



September 30, 2009

VINCENT H. DEVITO
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2009 – Negative Master Trust Account Balances (Report Number FF-AR-09-226)

This report presents the results of our audit of the negative master trust account balances (Project Number 09BO002FF001). The report was initiated due to risk factors identified in our Performance and Results Information Systems (PARIS) Cost and Controls Model.¹ This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

Conclusion

As of April 30, 2009, master trust accounts² with overall negative unit balances were a small percentage of the U.S. Postal Service wide balance. However, because negative balances reflect potential funds due to the Postal Service, our audit focused on units with entirely negative account balances. Nationwide, the Postal Service had 40 units with accounts showing negative balances in excess of \$10,000, totaling \$1,703,410. Our audit disclosed that master trust accounts at 39 of the units, totaling \$1.58 million, erroneously showed negative balances because of improper accounting entries unit personnel made and errors that occurred when units converted to the PostalOne! system. Management made corrections totaling \$1,024,529 as the result of our audit;³ however, they had not corrected \$658,882 at nine of these units at the time we prepared this report. In addition, one unit with a negative balance of \$101,284 had not provided sufficient supporting documentation in response to our request at the time we prepared this report.

Master Trust Accounts Were Not Reported Correctly

Master trust accounts at 39 units erroneously reported negative balances totaling \$1,575,777. These negative balances occurred because:

¹ Previously known as the Financial Risk Model.

² Master trust accounts are accounts with which customers deposit funds for future postage.

³ Employees made corrections totaling \$20,000 at two units prior to us contacting them.

- Personnel at eight units made incorrect refunds from the Point-of-Service (POS) system because they were not aware of proper refund procedures. For example, personnel made refunds from both POS and PostalOne! rather than only from PostalOne!, causing negative balances in Account Identifier Code (AIC) 074, Special Provisions Locally Managed Trust Advance Deposits, totaling \$228,069.⁴
- Personnel at two units recorded value added refunds in AIC 474, Special Provisions Local Trust Withdrawal, rather than in the correct AIC 541, Refund Value Added Service. Recording the refund in the incorrect AIC resulted in negative balances in AIC 074, totaling \$64,954.
- Errors occurred at five units when they migrated into PostalOne!. Management had to transfer master trust account processing and accounting between units to accommodate PostalOne!. During this process, routing errors occurred, resulting in negative master trust balances totaling \$486,435.
- Personnel at 10 units made incorrect entries when making deposits and/or withdrawals from trust accounts. For example, personnel made withdrawals from business reply mail/postage due accounts when they should have made them from Customer Permit Accounts. These errors caused negative balances in the unit's trust account totaling \$324,870.
- Errors at the remaining 14 units occurred due to a variety of unique errors, which did not fall into one of the four general categories above.

In addition, we noted that \$45,990 in customer transactions at four units were posted incorrectly or not posted at all, resulting in a misstatement of the customer balances. We consider this amount recoverable revenue loss.⁵ Specifically:

- One unit entered a deposit of \$19,641 into the wrong customer account. Unit personnel attempted to correct the error, which resulted in the correct permit holder receiving the deposit twice, but the original deposit was not reversed. This resulted in master trust accounts being overstated by \$39,282.
- One unit made six refunds, totaling \$3,807, using the POS terminal rather than PostalOne!; therefore, the funds were not deducted from the customer's accounts.
- One unit initially managed trust fund accounts using a locally managed account because PostalOne! did not work when first installed at the unit. The technician failed to enter two transactions totaling \$476 when PostalOne! was repaired.

⁴ Customers did not receive duplicate refunds.

⁵ Revenue collected for goods delivered or services rendered.

- At another unit, one customer's deposit of \$2,425 was erroneously entered in the customer's account twice.

In addition, personnel at one unit⁶ with a negative balance of \$101,284 were unable to provide us sufficient documentation regarding that balance by the time we prepared this report. Therefore, we consider this amount unrecoverable unsupported questioned costs.⁷

Postal Service policy requires unit management to comply with the prescribed financial procedures, which include proper reporting of all financial transactions.⁸ Unit management did not detect or correct these conditions because they did not monitor or reconcile their master trust balances, which Postal Service policy⁹ also requires. In addition, all unit personnel did not receive adequate training when the units migrated to PostalOne!. The units have since received PostalOne! training. Failure to properly enter and reconcile financial transactions increases the risk that the Postal Service could lose revenue and misstate financial statements.

The Postal Service has identified reconciliation of master trust balances as a key control. Consequently, we believe the Postal Service must improve its oversight of master trust accounts to reduce the risk of financial loss. We identified \$147,274 of monetary impact, including \$101,284 of unrecoverable unsupported questioned costs, and \$45,990 recoverable revenue loss.

We recommend the Vice President, Controller:

1. Develop a corrective action plan to ensure management effectively monitors master trust accounts and employees minimize and timely clear negative account balances should they occur. Specifically, this plan should:
 - Require units with negative master trust balances to inform district Finance Managers of actions taken to correct this issue.
 - Require units to sign off on a monthly reconciliation and forward to their respective district Finance Manager to show completion.
2. Provide the U.S. Postal Service Office of Inspector General (OIG) with documentation showing the cause and actions taken to correct the negative balances at the one unit that did not adequately respond to our request.

⁶ Postage Due – [REDACTED] provided an inadequate response.

⁷ Unrecoverable costs that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

⁸ Handbook F-101, *Field Accounting Procedures* (FAP), Section 2-4, January 2009.

⁹ FAP Section 2-4.3.

Management's Comments

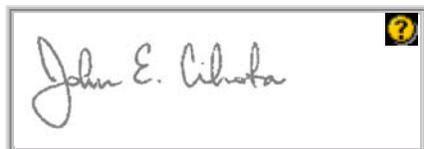
Management agreed with our recommendation to develop an action plan but proposed alternatives to certain elements of the plan. Specifically, management plans to communicate to field offices specific instructions on handling negative balance customer accounts timely through a *Postal Bulletin* article. Management intended to issue this *Postal Bulletin* article on September 24, 2009. However, subsequent to our receipt of their comments, management informed us they would publish this article by October 8, 2009. In addition, management issued communication to field personnel on September 25, 2009, emphasizing the reconciliation policy.

The unit that did not respond to our inquiry during the audit corrected its negative balance and management will continue to monitor the unit. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John Wiethop, Director, Field Financial - Central, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in blue ink that reads "John E. Cihota". In the top right corner of the box, there is a small yellow circular icon with a question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Joseph Corbett
Stephen J. Nickerson
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Master trust accounts are composed largely of advance deposits for permit imprint, Periodicals, business reply, postage due, and Express Mail® accounts. The Postal Service maintains separate accounts for each service by customer. These accounts are commonly referred to as master trust accounts. The customer deposits funds into an individual account and the Postal Service withdraws the funds when payment for postage and fees is due. If funds are not on account, the customer is required to pay at the time of the mailing. The Postal Service does not offer credit for postage and does not permit a negative balance in a trust account.

Analysis of financial data as part of our continuous auditing initiative (PARIS Costs and Controls Model) resulted in the identification of negative master trust accounts in units nationwide.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine why negative master trust balances existed at Postal Service units and to correct the negative status.

To accomplish our objectives, we judgmentally selected the 40 units with negative master trust balances of \$10,000 or greater as of April 30, 2009. The total negative master trust balances at these 40 units was \$1,703,410. There were an additional 1,115 units with negative balances totaling \$730,186 on that date. As the table below shows, the types and dollar values of negative master trust account balances at Postal Service units we reviewed is small in comparison to the overall dollar value of master trust accounts. However, negative amounts can reflect funds owed to the Postal Service, thus potentially representing funds the Postal Service could collect.

Details for Negative Balance Master Trust Accounts

AIC	Universe	Dollar Value	Units With a Negative Balance	Dollar Value of Negative Balances
AIC 053, Business Reply/Postage Due Advance Deposits	14,031	\$182 million	229	\$829,849
AIC 070, Customer Permit Account Advance Deposits	12,262	\$519 million	236	\$321,625
AIC 074, Special Provisions Locally Managed Customer Accounts Advance Deposits	1,291 ¹⁰	\$642,742	694	\$1,282,123 ¹¹

We issued letters to management at the selected units, requesting information supporting the transactions that resulted in negative master trust balances. We also asked unit management to take corrective actions if negative balances were the result of erroneous accounting entries. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed supervisors and employees as needed.

We conducted this performance audit from May through September 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on August 20, 2009, and included their comments where appropriate. Although we relied on data obtained from the Enterprise Data Warehouse, we did not test the validity of the data and controls over the system since it was not critical to our objective.

¹⁰ Trust balances for Centralized Account Processing System accounts and the [REDACTED] Services Store were not included.

¹¹ For AIC 074, the total negative balances are \$1,283,123 and positive balances are \$1,924,865, for a total dollar value of \$642,742.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2008 Financial Installation Audits – Post Offices, Stations, and Branches</i>	FF-AR-09-055	12/26/2008	\$820,000	Financial installation capping reports for post offices, stations, and branches and business mail entry units identified that master trust account balances were not monitored and reconciled. Management agreed with the findings, recommendations, and monetary impact. ¹²
<i>Fiscal Year 2008 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-09-052	12/22/2008	\$1.6 million	
<i>Fiscal Year 2008 – Negative Master Trust Balance at the Kansas City Stamp Fulfillment Services Store</i>	FF-MA-09-001	10/10/2008	Not Reported	The master trust balance as recorded in the Standard Accounting For Retail differed from local accounting records by \$18.9 million as of March 31, 2008. Management agreed with the findings, recommendations, and monetary impact.
<i>Fiscal Year 2007 Financial Installation Audits – Business Mail Entry Units</i>	FF-AR-08-131	3/19/2008	\$2.3 million	
<i>Fiscal Year 2007 Financial Installation Audits – Post Offices, Stations, and Branches</i>	FF-AR-08-122	3/5/2008	\$2.1 million	

¹² We identified master trust concerns in our annual fiscal year 2006, 2007, and 2008 Post Office and business mail entry unit reports – all listed in this table. Management agreed with the findings and recommendations in all cases and agreed to take corrective action.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2006 Financial Installation Audits – Post Offices, Stations, and Branches</i>	FF-AR-07-094	2/20/2007	None Reported	
<i>Fiscal Year 2006 Financial Installation Audits – Business Mail Entry Units</i>	FF-AR-07-090	2/15/2007	None Reported	

APPENDIX B: MANAGEMENT'S COMMENTS

Vicent D'Amico
Vice President, Operations



September 24, 2009

John E. Cihota
Deputy Assistant Inspector General,
Financial Accountability

SUBJECT: Transmittal of Draft Audit Report—Fiscal Year 2009—Negative
Master Trust Account Balances (Report Number FF-AR-09-DRAFT)

Having reviewed the above referenced report related to financial audit findings of monetary and non-monetary impacts in the handling of Master Trust Accounts, the following is management's response to the two (2) recommendations:

Recommendation 1:

Develop a corrective action plan to ensure master trust accounts are effectively monitored, and negative account balances are minimized and cleared timely should they occur. Specifically, this plan should

- Require units with negative master trust balances to inform the District Finance Manager of actions taken to correct this issue.
- Require units to sign off on a monthly reconciliation, and forward to their respective District Finance Manager, to show completion.

RESPONSE:

Management agrees that master trust accounts must be monitored and negative account balances cleared timely. Headquarters Accounting Policy have outlined in Handbook F-101, *Field Accounting Procedures*, section 16, *Customer Business Mail Activity*, the handling of master trust accounts including the monthly reconciliation using ADM reports available. In addition to this, we have initiated communications to the field offices with specific instructions on handling negative balance customer accounts timely. The article titled: "Handbook F-101 Revision: Handling Negative Balance Customer Trust Accounts" is scheduled for the September 24, 2009, edition of the Postal Bulletin.

Management does not intend to require units to sign off on a monthly reconciliation. A Negative balance can be monitored via the EDW report. It is up to the districts and areas to monitor negative balance offices and ensure that they are resolved in

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a timely manner. The level of risk associated with a negative balance at this time (0.06% of the total customer trust balance as of September 23) does not warrant implementation of an additional manual sign off process. Management, however, will issue a field communication to emphasize the policy.

Recommendation 2:

Provide the U.S. Postal Service Office of Inspector General (OIG) with documentation showing the cause and actions taken to correct the negative balances at the three units that did not adequately respond to our request.

RESPONSE:

The negative balances at the three units have been resolved. Corrective action has been taken as these units to ensure that a negative balance will not recur and District personnel will closely monitor these units moving forward.

FOIA STATEMENT:

Information contained in this report is exempt from disclosure under the Freedom of Information Act (FOIA).



Vincent H. DeVito, Jr.