



December 27, 2005

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SUBJECT: Audit Report – International Parcel Post Accruals  
(Report Number FT-AR-06-007)

This report presents an issue concerning internal controls over international Parcel Post accruals recorded in the general ledger. We identified the issue during our annual audit of the fiscal year (FY) 2005 Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (St. Louis Accounting Service Center) (Project Number 05BM002FT001).

### **Background**

The exchange of mail between countries, including air and surface parcels, or Parcel Post, is governed by the Universal Postal Union (UPU) and bilateral agreements. The UPU establishes Parcel Post rates for each country and publishes them annually in the International Bureau Circular (IBC). Where bilateral agreements exist, the countries involved exchange rate information.

The St. Louis Accounting Service Center, International Accounting Branch (IAB), processes inbound and outbound international Parcel Post invoices and payments and records accruals monthly in the general ledger. The IAB records the accruals at the country level based on Parcel Post volume from the same period last year, multiplied by the current rates from the UPU's IBC.<sup>1</sup> The IAB settles accounts on a quarterly basis based upon documented volumes at the time of review.

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<sup>1</sup> As shown in the Postal Service's Parcel Post rate master file.

## **Objectives, Scope, and Methodology**

The objectives of this part of the audit were to determine whether international Parcel Post accruals were properly stated in the general ledger and whether internal controls and procedures for Postal Service International Parcel Post accruals were adequate. To accomplish our objectives, we reviewed Parcel Post monthly accrual reports for October 2004 through February 2005, totaling 20 reports (four for each month). For inbound accruals, which represented Postal Service revenues and receivables, we reviewed 458 countries' and islands' accrual transactions. For outbound accruals, which represented Postal Service expenses and payables, we reviewed 386 countries' and islands' accrual transactions. For each country or island sampled, we recalculated the monthly accrual amount according to Postal Service accounting policy and compared the reported amounts and our calculated amounts. We also interviewed personnel in the St. Louis Accounting Service Center IAB and reviewed applicable regulations, policies, and related documents.

We conducted this audit from October 2004 through December 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 conclusions and observations with management officials and included their comments where appropriate.

## **Prior Audit Coverage**

In our FY 2001 financial statements audit,<sup>2</sup> we reported that the IAB did not have written procedures explaining the accrual analysis and adjustment process, and only one individual was trained to complete this complex process. The Postal Service took corrective action based on our recommendations. IAB personnel documented policies and procedures for the accrual analysis and adjustment process. In addition, alternate personnel received training for this process.

## **Results**

International Parcel Post accruals were properly stated. However, the IAB needed to improve internal controls and procedures used to calculate international Parcel Post accruals. This issue does not materially affect the current year's Postal Service financial statements. However, if addressed, it could enhance efficiency and financial reporting accuracy.

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<sup>2</sup> *FY 2001 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-02-010, dated February 12, 2002).

## International Parcel Post Accruals

Internal controls over international Parcel Post accruals needed improvement. Specifically, the rates in the International Parcel Post rate master file were not always accurate. Many of the rates reflected prior year rates, and monthly accruals erroneously included Canada. This occurred because several Postal Service personnel were able to modify rates and Postal Service management did not continuously monitor file edits or monthly accrual reports to ensure data integrity.

For outbound mail, rate discrepancies existed for all months (October 2004 through February 2005) reviewed; for inbound mail, rate discrepancies existed for 3 of the 5 months reviewed. Specifically, of 458 inbound accrual amounts reviewed, 63 (13.8 percent) had incorrect rates. Of 386 outbound accrual amounts reviewed, 34 (8.8 percent) had incorrect rates.<sup>3</sup> Additionally, the accrual reports erroneously included a monthly accrual for Canada. The Postal Service remits payment to Canada provisionally on a monthly basis for net activity based on the monthly average of the last settled year. Therefore, monthly accruals should not include Canada. Because of rate discrepancies and the inclusion of monthly accruals for Canada, accrued revenues were overstated by approximately \$4 million, and accrued expenses were overstated by approximately \$8.5 million.<sup>4</sup> (See Appendix A for details.)

Data integrity is the security property that ensures data meets a given expectation of quality and has not been exposed to accidental or malicious modification or destruction. Additionally, the least privilege principle for computer systems and data means users are granted only those access rights and permissions needed to perform their official duties.<sup>5</sup> However, we found that 29 employees, including field office employees, could edit rate information, while according to IAB management, only five of these required edit capability. As a result, the integrity of international Parcel Post rates may be compromised.

Correct Parcel Post rate master files enhance efficiency through accurate billings and timely settlement with Foreign Postal Administrations. Additionally, accurate rates reduce the risk of material misstatements.

During our review, Postal Service personnel took corrective action by removing access for the 24 employees not requiring edit capability. In addition, Postal Service system personnel stated they are moving the Parcel Post rate process to a Web-based platform, which will allow users to view data without edit capability. This process is projected to be complete in early FY 2006. Therefore, we are not making a

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<sup>3</sup> The 63 inbound rate discrepancies represent 44 countries; the 24 outbound rate discrepancies represent 10 countries (2 countries with outbound rate discrepancies also have inbound rate discrepancies).

<sup>4</sup> Rate exceptions were converted to U.S. dollars using International Monetary Fund rates as of August 31, 2005.

<sup>5</sup> Handbook AS-805, *Hardware and Software Security*, Section 9-9.2, Data Integrity, and Section 9-4.1.4, Least Privilege.

recommendation regarding system access; however, we will monitor the issue as necessary.

### **Recommendations**

We recommend the manager, St. Louis Accounting Service Center, in coordination with the manager, St. Louis Integrated Business System Solutions Center:

1. Implement a procedure to continuously monitor changes to the Parcel Post rate master file.
2. Communicate to all International Accounting Branch personnel the requirement to monitor and document management review of the monthly accrual reports.

### **Management's Comments**

Management agreed with recommendations 1 and 2 and implemented a procedure, beginning in FY 2006, to verify the accuracy of rates within the Parcel Post rate master file on a quarterly basis. Management also communicated the requirements to monitor and document review of monthly accrual reports. Additionally, management stated IAB management personnel will review monthly accruals and verify accuracy of rates on a sample basis and document those reviews monthly. Furthermore, management suggested a wording change to make our statement regarding settling accounts more accurate. Management's comments, in their entirety, are included in Appendix B of this report.

### **Evaluation of Management's Comments**

Management's comments are responsive to recommendations 1 and 2 and actions taken or planned should correct the issues identified in the finding. We also appreciate management's commitment to perform a documented review of the monthly accruals and accuracy of rates on a sample basis. In addition, we incorporated management's suggested wording change to better clarify the quarter-end account settlement process with foreign postal administrations.

We appreciate the cooperation and courtesies provided by your staff. 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 Gary Rippie   
ERIFY authenticity with Approve!  
*Gary Rippie*

**for**

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

Attachments

cc: Lynn Malcolm  
Robert L. Otto  
Vincent H. DeVito, Jr.  
Jon T. Stratton  
Elizabeth L. Novillis  
Steven R. Phelps

## APPENDIX A. PARCEL POST ACCRUAL ERRORS

<u>INBOUND MAIL</u>				<u>OUTBOUND MAIL</u>			
<u>Count</u>	<u>Country</u>	<u>Rate Errors</u>	<u>Net Dollar Value*</u>	<u>Count</u>	<u>Country</u>	<u>Rate Errors</u>	<u>Net Dollar Value**</u>
1	Afghanistan	2	(\$ 167)	45	Canada****	2	\$8,566,753
2	Albania	2	(\$ 251)	46	Denmark	6	(\$ 2,873)
3	Angola	1	(\$ 2)	47	Ecuador	4	(\$ 1,481)
4	Anguilla	2	(\$ 92)	**	Germany	2	(\$ 22,438)
5	Antigua	2	(\$ 8)	**	Hong Kong	4	(\$ 9,215)
6	Argentina	2	(\$ 76)	48	India	4	\$ 15,258
7	Armenia Rep.	2	(\$226)	49	Jamaica	4	\$ 851
8	Aruba	1	(\$ 9)	50	Norway	4	(\$ 49,687)
9	Australia	2	(\$ 18,422)	51	Solomon Islands	2	(\$ 32)
10	Austria	2	(\$ 5,602)	52	Yugoslavia	2	(\$3,952)
***	Canada		\$4,073,443		<b>Outbound Totals</b>	<b>34</b>	<b>\$8,493,184</b>
11	Cayman Islands	1	(\$ 183)				
12	Croatia	1	(\$ 83)				
13	Eritrea	1	(\$ 32)				
14	Ethiopia	1	(\$ 141)				
15	Finland	2	(\$ 1,127)				
16	France	2	(\$ 2,956)				
17	Gambia	1	(\$ 185)				
18	Germany	2	(\$ 33,755)				
19	Ghana	1	(\$ 786)				
20	Greece	1	(\$ 1,244)				
21	Guadeloupe	1	(\$ 61)				
22	Guatemala	1	(\$ 254)				
23	Guinea	1	(\$ 48)				
24	Guyana	1	(\$ 152)				
25	Haiti	1	(\$ 8)				
26	Hong Kong	1	(\$ 7,632)				
27	Hungary	1	(\$ 694)				
28	Iceland	2	(\$ 375)				
29	Kazakhstan Rep.	1	(\$ 6)				
30	Korea	1	(\$ 15,335)				
31	Kuwait	1	(\$ 88)				
32	Laos	1	(\$ 301)				
33	Latvia	1	(\$ 323)				
34	Lebanon	1	(\$ 54)				
35	Lithuania	1	(\$ 1,327)				
36	Luxembourg	1	(\$ 471)				
37	Netherlands	4	(\$ 7,669)				
38	New Zealand	2	(\$ 4,570)				
39	Spain	1	(\$ 2,188)				
40	Sri Lanka	1	(\$ 28)				
41	St. Lucia	1	(\$ 27)				
42	Switzerland	2	(\$ 4,546)				
43	United Arab	2	(\$ 789)				
44	United Kingdom	2	(\$ 6,820)				
	<b>Inbound Totals</b>	<b>63</b>	<b>\$3,954,330</b>				

\* Rate exceptions were converted to U.S. dollars using the International Monetary Fund rates as of August 31, 2005.

\*\* This country also appears on the inbound exception list.

\*\*\* This exception is due to the erroneous Canada monthly accrual and is not a rate error. Therefore, it is not included in the count of rate exceptions.

\*\*\*\* Net Dollar Value consists of rate exceptions of (\$77,828) and erroneous Canada monthly accrual of \$8,644,581.

## APPENDIX B. MANAGEMENT'S COMMENTS

FINANCE



December 8, 2005

KIM STROUD

SUBJECT: Draft Audit Report – International Parcel Post Accruals  
(Report Number FT-AR-06-DRAFT)

As requested, we are responding to your November 4 memo and subject audit.

### Recommendations

We recommend the manager, St. Louis Accounting Service Center, in coordination with the manager, St. Louis Integrated Business System Solutions Center:

1. Implement a procedure to continuously monitor changes to the Parcel Post rate master file.

### Response

Management agrees and the recommendation has been implemented. Beginning in FY2006, report AHH022, Closed Transit Rate Report, will be utilized on a quarterly basis to verify the accuracy of rates for the billings.

2. Communicate to all International Accounting Branch personnel the requirement to monitor and document management review of the monthly accrual reports.

### Response

The requirements to monitor and document review of monthly accrual reports have been communicated to appropriate personnel in the International Accounting Branch (IAB). IAB management personnel will review the monthly accruals for reasonableness and verify accuracy of rates used in the accruals on a sample basis. This review by IAB management personnel will be documented monthly.

In addition, due to tolerances and constantly changing volumes, we believe the last sentence of the last paragraph on the first page which currently reads "Each Quarter, the IAB settles actual volumes with foreign postal administrations" is not completely accurate. We recommend a wording change to read "Each quarter, IAB settles accounts on a quarterly basis based upon documented volumes at the time of review."

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We see nothing in this report or management's response which contains proprietary or other business information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

If you have any questions, please contact Kevin McNamara at (202) 268-3273.

Thank you for providing this report



Vincent DeVito

cc: Lynn Malcolm  
Robert Otto  
Jon T. Stratton  
Elizabeth Novillis  
Stephen R. Phelps