DOCKET SECTION

BEFORE THE POSTAL RATE COMMISSION WASHINGTON, D.C. 20268-0001 RECEIVED JUL 31 4 27 PM '97 POSTAL RATE COMMISSION OFFICE OF THE SECRETARY

Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-9)

(July 31, 1997)

The Unites States Postal Service hereby provides its responses to Office of the Consumer Advocate interrogatory OCA/USPS-9. The Postal Service has objected

to interrogatory OCA/USPS-8. These interrogatories were filed on July 17, 1997.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr. Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 (202) 268–2999; Fax –5402 July 31, 1997

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNITED STATES POSTAL SERVICE

Resolution No. 71-15

Establishment of Standing Committee on Finance and Audit RESOLVED:

Pursuant to section 4.1 of the Bylaws, the Board of Governors establishes a standing committee on Finance and Audit, consisting of three members of the Board, to advise the Board on finance and audit matters generally.

The foregoing resolution was adopted by the Board of Governors on April 6, 1971.

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Secretary

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNITED STATES POSTAL SERVICE

Resolution No. 95-11

Charter of the Audit Committee

The Postal Reorganization Act provides that the Board of Governors "shall direct and control the expenditures and review the practices and policies of the Postal Service." The Board "may establish such committees of the Board, and delegate such powers to any committee, as the Board determines appropriate to carry out its functions and duties." Pursuant to this authority and to Sections 4.1 and 5.1 of the Bylaws, and to assist it in the execution of its statutory responsibility, the Board has established the following charter for its Standing Audit Committee. It is, therefore, hereby

RESOLVED:

See. . .

The Audit Committee is a committee of the Board of Governors. The Committee shall be composed of at least three Governors of the Postal Service, appointed by the Chairman of the Board. The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board of Governors. Its primary function is to assist the Board in fulfilling its oversight responsibilities, by reviewing 1) the financial reporting process, 2) the internal audit function administered by the Inspection Service, and 3) the external audit process with the independent auditors. The Committee is responsible for ensuring the soundness of the accounting and control practices and the integrity of the financial statements of the Postal Service.

In meeting its responsibilities, the Audit Committee is expected to:

- Meet at least four times per year or more frequently as circumstances require. The committee may ask management or others to attend the meeting and provide pertinent information as necessary.
- Report committee activities to the full Board of Governors on a regular basis, with appropriate recommendations for consideration by the Board.
- Provide an open means of communication between management, the internal auditors (the Inspection Service), the independent auditors, and the Board of Governors.

- Recommend to the Board of Governors, as part of its oversight function, retention or dismissal of the independent auditors.
- Review and concur in the appointment, reassignment, or dismissal of the director of internal auditing. The senior Postal Service official immediately responsible for the internal audit function (the Deputy Chief Inspector - Audit) may be removed from that position only by action of the Board after receiving information from the Audit Committee, and that the Audit Committee will be kept advised of proposed assignments to that position.
- Inquire of management, the director of internal auditing (the Deputy Chief Inspector - Audit) and the independent auditor about significant financial risks or exposures and assess the steps management has taken to minimize such risks to the organization.
- Review with the independent auditors and the internal auditors, the Postal Service's basic accounting policies and practices, and any proposed significant changes thereto or deviations from prior practice; make recommendations to the Board with respect to these policies and practices and the scope and extent of audits to be made.
- Review with the independent auditor and the director of internal auditing their respective audit plans and scope of work. Also, review the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Confirm and assure the independence of the internal auditor and the independent auditor. Include a review of management consulting services provided by the independent auditor and fees related to the services performed.
- Consider and review with the independent auditor and the director of internal auditing the adequacy of the Postal Service's internal controls including information systems controls and security and any related significant findings and recommendations together with management's responses thereto.
- Review the reported interim financial results with management, the independent auditors and the director of internal auditing, as appropriate.
- Review legal and regulatory matters that may have a material impact on the financial statements, or are of a particularly sensitive nature and related Postal Service compliance policies, and programs.

- Review with management and the independent auditor at the completion of the annual audit;
 - The Postal Service's annual financial statements and related footnotes.
 - The independent auditor's audit of the financial statements and their report thereon.
 - Any significant changes required or made in the independent auditor's audit plan during the annual audit.
 - Any serious difficulties or disputes with management encountered during the course of the audit. The Audit Committee should be advised by management where it seeks a second opinion on a significant accounting issue.
 - Other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards (GAAS) and/or generally accepted government auditing standards (GAGAS).
- Consider and review with management and the director of internal auditing:
 - The internal audit work plan, including the audit charter, budget and staffing of the internal audit function and compliance with generally accepted auditing standards.
 - Any changes required in the planned scope of the internal audit work.
 - Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
 - Significant findings during the year and management's responses thereto.
 - Status of corrective action on prior audit findings.
- Review policies and procedures with respect to Governors and Officers' expense accounts and consider the results of any review of this area by the internal audit department and the independent auditor.
- Meet with the director of internal auditing, the independent auditor, and management in separate executive sessions to discuss any matters that the committee or each group believes should be discussed privately with the Audit Committee.

- · Review with senior management, as part of a systematic and ongoing process, various financial aspects of the Postal Service.
- · Review with the director of internal auditing the results of their review of management's monitoring of compliance with the Postal Service's Code of Ethical Conduct.
- Request and review the most recent external Quality Control/Peer Review of the independent auditor and the internal auditor as required by their respective auditing standards.
- · Prepare a letter for inclusion in the annual report that describes the committee's composition and responsibilities, and how they are discharged.
- Review the committee's charter annually and update it as necessary.
- Authorize investigations into any matters within the committee's scope of responsibilities as delineated by this resolution.

That in carrying out the above responsibilities, the Audit Committee shall have a continuing obligation to keep the Board fully informed of all significant matters.

This resolution supersedes Resolution 82-1, adopted February 9, 1982, and Resolution 85-2, adopted February 5, 1985.

The foregoing Resolution was adopted by the Board of Governors on August 1, 1995.

Secretary

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNITED STATES POSTAL SERVICE

Resolution No. 97-3

Office of Inspector General

Section 8G(f) of the Inspector General Act of 1978, as amended, has created an Office of Inspector General for the United States Postal Service, replacing the former provisions of that Act which lodged the Inspector General function within the Postal Inspection Service. Section 662(e) of the Treasury, Postal Service and General Government Appropriation Act, 1997, and section 8G(b) of the Inspector General Act require the Governors to determine what functions, powers, and duties should be transferred to the Office of Inspector General as being related to the functions of that office and needed to further the purposes of that Act.

RESOLVED:

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1. <u>Division of functions</u>. The Office of Inspector General shall have the functions, powers, and duties necessary for the work reflected in the attached schedule dividing responsibilities between the Inspector General and Inspection Service. The functions transferred shall not include any program operating responsibilities of the Inspection Service, within the meaning of section 8G(b) of the Inspector General Act.

2. <u>Investigative powers</u>. To the full extent necessary to enable the Office of Inspector General properly to perform its investigative functions consistent with the Inspector General Act, the Governors authorize the Office of Inspector General to exercise, concurrent with the Postal Inspection Service, the investigative functions, powers, and duties delegated to the Postal Inspection Service under authority of 39 U.S.C. § 404(a)(7), 18 U.S.C. § 3061, or other law.

3. <u>Support</u>. The Postal Service shall make available to the Office of Inspector General the facilities, space, equipment, funding, and all other support necessary for that Office to perform its functions under the Inspector General Act.

4. <u>Audit Committee</u>. The Inspector General, or his or her representative, shall regularly attend and participate in meetings of the Audit Committee of the Board. The Inspector General shall, in addition, have full access to the Chairman of the Board, and shall report to the Board of Governors (appointed members)

periodically but not less frequently than every six months, consistent with the Inspector General Act.

Sections 1, 2, and 4 of the foregoing Resolution were adopted by the Governors, and section 3 was adopted by the Board of Governors, on March 4, 1997.

Secretary

DESIGNATION OF FUNCTIONS

INSPECTOR GENERAL

AUDITING

- Financial Statement: Overall Opinion
- Postal-wide Performance
- Contracts, except pre-award and postaward
- All Developmental
- Facilities
 - Facilities Construction of \$10M or more
 - Right of First Choice Between \$5-\$10M
 - Leases of \$1M or more
 - Repair and Alterations of \$1M or more
- Revenue Focused (International Mail)

INVESTIGATING

- Revenue
 - Bribery, Kickback, and Conflict of Interest
- Worker's Compensation
 - IG Subpoenas
 - Monitors Programs
- Embezzlements: Conduct/Partner on Cases of \$100K or more
- Expenditure
 - Bribery, Kickback, and Conflict of Interest
- Conduct/Partner on Cases Involving Executives
- Inspection Service Internal Affairs
 - Executives
- Computer Forensics
- Hotline

ADDITIONAL OIG AUDITING AND INVESTIGATING FUNCTIONS

- Oversight of Inspection Service
- Rate Making Reviews
- Revenue Generation
- Labor Management
- Electronic Commerce

INSPECTION SERVICE

AUDITING

- Financial Statement: Installation and District
- Area, District and Local Performance
- Service Investigations
- Contracts, pre-award and post-award
- Facilities
 - Facilities Construction of \$5M or less
 - Between \$5-\$10M if not done by IG
 - Leases under \$1M
 - Repair and Alterations Under \$1M

INVESTIGATING

- Revenue
 - Revenue Loss Detection
- Worker's Compensation
 - Primary Responsibility for Conducting
- Embezzlements: Under \$100K
- Expenditure
 - As Referred by IG
 - IMPAC Cards
 - Local Purchases/Procurements
- Emergency Response on Cases Involving Executives
- Internal/External Crimes, Protection of Employees, Security, Fraud and Prohibited Mailings
- Inspection Service Internal Affairs
 - Non-Executives
- Forensic and Technical Services

Automation Cost Avoidance

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Baseline = 1989	1989	19	990		1991		1992	1993	1993	1994	1995	1996	· · ·			
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Workhours	323.6		3.9		293.1		281.9		489.4	505.0	507.8	506.8		_		<u> </u>
Cost per hour	N/A	\$21.		\$		\$2	23.07	\$ 23.26	s24.875	\$ 25.36	\$25.36	\$25.87		-		
Workload	1.2574	1.	302		1.2983	1.	.3057		5 (3524	1.3948	1.4161	1.4317		<u> </u>		
Workload Change	N/A	3.	5%		-0.3%		0.6%	2.7%		3. <u>1%</u>	1.5%	1.1%				
Revised Workhours	N/A	33	5.1		303.0		294.8	289.6		504.7	512.7	513.4			With Se	
Workhour Savings	N/A	3	1.2		9.9		12.9	-3.8		-0 3	4.9	6.6			Wid	
														_	<u> </u>	1990-93
		19	990		1991		1992	1993		1994	1995	1996	Tota	l	Cost P/H	
Cumulated Dollar Cost Avoidance	1990	\$ 693	3.9										\$ 693.9		<u> </u>	\$ 22.26
	1991	\$ 730).4	\$	232.8								\$ 963.2			\$ 23.43
	1992	\$ 778	3.8	5	248.2	\$ 3	321.5'						\$1,348.4			\$ 24.98
	1993	\$ 791	1.0	\$	252.1	\$3	326.5	\$ (97.3)					\$1,272.3			\$ 25.37
	1994	\$ 781	1,6	S	249.1	S 3	322.7	\$ (96.2)		S (6.9)			\$1,250.3			\$ 25.07
	1995			\$	251.7	\$ 3	326.0	\$ (97.1)			\$ 135.5		\$1,398.7			
	1996							\$ (98.8)		\$ (7.3)	\$ 139.5	\$187.3	\$1,611.9		\$ 28.41	\$ 25.77
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Total Avoided/Savings		\$ 5,368	3.9	\$1	,489.9	\$1.6	528.3	\$(389.5)		\$ (21.3)	\$ 275.0	\$187.3	\$8,538.7	L		
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

to ĨU

Scott L. Reiter

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 (202) 268–2999; Fax –5402 July 31, 1997