



January 26, 2006

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2005 Postal Service  
Financial Statements Audit – San Mateo Information Technology and  
Accounting Service Center (Report Number FT-AR-06-010)

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 San Mateo, California, for the fiscal year ended September 30, 2005 (Project Number 05BM003FT000). 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 U.S. and provided for an adequate internal control structure. Additionally, accounting transactions at the San Mateo IT/ASC impacting the general ledger account balances were fairly stated in the national trial balance in accordance with accounting principles generally accepted in the U.S., and conformed to 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 affect on the financial statements.

We did not propose any adjusting journal entries to the center's trial balance as of September 30, 2005. However, we did identify an opportunity to improve Postal Service operations. Specifically, the Postal Service paid certain invoices earlier than policy requires. This item was not material to the financial statements and did not affect the overall adequacy of internal controls. This issue represents approximately \$2,800 of questioned costs and \$5,600 of funds put to better use and will be reported as such in our *Semiannual Report to Congress*. During the audit, actions were taken to correct the issue. As such, this report does not contain any recommendations.

Management reiterated its corrective action regarding banking courier services payments. Regarding the two issues previously identified, management stated the material accountability officer is required to perform property reviews and the Vehicle Maintenance Facility manager is responsible for stockroom and inventory management. 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 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

#### Attachments

cc: Richard J. Strasser, Jr.  
Keith Strange  
Vincent H. DeVito Jr.  
Elizabeth L. Novillis  
Jon T. Stratton  
Connie E. White  
John P. Hartnett  
Margaret A. Weir  
Steven R. Phelps

## INTRODUCTION

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### Background

The San Mateo Information Technology and Accounting Service Center (IT/ASC) functions as a large centralized accounting and disbursement center. The center is responsible for accounts payable,<sup>1</sup> centralized postage payments,<sup>2</sup> capital personal property, motor vehicles, and supply inventory.

The San Mateo IT/ASC is one of three accounting service centers Postal Service-wide.<sup>3</sup> We will issue separate financial statements audit reports for headquarters and the Eagan and St. Louis IT/ASCs. Further, in addition to the overall opinion on the U.S. 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, we 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.

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### Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:

- The financial accounting policies and procedures of the San Mateo IT/ASC provided for an adequate internal control structure and were in compliance with accounting principles generally accepted in the U.S.
- Accounting transactions at the San Mateo IT/ASC impacting 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 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.

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<sup>1</sup> Includes accounting for motor vehicle supply parts and services, bulk fuel inventory purchases, miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field payables.

<sup>2</sup> The Centralized Account Processing System is an electronic postage payment system that provides business mailers a way to pay postage at multiple post offices through a centralized account.

<sup>3</sup> The other IT/ASCs are located in Eagan, Minnesota, and St. Louis, Missouri.

- 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. As part of our audit, 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 Accounting Data Mart, Accounts Payable Accounting and Reporting System II (APARS II), Accounts Payable Excellence (APEX)<sup>4</sup> Centralized Account Processing System, General Ledger, Vehicle Management and Accounting System, Material Distribution/Inventory Management System, and Property and Equipment Accounting System. We performed specific internal control and transaction tests on these systems' data, including tracing selected financial information to supporting source records. For example, we verified that payments recorded in APARS II were supported by certified invoices and the amounts were properly applied to the appropriate general ledger accounts.

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**Prior Audit Coverage**

As part of our audit, we followed up on the prior year's recommendations related to our financial statements audits at the San Mateo IT/ASC.<sup>5</sup> Postal Service management took the following corrective actions on our recommendations:

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<sup>4</sup> In August of FY 2005, the Postal Service replaced APARS II with the APEX system.

<sup>5</sup> *Fiscal Year 2004 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-05-007, dated January 12, 2005). *Duplicate Payment Made to Inland Paperboard & Packaging* (Report Number FT-AR-04-012, dated September 29, 2004). *Fiscal Year 2003 Postal Service Financial Statements Audit - San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-04-008, dated February 24, 2004). *Accountability at the San Francisco Vehicle Maintenance Facility* (Report Number FT-AR-05-008, dated January 18, 2005).

- A monthly review process was initiated by the San Mateo IT/ASC to ensure duplicate payments are detected.
- While substantial progress was made, the following items remain unresolved. We will continue to monitor the progress and actions in these areas:
  - At the end of FY 2004 we were unable to determine the impact of actions taken to address previously identified issues concerning property accountability. We agreed to monitor and address property accountability during our FY 2005 audit. In FY 2005 we determined that 15 of 26 sites tested did not perform required semiannual property internal reviews.<sup>6</sup> Further, at two sites we were unable to verify property items valued at approximately \$8,400.
  - The San Francisco Vehicle Maintenance Facility (SF VMF) showed improvement researching and reconciling inventory discrepancies. However, the following items remain outstanding:
    1. Discrepancies continued to exist between the number of parts held and the number of parts recorded in the inventory accounting systems. These discrepancies were not always adequately researched and reconciled.
    2. Personnel did not always control access to the parts stockroom.
    3. Personnel did not compare the Vehicle Disposal Listing to disposal documents submitted to the Postal Data Center to ensure the accuracy of the listing.

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<sup>6</sup> Handbook AS-701, *Material Management*, June 2005, Section 541.28, requires the material accountability officer to evaluate the status of property records and files by conducting an internal review (semiannually).

## AUDIT RESULTS

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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, accounting transactions at the San Mateo IT/ASC impacting the general ledger account balances were fairly 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.

In addition, we identified an opportunity to improve Postal Service operations. This item was not material to the financial statements and did not affect the overall adequacy of internal controls.

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### **Banking Courier Services Invoice Payments**

The San Mateo IT/ASC paid approximately \$1.1 million in banking courier services invoices earlier than required by Postal Service policy. Specifically, the invoices were scheduled for next business day payment<sup>7</sup> rather than the payment due date. This occurred because invoices for banking courier services were included among invoices charged to an account scheduled for next business day payment.<sup>8</sup>

We identified approximately \$1.1 million on 332 invoices for which payments were made prior to the payment due dates. Using the \$1.1 million, we computed the opportunity cost of not making the payments in accordance with Postal Service policy. As a result, we estimated the opportunity cost for early payments, using the cost of borrowing rate, at approximately \$2,800<sup>9</sup> of questioned costs and \$5,600 of funds put to better use.

Beginning in July 2004, the Postal Service programmed the Enterprise Imaging Workflow System<sup>10</sup> to pay all invoices

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<sup>7</sup> Coded with "next day payment terms" in APARS II.

<sup>8</sup> Account 52424, Services by Commercial Banks. This account is used to record commercial bank charges for banking services provided for maintaining a postal installation bank account.

<sup>9</sup> We computed opportunity costs based on payments made between July 2004 and June 2005.

<sup>10</sup> The Enterprise Imaging Workflow System is an enterprise Web application that captures, administers, and approves Postal Service form data and images.

charged to account 52424, Services by Commercial Banks, with next day payment terms. This deviation from established payment policy was made to ensure prompt payment to banks for amounts owed on closed accounts. Included among the invoices charged to account 52424 were invoices for banking courier services.

Postal Service Management Instruction FM-610-2000-2, Compliance with the Prompt Payment Act, dated March 7, 2000, states, "Payments must be made as close as possible to the end of the period allowed for making payment." The management instruction also states that payments for goods and services, when not agreed upon in advance, are to be made in accordance with the terms of the Prompt Payment Act and, in the absence of an early payment discount, the payment due date is 30 days after the later of the invoice received date, the supplier's invoice date, or the date the goods or services were received.

As a result of our audit, the San Mateo IT/ASC took corrective action to ensure banking courier services invoices were paid on the payment due date.

<b>Auditors' Comment</b>	Management's actions taken corrected the issue identified in the finding. Therefore, we make no further recommendations concerning this issue. As part of our financial statements audit, we will continue to monitor the payments for banking courier services.
<b>Management's Comments</b>	Management reiterated that corrective action were taken regarding banking courier services payments. Also, regarding the two interim findings previously addressed, management stated the material accountability officer is required to perform property reviews, and the vehicle maintenance facility manager is responsible for stockroom and inventory management. Management's comments, in their entirety, are included in the appendix of this report.
<b>Evaluation of Management's Comments</b>	Management did not comment on approximately \$2,800 of questioned costs and \$5,600 of funds put to better use. However, in subsequent discussions, management agreed with both the categories and the amounts.

Additionally, while the two unresolved issues previously identified were not material to the financial statements and did not affect the overall adequacy of internal controls, we will continue to monitor them as part of our annual financial statements audit.

## APPENDIX. MANAGEMENT'S COMMENTS

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER



January 12, 2006

DARRELL E. BENJAMIN, JR.

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

We received and reviewed your November 30, 2005, draft audit report. The report contained an opportunity to improve operations. This item was not material to the financial statements and did not affect the overall adequacy of internal controls. There were two interim findings previously addressed.

The opportunity to improve operations related to banking courier services invoice payments. The San Mateo Information Technology/Accounting Service Center (IT/ASC) paid approximately \$1.1 million in banking courier services invoices earlier than required by Postal Service policy. Specifically, the invoices were scheduled for next business day payment rather than the payment due date. This occurred because invoices for banking courier services were included among invoices charged to an account scheduled for next business day payment.

The General Ledger Account (GLA) for Banking Courier Service fees has been changed to reflect payment terms of net-30. Payments for this GLA are scheduled for 30 days from the invoice date, invoice received date, or good received date, whichever is later.

The first interim finding addressed property accountability. In fiscal year 2005, the Office of Inspector General (OIG) determined that 15 of 26 sites tested did not perform required semi-annual property internal reviews. Further, at two sites, they were unable to verify property items valued at approximately \$8,400.

The Material Accountability Officer (MAO) at postal locations are required to perform semi-annual property internal reviews as outlined in Handbook AS-701, Material Management, June 2005.

The second finding involved resolving parts discrepancies at the San Francisco Vehicle Maintenance Facility (SFVMF). While the SFVMF showed improvement researching and reconciling inventory discrepancies, they continued to exist between the number of parts held and the number of parts recorded in the inventory accounting systems. These discrepancies were not always adequately researched and reconciled. In addition, personnel did not always control access to the parts stockroom. Finally, personnel did not compare the Vehicle Disposal Listing to disposal documents submitted to the Postal Data Center to ensure the accuracy of the listing.

Vehicle Maintenance Facility (VMF) stockroom and inventory management are the responsibility of the VMF Manager as stipulated in handbook PO-701 Fleet Management, March 1991.

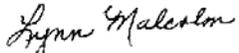
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We see nothing in this report or management's response which contains proprietary or other business information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

If you have any questions, please contact Vince DeVito at (202) 268-8201.

Thank you for providing this report.

  
Lynn Malcolm

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