



January 10, 2006

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2005 Postal Service Financial Statements
Audit – Eagan Information Technology and Accounting Service Center
(Report Number FT-AR-06-009)

This report presents the results of our audit of the financial activities and accounting records at the Information Technology and Accounting Service Center (IT/ASC) in Eagan, Minnesota, for the fiscal year ended September 30, 2005 (Project Number 05BM001FT000). The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. We conducted this audit 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, accounting transactions affecting the general ledger account balances at the Eagan IT/ASC were fairly stated in the national trial balance in accordance with accounting principles generally accepted in the United States and conformed with the general classification of accounts on a basis consistent with that of the previous year. 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 addition, we identified an opportunity to improve Postal Service operations related to reporting salary overpayments to the Internal Revenue Service. This item was not material to the financial statements and did not affect the overall adequacy of internal controls. Recommendations noted in this report were communicated to management through an interim report. Accordingly, we did not propose any further recommendations.

Management agreed with our previously reported recommendations and has initiatives in progress addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the review. 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.
Vincent H. DeVito, Jr.
Jon T. Stratton
Elizabeth L. Novillis
Dean R. Rodman
Margaret A. Weir
Steven R. Phelps

INTRODUCTION

Background

The Eagan Information Technology and Accounting Service Center (IT/ASC) is a large centralized accounting and disbursement center. The center processes payroll, maintains the general ledger, reconciles financial data, and maintains cash and receivable accounts.

The Eagan IT/ASC is one of three accounting service centers Postal Service-wide.¹ The Postal Service Office of Inspector General (OIG) will issue separate financial statements audit reports for headquarters and the San Mateo and St. Louis 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, the OIG will issue a separate report for the audit of the 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 of the Eagan IT/ASC provided for an adequate internal control structure and were in compliance with accounting principles generally accepted in the United States.
- Accounting transactions at the Eagan IT/ASC affecting the general ledger account balances for assets, liabilities, equity, income, expenses, and commitments of the Postal Service 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.²

¹ The other IT/ASCs are located in San Mateo, California, and St. Louis, Missouri.

² This objective is applicable to work done at the Eagan IT/ASC, based on feedback from OIG teams at the St. Louis and San Mateo IT/ASC sites and Postal Service Headquarters.

- 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 November 2004 through November 2005. We assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2004 through January 2006 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 Accounting Data Mart, General Ledger, Time and Attendance Collection System (TACS), Pay Calculation, Complement Management and Selection System, and Employee Master File. 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 traced payroll system reports to original journal voucher transactions.

Prior Audit Coverage

As part of our audit, we followed up on prior years' recommendations related to our financial statements audits at the Eagan IT/ASC.³ Postal Service management took the following corrective actions on our recommendations:

The Postal Service issued eight management instructions relating to back pay award computations, including one during FY 2005. Postal Service personnel stated these management instructions alleviated the need for a Web-based self-training program.

While substantial progress was made, the following item remains unresolved:

³ *Fiscal Year 1999 Postal Service Financial Statement Audit – Eagan Information Service Center* (Report Number FR-AR-00-006, dated February 25, 2000) and *Fiscal Year 2004 Postal Service Financial Statements Audit – Eagan Information Service Center* (Report Number FT-AR-05-005, dated January 10, 2005).

Postal Service employees had access authority within TACS to enter or change their own work and leave hours. Postal Service initially agreed to review the access levels and issue clearer guidance by June 30, 2005. During FY 2005, Postal Service initiated the review and provided a revised target completion date of December 31, 2005. We will continue to monitor this area as part of our annual financial statements audit work.

AUDIT RESULTS

The audit disclosed 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, accounting transactions at the Eagan IT/ASC that affected the general ledger account balances were fairly 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.

Although we did not propose any adjusting journal entries to the center's trial balance as of September 30, 2005, we identified an opportunity to improve Postal Service operations related to reporting salary overpayments to the Internal Revenue Service (IRS). This item was not material to the financial statements and did not affect the overall adequacy of internal controls.

Interim Report

During the course of our financial statements audit, we determined that the Postal Service did not always follow IRS employment tax regulations for reporting salary overpayments when employees did not repay the entire amount by the end of the calendar year in which the Postal Service made the payment.⁴ Specifically, as of the end of Postal Service calendar year 2004, approximately \$5.5 million in salary overpayments established during that calendar year remained outstanding.⁵

Also, the Postal Service incorrectly adjusted \$2.3 million in social security wages related to prior year salary overpayments. As a result, the Postal Service incorrectly reported employee income and related taxes to the IRS on its Form 941, Employer's Quarterly Federal Tax Return, for that period.

We recommended management revise Postal Service policy to comply with IRS employment tax regulations. In

⁴ Management Advisory – *Reporting Salary Overpayments to the Internal Revenue Service* (Report Number FT-MA-05-002, dated September 28, 2005).

⁵ Transactions occurring from the beginning of pay period 1 (December 13, 2003) through the end of pay period 27 (December 24, 2004).

addition, we recommended they establish accounts receivable for the gross amount due, including all taxes, and communicate tax implications to employees.

The Postal Service is in the process of implementing programming changes to ensure compliance.

Corrective Actions Taken

Management agreed with our finding and recommendations and plans to implement corrective action by the end of the third quarter of FY 2006. Since we communicated these recommendations to management through an interim report, we are not providing any further recommendations.

Management's Comments

Regarding the interim finding on salary overpayments, management initiated software changes to establish accounts receivable for the gross amount due and to correctly report employee income and taxes related to salary overpayments. Corrective action is scheduled to be completed by the third quarter of FY 2006.

Management also acknowledged their agreement to provide clearer guidance on TACS access authority by December 31, 2005, and provided a memorandum to area finance managers addressing the issue on December 5, 2005. Management's comments, in their entirety, are included in the appendix of this report.

Evaluation of Management's Comments

Management's comments are responsive to our interim and prior recommendations and should correct the issues identified in the findings. We will continue to monitor these areas as part of our annual financial statements audit.

APPENDIX. MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER



December 21, 2005

DARRELL E. BENJAMIN, JR.

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2005 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center (Report Number FT-AR-06-DRAFT)

We received and reviewed your November 18, 2005, draft audit report. The report contains no new findings or recommendations for management comments. There were two interim findings previously addressed.

The first finding included revising Postal Service policy to comply with Internal Revenue Service employment tax regulations; establishing accounts receivable for the gross amount due, including all taxes; and communicating tax implications to employees.

Software Change Request(s) have been issued to establish employee accounts receivable for "gross amount", and to correctly report employee income and taxes related to salary overpayments. As stated in response to the Office of Inspector General interim report, programming changes to ensure compliance are scheduled to be completed and implemented by June 30, 2006.

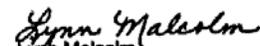
The second finding involved Postal Service employees having access authority within the Time and Attendance Collection System (TACS), to enter or change their own work and leave hours. Management had initially agreed to provide clearer guidance on this issue by June 30, 2005; this date was revised to December 31, 2005.

Attached is the Vice President, Controller's memorandum to the Area Finance Managers on TACS authorizations, which addresses Access Authority policy.

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.

If you have any questions, please contact Vince DeVito at (202) 268-8201 or Jo Ann Mitchell at (202) 268-5915.

Thank you for providing this report.


Lynn Malcolm

Attachment

cc: Vincent H. DeVito, Jr.
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LYNN MALCOLM
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December 5, 2005

AREA FINANCE MANAGERS

SUBJECT: TACS Authorizations

In the latest review of TACS security, it was noted that nationwide 7,780 craft employees were authorized to edit their own clock rings. While this may be necessary in a weekly time card office with few employees, it should not occur in offices utilizing daily clock rings. We are currently reviewing a software change that would block this type of authorization.

The following are the guidelines for authorization to personal clock rings changes.

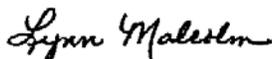
Offices on Daily Clock Rings

- o No craft employee should be authorized to edit his/her own clock rings. This includes craft employees on higher level assignments.
- o A nonbargaining employee in an office with more than two nonbargaining employees should not be authorized to edit his/her own clock rings.

Office on Weekly Time Cards

- o A craft employee in an office with more than one career clerk should not be authorized to enter his/her own weekly time card data. This includes a craft employee on higher level detail with the exception of a rural carrier in an OIC assignment.
- o A nonbargaining employee in an office with more than two nonbargaining employees should not be authorized to enter his/her own time card data.

Please ensure that your Districts are aware of these guidelines. The authorizations for personal clock ring changes can be reviewed, by running the user access report under user reports, from the systems tab. This information will also be sent to your TACS Managers and posted on the TACS web site on the TACS Managers' page.


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