



January 10, 2005

LYNN MALCOLM
ACTING VICE PRESIDENT, FINANCE, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2004 Postal Service Financial Statements
Audit – Washington, D.C., Headquarters
(Report Number FT-AR-05-006)

This report presents the results of our audit of selected financial activities and accounting records at Postal Service Headquarters for the fiscal year ended September 30, 2004 (Project Number 04XD012FT000). The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. This audit was conducted in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements.

Management's financial accounting policies and procedures conformed with accounting principles generally accepted in the United States and provided for an adequate internal control structure. Additionally, general ledger account balances for investments, unemployment compensation, workers' compensation, and Governors' and officers' travel and expenses were stated in the national trial balance in accordance with accounting principles generally accepted in the United States. Also, we did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements.

In fiscal year 2004, the Postal Service switched from 28-day accounting periods to monthly reporting. In addition, the Postal Service implemented a new general ledger system, and therefore made a number of changes to its legacy chart of accounts, including the elimination and creation of accounts. The Postal Service's general ledger account balances remained consistent with the general classification of accounts from the previous year. The asset, liability, equity, income, expense, and commitment accounts were appropriately classified in the new general ledger system.

The results of the audit were discussed with Postal Service management on October 25, 2004. Because there were no recommendations provided, management chose not to respond to this report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact John E. Cihota, Director, Financial Statements, or me at (703) 248-2300.

/s/ John M. Seeba

John M. Seeba
Assistant Inspector General
for Audit

Attachment

cc: Richard J. Strasser, Jr.
Robert J. Pedersen
Stephen J. Nickerson
Margaret A. Weir
Steven R. Phelps

INTRODUCTION

Background

Postal Service Headquarters Finance establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. Internal control and reporting systems have been created to ensure that Postal Service management and the public receive meaningful financial information in accordance with generally accepted accounting principles. This audit was conducted in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements.

On October 1, 2003, the Postal Service implemented a new general ledger system to improve and support all period reporting and finance/unit level reporting. As a result of this new system, the Postal Service reviewed its legacy chart of accounts and eliminated approximately 2,400 accounts. These accounts had either zero activity for at least one year or annual activity of less than \$100,000 in charges. The Postal Service also added new accounts to accommodate account consolidations.

Additionally, the Postal Service transitioned from a 28-day to a monthly accounting period to report its interim financial results. Monthly reporting is typically used in both the private and public sectors. It allows comparative analyses between the Postal Service and its customers and competitors. This change should also help with the inclusion of economic forecasts and economic histories that are almost always represented in a monthly and calendar quarter format.

Separate financial statements audit reports will be issued for the Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers (IT/ASCs). Further, in addition to the overall opinion on the Postal Service's financial statements, the Board of Governors' independent public accounting firm contracted to express an opinion on the financial statements will issue separate reports on the Postal Service's internal controls and compliance with laws and regulations. Also, a separate report will be issued for the audit of the fiscal year (FY) 2004 information system controls at the Eagan, San Mateo, and St. Louis IT/ASCs.

**Objectives, Scope,
and Methodology**

The objectives of the audit were to determine whether:

- The financial accounting policies and procedures provided for an adequate internal control structure and were in compliance with accounting principles generally accepted in the United States.
- Accounting transactions that affect the general ledger account balances for investments, unemployment and workers' compensation, and Governors' and officers' travel and expenses were fairly stated in the national trial balance in accordance with accounting principles generally accepted in the United States.
- General ledger account balances conformed with the general classification of accounts of the Postal Service on a basis consistent with that of the previous years.¹
- The Postal Service was in compliance with laws and regulations that have a material and direct effect on the financial statements as a whole.

To accomplish our objectives, we conducted fieldwork from April through November 2004. As part of our audit, we assessed internal controls, tested transactions, and verified the following account balances as of September 30, 2004:

- \$7.5 billion in workers' compensation liability.
- \$1.28 billion in short-term United States Treasury securities.
- \$57.3 million in unemployment compensation liability.
- \$5.3 million in investment income.
- \$5.3 million in certificates of deposit.

In addition, we verified the Board of Governors' travel and miscellaneous expenses totaling about \$234,000, and we tested and accepted officers' travel and representation expenses totaling about \$1.4 million.

¹ This objective is applicable to the work done at the Eagan IT/ASC, based on feedback from Office of Inspector General teams at the St. Louis and San Mateo IT/ASC sites and Postal Service Headquarters.

This audit was conducted from April 2004 through January 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments, where appropriate.

We relied on computer-generated data from several Postal Service financial systems, including the e-Travel system, Chase Insight, Workers' Compensation Master File, Accounting Data Mart, and the General Ledger. We performed specific internal control and transaction tests on these systems' data, to include tracing selected financial information to supporting source records. For example, we reconciled the number of claimants and dollar amounts on the Workers' Compensation Master File against Department of Labor payment records.

Prior Audit Coverage

We have audited the financial activities and accounting records at Postal Service Headquarters since FY 1998. The results of our most recent audit for FY 2003 were disclosed in the audit report, Fiscal Year 2003 Postal Service Financial Statement Audit – Washington, D.C., Headquarters (Report Number FT-AR-04-005, January 16, 2004).

Audit Results

The audit disclosed that management's financial accounting policies and procedures conformed with accounting principles generally accepted in the United States and provided for an adequate internal control structure. Additionally, general ledger account balances for investments, unemployment compensation, workers' compensation, and Governors' and officers' travel and expenses were stated in the national trial balance in accordance with accounting principles generally accepted in the United States. Also, we did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements.

In FY 2004, the Postal Service switched from 28-day accounting periods to monthly reporting. In addition, the Postal Service implemented a new general ledger system,

and therefore made a number of changes to its legacy chart of accounts, including the elimination and creation of accounts. The Postal Service's general ledger account balances remained consistent with the general classification of accounts from the previous year. The asset, liability, equity, income, expense, and commitment accounts were appropriately classified in the new general ledger system.

Audit Comment

As discussed, the Postal Service significantly changed its accounting processes in FYs 2003 and 2004. For example, under the Shared Services/Accounting project, field accounting work was reengineered, residual work was migrated to the three existing accounting service centers, and the 85 district offices were discontinued. In addition, the Postal Service implemented a new general ledger system that significantly reduced the number of accounts and changed the general classification of accounts from the previous year. The Postal Service developed policy and procedure manuals to describe key account processes and controls. For example, the Postal Service developed the Postmaster/Field Guide Policies, Procedures, and Resources, and updated Handbook F-23, Accounting Policy Reference.

The Postal Service has made efforts to update other accounting information. As part of its effort to comply voluntarily with Securities and Exchange Commission requirements, the Postal Service is documenting processes material to the financial statements. However, certain other information remains to be updated, including definitions of the new chart of accounts and journal voucher numbers and the accounting service center accounting guidelines.

Information such as general ledger account and journal voucher number descriptions help Postal Service accounting personnel manage the general ledger, including functions such as reconciling general ledger accounts. We recognize the Postal Service is continuing its efforts to update its policies and procedures due to the ongoing accounting changes.

We are not making any further recommendations at this time. As part of our FY 2005 financial statements audit, we will continue to monitor the Postal Service's efforts in this area

**Management's
Comments**

The results of the audit were discussed with Postal Service management on October 25, 2004. Because there were no recommendations provided, management chose not to respond to this report.

**Evaluation of
Management's
Comments**

No action by management was required.