



December 14, 2007

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SUBJECT: Management Advisory – Internal Controls over the Revenue, Pieces,  
and Weight Adjustment System (Report Number CRR-MA-08-001)

This report presents the results of our self-initiated review of the Revenue, Pieces, and Weight Adjustment (ARPW) system (Project Number 07RZ001MS000). The objective of our review was to assess the effectiveness of ARPW system internal controls. The Postal Accountability and Enhancement Act (Public Law 109-435) requires the U.S. Postal Service Office of Inspector General (OIG) to regularly audit the data collection systems and procedures the U.S. Postal Service uses to prepare its reports analyzing costs, revenues, rates, and quality of service for the Postal Regulatory Commission.

### **Background**

The Postal Service uses the ARPW system to develop official revenue, pieces, and weight (RPW) data by mail class, subclass, and rate class for each calendar month, quarter, and fiscal year. RPW data extracted from various Postal Service data sources are adjusted as necessary, summarized, and then presented in various monthly, quarterly, and annual reports. Annual reports prepared using ARPW system outputs include the RPW Report, the Cost Revenue Analysis (CRA) Report, and the Postal Service's Annual Report.

The ARPW system resides on a mainframe computer at the San Mateo Information Systems Service Center. The Revenue and Volume Reporting section within Statistical

Programs manages the system and maintains the SAS<sup>1</sup> software and Microsoft Excel spreadsheet applications used to extract, summarize, and report RPW data.

The primary data sources for the ARPW system include:

- Estimated RPW data from the Origin-Destination Information System and Revenue, Pieces, and Weight (ODIS-RPW). ODIS-RPW is a probability sampling system that estimates Postal Service RPW for mail categories where census data is not available from another Postal Service system.
- Census bulk RPW data from the PostalOne! system combined with sample data from non-PostalOne! offices. (The Bulk Mail Revenue, Pieces and Weight [BRPW] system prepares this data for ARPW).
- Census Point-of-Service (POS) data for Registered Mail™, Collect on Delivery, Insured Mail, and Certified Mail™ transactions and their associated parent mailpieces and tertiary services.
- Estimated international RPW data from the System for International Revenue and Volume-Outbound (SIRV/O) which has been tied to census data from international operations systems.
- Trial balance accounting revenue from the General Ledger System.

Employees manually input some RPW data into the ARPW system model, such as Money Order transactions; and Express Mail®, International Priority Airmail, and International Surface Airlift RPW data.

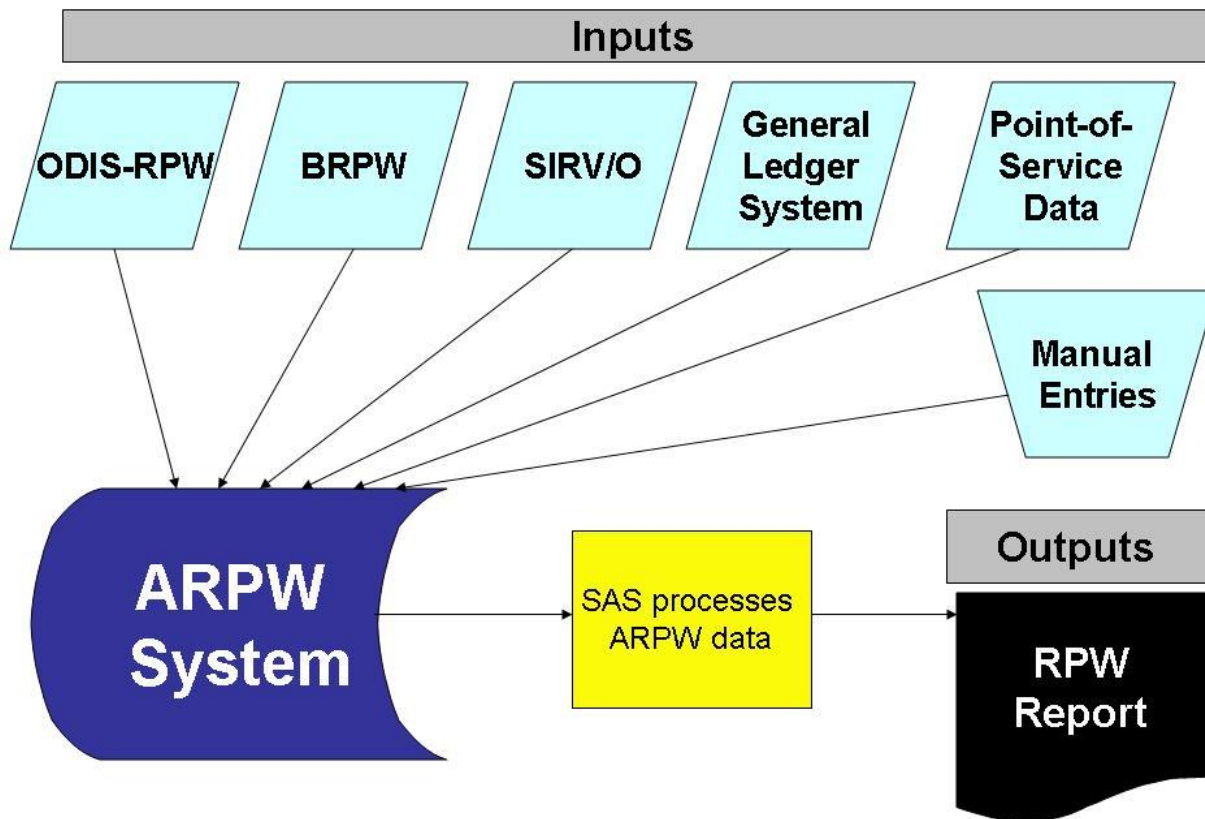
After RPW data is extracted from the various data sources, the total estimated revenue from ODIS-RPW is compared and scaled to residual Postal Service accounting revenue from the General Ledger System.<sup>2</sup> Finally, official RPW data are downloaded and imported into Microsoft Excel presentation spreadsheets. The Postal Service uses these spreadsheets to produce publication quality RPW reports. These reports are in turn used to produce the CRA Report and the Annual Report. Figure 1 displays the ARPW system.

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<sup>1</sup> SAS once stood for "statistical analysis software" but is no longer an acronym.

<sup>2</sup> This process is known as Book Revenue Adjustment. For more details on the Book Revenue Adjustment process and ARPW, see Postal Service library reference USPS-LR-L-20, *Revenue, Pieces, and Weight Adjustment System (ARPW) – Documentation and Source Code*, filed May 3, 2006, in Postal Regulatory Commission Docket No. R2006-1, *Postal Rate and Fee Changes, 2006*. The library reference is available online at the Postal Regulatory Commission Website at [www.prc.gov](http://www.prc.gov).

Figure 1: ARPW System



### Objective, Scope, and Methodology

Our objective was to assess the effectiveness of ARPW system internal controls. We conducted this review from March through December 2007 in accordance with the President's Council on Integrity and Efficiency *Quality Standards for Inspections*. We used the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) internal control framework<sup>3</sup> to assess the effectiveness of internal controls. Under the COSO framework, five interrelated components of internal control provide a basis against which we can evaluate the ARPW system's internal controls. We discussed our observations and conclusions with management officials on October 26, 2007, and included their comments where appropriate.

<sup>3</sup> The Postal Service adopted the COSO framework for internal control, as identified in COSO's *Internal Control – Integrated Framework*, dated 1999, to safeguard its assets, check the accuracy and reliability of data, promote operational efficiency, and ensure that employees follow management policies and procedures.

The five components of internal control include:

- Control Environment: Some key control environment factors include management and employee commitment and attitude toward effective internal controls; the integrity and ethical values of management and staff; an effective organizational structure; human capital policies and practices in hiring, training, and supervising; and the organization's relationship with oversight agencies.
- Risk Assessment: The identification and analysis of relevant risks to achieving the organization's objectives.
- Internal Control Activities: Policies and procedures that help ensure employees carry out management directives. Control activities include a wide range of activities such as approvals, authorizations, verifications, reconciliations, performance reviews, and documentation. Control activities may be applied in a computerized information system environment or manually. Some common control activities include management reviews, information system controls, proper and accurate recording and documentation of transactions, access and authorization controls, and segregation of duties.
- Information and Communications: Information systems report on external and internal events, activities, and conditions that make it possible to run and control the organization. Effective communication also must flow down, across, and up the organization.
- Monitoring: Occurs in the course of normal operations and includes regular supervisory activities and other actions people take in performing their duties. It also includes monitoring of internal controls.

To accomplish our objective, we reviewed ARPW system documentation and interviewed key personnel responsible for the ARPW system. To test key ARPW internal control activities, we used 4<sup>th</sup> Quarter fiscal year (FY) 2005 RPW data the Postal Service used to establish postal rates in omnibus rate case R2006-1,<sup>4</sup> the postal rate case used to establish current postal rates.

To test the automated data validity checks in the ARPW system, we traced 4<sup>th</sup> Quarter FY 2005 RPW input data for select mail subclasses<sup>5</sup> to the 4<sup>th</sup> Quarter FY 2005 RPW Report.

To determine if there were any significant changes in 4<sup>th</sup> Quarter FY 2005 RPW data, we analyzed 4<sup>th</sup> Quarter FY 2005 diagnostic reports for all mail classes and subclasses.

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<sup>4</sup> Postal Regulatory Commission Docket No. R2006-1, *Postal Rate and Fee Changes, 2006*.

<sup>5</sup> First-Class Single-Piece Letters, Flats, and Parcels; First-Class Automation Presort Letters and Flats; Priority Mail; and Standard Regular Automation Presort.

To test manual RPW data inputs,<sup>6</sup> we reconciled the 4<sup>th</sup> Quarter FY 2005 manual inputs to the 4<sup>th</sup> Quarter FY 2005 RPW report.

To test control activities that detect errors, we reviewed ARPW exception reports and Postal Service procedures used to diagnose the exceptions. Exception reports we reviewed include the Domestic RPW Out-of-Scope Report, POS Out-Of-Scope Report, Trial Balance Accounting Omissions Report, and the ARPW Data Check Report.

We did not review the validity and reliability of RPW data the ARPW system automatically or manually extracts from various RPW data systems.

### **Prior Audit Coverage**

We did not identify any prior audits or reviews related to the objective of this review.

### **Results**

#### **The ARPW Internal Control System Was Generally Effective, but Some Improvements Are Needed**

Overall, ARPW system internal controls were effective and included an established control environment, identification of risks, functioning control activities, effective communication, and adequate system monitoring. More specifically, the control environment was in place with established reporting relationships and duties and supervisory review. The Postal Service identified relevant risks and took actions to mitigate the risks and improve the quality of ARPW system data.

Internal control activities throughout the ARPW process were in place and functioning. Key internal control activities included detailed system documentation; automated data validity checks and exception reports; diagnostic checks that detect significant changes in RPW data; access controls restricting access to the ARPW system; and supervisory and internal reviews of the final RPW data. Management continuously monitored the performance of the ARPW system and updated it to reflect changes in Postal Service operations.

However, we identified two internal control deficiencies: need for succession planning, and insufficient written procedures. These deficiencies could affect the reliability of the RPW estimates used in the RPW, CRA, and Annual Reports. It is essential that the Postal Service use accurate and timely reports in the ratemaking process to maintain customer goodwill and the Postal Service brand. Accordingly, we will report these non-monetary impacts in our *Semiannual Report to Congress*.

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<sup>6</sup> Express Mail®, Registered Mail™, Collect-on-Delivery, and Money Order transactions.

Succession Planning: The Postal Service had one staff member trained to run the ARPW system and develop and update ARPW algorithms (computed procedures and formulas). If this staff member was unable to perform these duties, it could affect the quality and timeliness of the RPW data. Management indicated that inadequate staffing levels prevented them from identifying and training additional staff. A key internal control activity is management's planning for the eventual succession of employees to ensure the continuity of needed skills and abilities.<sup>7</sup> During our review, the Postal Service started training an additional staff member to run the ARPW system.

Process Documentation: The second internal control weakness was insufficient written guidance outlining some of the key procedures followed in running the system. While the Postal Service does have detailed system documentation and a checklist that identifies the routine tasks to be performed, the documentation does not provide details on how to perform the procedures and maintain the ARPW system. Also, there are no written procedures detailing key internal control activities, including handling exception reports, processing manual inputs, and accomplishing management reviews of ARPW system outputs. Management indicated that inadequate staffing levels prevented them from developing written documentation for the ARPW system. Internal control standards require management to develop detailed policies, procedures, and practices for key operations. Insufficient written documentation – especially procedures that constitute key internal controls – could lead to inconsistent application of internal controls and impact the reliability of the RPW estimates in the RPW, CRA, and Annual Reports.

### **Recommendations**

We recommend the Manager, Statistical Programs, direct the Manager, Revenue and Volume Reporting, to:

1. Identify and train staff to run and maintain the Revenue, Pieces, and Weight Adjustment system.
2. Identify and direct staff to develop written documentation for the Revenue, Pieces, and Weight Adjustment system and related system procedures.

### **Management Comments**

Management agreed with our recommendations and stated an additional staff member has been assigned to the ARPW system and is being trained to operate the system. They expect the staff member to be fully trained after the completion of the FY 2008 CRA report. Additionally, the Manager, Revenue and Volume Reporting, will ensure written documentation is developed by June 2008. Management's comments, in their entirety, are included in the appendix of this report.

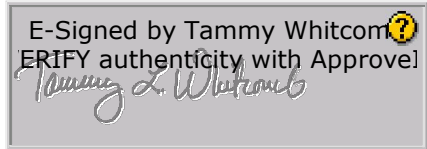
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<sup>7</sup> *Standards for Internal Control in the Federal Government* (GAO-AIMD-00-21.3.1), Government Accountability Office (GAO), November 1999.

### Evaluation of Management's Comments

Management's comments are responsive to the recommendations, and the actions taken or planned should correct the issues identified in the findings.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Paul Kuennen, Director, Cost, Revenue, and Rates, or me at (703) 248-2100.



E-Signed by Tammy Whitcomb?  
VERIFY authenticity with Approve!  
*Tammy L. Whitcomb*

Tammy L. Whitcomb  
Deputy Assistant Inspector General  
for Revenue and Systems

cc: Richard L. Prescott  
Katherine S. Banks

## APPENDIX. MANAGEMENT'S COMMENTS

FINANCE



DECEMBER 3, 2007

TO: TAMMY L. WHITCOMB

SUBJECT: REVENUE, PIECES AND WEIGHT ADJUSTMENT SYSTEM  
(RR-AR-08-DRAFT)

Management agrees with each of the two findings in the OIG self-initiated audit of the Revenue, Pieces, and Weight Adjustment (ARPW) system.

### Recommendation 1:

*Succession Planning:* The Postal Service had one staff member trained to run the ARPW system and develop and update ARPW algorithms (computed procedures and formulas). If this staff member were unable to perform these duties, it could impact the quality and timeliness of the revenue, pieces, and weight data. Management indicated that inadequate staffing levels prevented them from identifying and training additional staff. A key internal control activity is management's planning for the eventual succession of employees to ensure the continuity of needed skills and abilities. During our review, the Postal Service started training an additional staff member to run the ARPW system.

### Response

Management agrees with this recommendation. As noted in it, an additional staff member was assigned to the ARPW system during the course of the audit, and this individual recently successfully ran the ARPW model and produced the required RPW reports for October FY 2008. Full implementation will be considered accomplished when the employee successfully produces the final FY 2008 RPW report, along with its constituent quarterly and monthly reports. The manager of the Revenue and Volume Reporting is responsible for seeing the response to this finding is successful.

### Recommendation 2:

*Process Documentation:* The second internal control weakness was insufficient written guidance outlining some of the key procedures followed in running the system. While the Postal Service does have detailed system documentation and a checklist that identifies the routine tasks to be performed, the documentation does

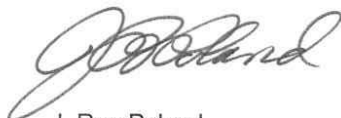


not provide details on how to perform the procedures and maintain the ARPW system. Also, there are no written procedures detailing key internal control activities, including handling exception reports, processing manual inputs, and accomplishing management reviews of ARPW system outputs. Management indicated that inadequate staffing levels prevented them from developing written documentation for the ARPW system. Internal control standards require management to develop detailed policies, procedures, and practices for key operations. Insufficient written documentation – especially procedures that constitute key internal controls – could lead to inconsistent application of internal controls and impact the reliability of the revenue, pieces, and weight estimates in the RPW, CRA, and Annual Reports.

Response

Management agrees with this recommendation. Because a staff member was not available to be assigned to learning and running the ARPW model, the manager of the Revenue and Volume Reporting group assigned a low priority to documenting ARPW procedures and controls - the experienced professional running the ARPW model accurately carried out and implemented the required procedures and controls *without needing the detailed documentation noted in the finding*. The required written controls noted in the finding above will now be prepared. The manager of the Revenue and Volume Reporting is responsible for seeing the response to this finding is successfully completed by June FY 2008.

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



J. Ron Poland  
Manager  
Statistical Programs

cc: Mr. Walker  
Mr. Lyons  
Mr. Prescott  
Ms. Banks