

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



**OFFICE OF AUDIT
FY 2013 AUDIT PLAN**

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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.
- Keep the Board of Governors (Board), Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.

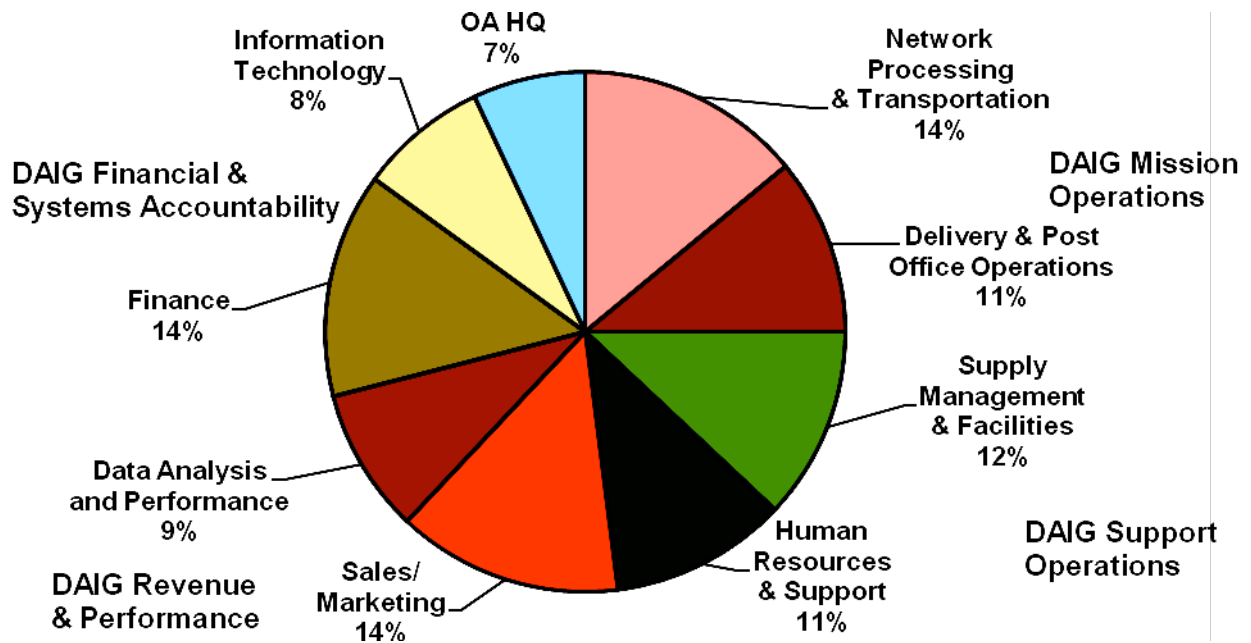
Organization

Under the leadership of the Inspector General (IG) and Deputy Inspector General, 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 and Systems Accountability, and Revenue and Performance. 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 comprised of nine directorates and a headquarters staff. Percentages of our fiscal year (FY) 2013 resources dedicated to these Postal Service functions are shown in the following chart:

FY 2013 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 Investment Review Committee. Our audits and reviews are performed in compliance with the standards published by the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the Council of the Inspectors General on Integrity and Efficiency.

The FY 2013 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 2013, we continue 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.

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 2013 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, OIG management, and other stakeholders. 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 have developed a suite of Performance and Results Information Systems (PARIS) models that identify operational and financial risks, and enable OA staff to conduct reviews of Postal Service functions on a nationwide basis. These models allow OA to use data to identify 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 the Board and key Postal Service executives. In addition to an enterprise-wide risk model, we have the following 16 risk models:

- Network and Delivery Optimization
- City Delivery Efficiency
- Machines That Can Speak
- 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 Pricing and Rates, 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 to promptly address emerging issues.
- Identify systemic issues and trends.

We will update all of the PARIS models this year. We are evaluating ways to maximize the data we gather for these models, and working with our data miners to identify additional continuous auditing applications. Data mining can put OA and the Postal Service in front of potential problems, providing an opportunity to take action to avoid or mitigate the impact. In addition, Postal Service management uses PARIS model information to help address risks within their districts and has taken elements of certain models to help manage daily operations.

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 2012:

- **Parcel Delivery Business:** The package market is a growing opportunity in which the Postal Service is uniquely qualified to excel. In addition to suggesting a new package product, we found sales staffing to be chronically understaffed and employees with opposing goals making it difficult at times for sales employees to close sales opportunities. If the Postal Service stabilizes its sales staff and develops an objective method to evaluate a sale, we projected a revenue increase of \$647 million could have been realized between FY11 and 13.
- **GPS for Highway Contract Routes:** The Postal Service initiated a Global Positioning Systems (GPS) program in November of 2010 for about 900 of its 15,500 commercially contracted highway transportation routes, which covered about 300 highway contract route (HCR) suppliers. The OIG audit revealed that opportunities existed for the Postal Service to improve and expand the use of GPS for contracted transportation routes by ensuring HCR Supplier compliance, enhancing and updating standard system reports including exception reporting, and exploring an end-to-end GPS platform with full-range functionality, which would provide complete visibility of mail. This would allow the U.S. Postal Service to better manage its operations, increase route efficiency, improve service, and control costs.
- **Non-Postal Products and Services:** The Postal Service could increase the value of its retail facilities and address community needs by selling non-postal products and services offered by foreign postal systems and suggested by stakeholders, if strategically placed at retail locations with sufficient foot traffic. The Postal Accountability and Enhancement Act of 2006 currently prohibit offering new non-postal products or services. However, pending legislation could provide additional opportunities.

Examples of Work Planned for FY 2013:

- **Costing Methods:** Our audit will focus on evaluating alternative costing methodologies. Specifically, we will benchmark with other foreign postal administrations and businesses in similar industries to determine potential alternative costing methodologies the Postal Service could utilize.
- **Mail on Rail:** Our objective in this audit is to determine if opportunities exist to move additional standard and periodical mail volume by rail versus other transportation methods.
- **Reduction of Undeliverable as Addressed Mail:** Mail that cannot be delivered because it has an incorrect address or the intended recipient has moved is known as undeliverable as addressed mail. In 2010, the Postal Service handled about 7 billion pieces of undeliverable as addressed mail, which costs the Postal Service about \$1.3 billion. We plan to assess opportunities to reduce the volume and cost of undeliverable as addressed mail.
- **Transportation Strategic Planning:** Assess the transportation long-range strategic plan and compare it to industry best practices.

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 2012:

- **External First-Class Measurement System:** The U.S. Postal Service measures whether it delivers First-Class Mail on time and meets mail delivery standards to provide the Postal Regulatory Commission (PRC) and the general public with information on its service performance. We evaluated whether there was a less costly way to implement this process, known as the External First-Class (EXFC) measurement system and evaluated the integrity and usefulness of EXFC. We identified alternatives to reduce EXFC costs, such as reducing its sampling costs by using EXFC for its primary purpose of service performance measurement, replacing the contractor with an internal group or competing the next contract. Further, the Postal Service has not yet developed a plan to automate this process. Without automation, the Postal Service will continue having to pay the costs associated with manual reporting of test pieces. In addition to cost reductions, we identified issues that affect program reliability.
- **Stamp Manufacturing and Destruction:** The adoption of the Forever stamp has generally alleviated concerns regarding over-production and destruction of definitive First-Class Mail stamps. However, due to the unique nature of commemorative and special issue stamps, production volumes require closer management scrutiny and improved controls to determine stamp stock requirements. The Postal Service could initially produce these stamps in limited runs and develop and implement a strategy to maximize sales through unique promotional opportunities, given the historical lifecycle of similar commemorative and special issue stamps.
- **Pension and Retiree Health Care Funding Levels:** The Postal Service has funded its pension benefit obligations at nearly 105 percent and is currently overfunded by \$13.1 billion. The law does not allow the Office of Personnel Management to alter the contribution formula for the Postal Service, nor can it refund current or future surpluses. Although the Postal Service continues to implement changes to align costs with revenue, action is needed now to use the current and future surpluses to remain a viable business. Further, the Postal Service is required to fully fund its future retiree health care benefit obligations. Currently, the Postal Service has funded nearly 50 percent of that obligation. As an alternative to the annual prefunding payments, which has been difficult, we estimate the Postal Service's fair market value of real property totals \$85 billion and would be enough to cover the remaining unfunded obligation of \$46 billion. Recognition of these assets that could be applied to the liability, if ever needed, could prevent the prefunding payments from increasing Postal Service debt.

Examples of Audit Work Planned for FY 2013:

- **Workshare Discounts:** We will determine whether Postal Service work share discounts, which exceed avoided costs, are properly justified and in the best interest of the Postal Service.
- **Workers' Compensation Program:** We will assess the Postal Service's Injury Compensation Program. The Workers' Compensation Program provides benefits to employees who sustain injuries or an occupational disease as a result of their employment. In 2010, the Postal Service paid over \$1 billion for workers' compensation claims and about \$61 million for administrative fees. We will assess the administration of claims and identify opportunities for reducing costs.
- **Business Process Reviews:** We will conduct a series of audits evaluating specific business processes, assessing the manual and automated controls associated with those processes (e.g., payments or purchases). We will evaluate whether the controls established are effective and efficient in meeting the process objective.

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 2012:

- **Management Operating Data System (MODS):** We determined additional steps are needed to improve the quality of MODS data. MODS is an operations system that measures productivity by matching employee workhours with mail volume using a series of operation numbers that identify what work was performed. The MODS data is used for both operational as well as costing and pricing purposes. Focusing corrective actions on MODS operation numbers and facilities with substantial errors, along with new data quality methodologies, would provide more accurate cost avoidance estimates and improve the accuracy of mail processing variability estimates. Using improved methodologies would have reduced workshare discounts and increased revenue by \$87 million in FY 2011. Additionally, improved data used in mail processing variability studies could have reallocated \$1.2 billion in mail processing costs attributed to products.
- **Retail Customer Service Efficiency:** We determined that while the Postal Service has improved its customer service efficiency, retail units still performed below national efficiency performance goals. Opportunities exist for managers to improve performance by implementing best practices and using available reports as tools to manage operations. The Postal Service could have saved \$114 million in FY 2011 if all customer service units had achieved the national goal of 88 percent.
- **Timeliness of Mail Processing at the Processing and Distribution Center (P&DC) Network:** The Postal Service made progress in improving the timeliness of mail processing by reducing the amount of delayed mail from the previous year and improving service performance for the timely delivery of mail. These improvements can be largely attributed to initiatives implemented by the Postal Service to address delayed mail. These initiatives have resulted in significant decreases in delayed mail, reducing delayed mail from 3.5 billion FY 2011 to 1.9 billion in FY 2012. While the Postal Service is to be commended for these improvements, there remain opportunities to further reduce delayed mail in the P&DCs.
- **Postal Service Mail Security:** We reviewed mail security at mail depositories and at Postal Service delivery and retail facilities, including contract postal units (CPU). We determined that mail security was not always effective to prevent unauthorized access, and controls over mail security and accountability at post offices and CPUs needed improvement. We found deficiencies pertaining to the safeguarding and accounting of

mail, including Registered Mail; as well as arrow and registry keys at postal facilities and CPUs. As a result, there is increased risk of mail theft, tampering, or unauthorized access, which could negatively impact the Postal Service brand.

Examples of Audit Work Planned for FY 2013:

- ***Enterprise Data Warehouse (EDW):*** We will conduct multiple reviews, from the design and cost of using EDW to the use of EDW's dashboard by Postal Service managers. The audits will determine whether cost of using EDW discourages managers from using it to provide a single repository for the Postal Service's data assets and whether it is effective for making business decisions.
- ***Customer Service Experience:*** We will evaluate the efficiency and effectiveness of the Postal Service's strategies for improving the service experience of its customers and the public's perception of the Postal Service.
- ***Rural Delivery Operations Program Overview:*** We plan to assess the effectiveness of rural delivery operations.
- ***Non-Competitive Contract Analysis:*** We will assess whether contracting officials obtained and adequately analyzed cost data on non-competitive contracts to ensure a fair and reasonable price.

APPENDIX: 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.