facing the Postal Service

Our audit work is focused on addressing the following management challenges facing the Postal Service:

**Strategic Direction and Infrastructure Challenges** – The Postal Service must address its critical financial challenge while 1) increasing the effectiveness and efficiency of its delivery, retail, and operations network; 2) ensuring that products and services are self-sustaining; and 3) balancing legal considerations and stakeholder views.

**Labor and Management** – The Postal Service must ensure its labor force and compensation and benefit costs are effectively aligned in anticipation of further reductions in revenue. The Postal Service should strengthen the competencies of its labor force in anticipation of workforce reductions, particularly of those with extensive experience and knowledge. The Postal Service must analyze labor dispute settlements to assess whether there are recurring scenarios that could be avoided.

**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.

**Customer Service** – The Postal Service must balance its public service obligation with the need to remain commercially viable.

**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.

**Technology Improvements and Information Transparency** – The Postal Service must optimize its use of technology, increasing efficiencies while also increasing the use of automation, and provide information that better meets the needs of its managers and stakeholders.

**Public Outreach/Regulatory Challenges** – The Postal Service must continue to educate stakeholders and the public about the financial challenges it faces and its legal and regulatory mandates.