



November 16, 2005

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Transmittal of Audit Report – Fiscal Year 2005 Postal Service Financial Statements Audit – Washington, D.C., Headquarters
(Report Number FT-AR-06-002)

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, 2005 (Project Number 05BM006FT000). 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.

The audit disclosed that management's financial accounting policies and procedures conformed to 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, 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. The results of the audit were discussed with Postal Service management on November 8, 2005. 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 or need additional information, please contact Lorie Siewert, Director, Financial Statements, or me at (703) 248-2300.

E-Signed by Inspector General 
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Acting Deputy Assistant Inspector General
for Financial Operations

Attachment

cc: Richard J. Strasser, Jr.
Robert J. Pedersen
Vincent H. DeVito, Jr.
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 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.

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 fiscal year (FY) 2005 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 (U.S.).
- Accounting transactions affecting the general ledger account balances for investments, unemployment 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 U.S.

- General ledger account balances conformed to 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 assessed internal controls, tested transactions, and verified the following account balances as of September 30, 2005:

- \$1.2 billion in short-term U.S. Treasury securities
- \$42.2 million in unemployment compensation liability
- \$59 million in investment income

In addition, we verified the Board of Governors travel and miscellaneous expenses totaling about \$118,000 and we tested and accepted officers travel and representation expenses totaling about \$1.3 million.

We conducted this audit from March through November 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as we 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, including 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.²

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.

² This reconciliation includes the number and dollar amount of claims only and should not be construed as an opinion regarding the validity of any claim.

Prior Audit Coverage

We have audited the financial activities and accounting records at Postal Service Headquarters since FY 1998 and have not identified any reportable conditions. The results of our most recent audit for FY 2005 were disclosed in the audit report, *Fiscal Year 2004 Postal Service Financial Statement Audit – Washington, D.C., Headquarters* (Report Number FT-AR-05-006, dated January 10, 2005).

AUDIT RESULTS

Audit Results

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

**Management's
Comments**

The results of the audit were discussed with Postal Service management on November 8, 2005. 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.