



December 7, 2006

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2006 Postal Service Financial Statements
Audit – Washington, D.C., Headquarters
(Report Number FT-AR-07-004)



This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Headquarters for the fiscal year ended September 30, 2006 (Project Number 06BM004FT000). 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.

Postal Service management's financial accounting policies and procedures conformed with accounting principles generally accepted in the U.S. and provided for an adequate internal control structure. Additionally, general ledger account balances for 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. and conformed with the general classification of accounts on a basis consistent with that of the previous year.¹ Also, we did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements.

We discussed the results of the audit with management on December 1, 2006. Because we provided no recommendations, management chose not to respond to this report.

¹ We limited our coverage of workers' compensation to a comparison of prior year's source code and verification of data in the Workers' Compensation Master File. Accordingly, we did not verify the accuracy of the account balance. The Board of Governors' independent public accounting firm performed that verification.

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) 248-2100.

E-Signed by John Cihota 
VERIFY authenticity with ApproveIt


John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachment

cc: H. Glen Walker
Robert J. Pedersen
Vincent H. DeVito, Jr.
Steven R. Phelps

INTRODUCTION

Background

U.S. 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 management and the public receive meaningful financial information in accordance with generally accepted accounting principles. We conducted this audit in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements.

We will issue separate financial statements audit reports 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, we will issue a separate report for the audit of fiscal year (FY) 2006 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 U.S.
- Accounting transactions that affect the general ledger account balances for unemployment and workers' compensation, and for 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 with the general classification of accounts of the Postal Service on a basis consistent with that of the previous years.

- 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 March through November 2006. As part of our audit, we assessed internal controls, tested transactions, and verified \$54.9 million in unemployment compensation liability as of September 30, 2006. We limited our coverage of workers' compensation to a comparison of prior year's source code and verification of data in the Workers' Compensation Master File. Accordingly, we did not verify the accuracy of the account balance. The Board of Governors' independent public accounting firm performed that verification.

In addition, we verified the Board of Governors' travel and miscellaneous expenses totaling about \$63,000, and external professional fees totaling about \$21,000. Also, we tested and accepted officers' travel and representation expenses totaling about \$1.0 million. We issued a separate report for our audit of the FY 2006 Board of Governors' travel and miscellaneous expenses.² We will issue a separate report for our audit of the FY 2006 officers' travel and representation expenses.

We conducted this audit from March through December 2006 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

² *Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2006* (Report Number FT-AR-07-003, dated December 5, 2006).

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 and have not identified any reportable conditions. We disclosed the results of our most recent audit for FY 2005 in the audit report, *Fiscal Year 2005 Postal Service Financial Statement Audit – Washington, D.C., Headquarters* (Report Number FT-AR-06-002, dated November 16, 2005).

AUDIT RESULTS

Audit Results	Management's financial accounting policies and procedures conformed with accounting principles generally accepted in the U.S. and provided for an adequate internal control structure. Additionally, general ledger account balances for 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 and conformed with the general classification of accounts on a basis consistent with that of the previous year. ³ 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	We discussed the results of the audit with Postal Service management on December 1, 2006. 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.

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