



December 29, 2006

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2006 Postal Service Financial Statements
Audit – Eagan Information Technology and Accounting Service Center
(Report Number FT-AR-07-007)

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, 2006 (Project Number 06BM001FT000). 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.

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, accounting transactions that affect 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 U.S. 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 and issued an interim report¹ related to Disbursing Branch activities. This item was not material to the financial statements and did not affect the overall adequacy of internal controls. We communicated recommendations noted in this report to management through an interim report. Accordingly, we did not propose any further recommendations.

¹ *Internal Controls Over Receipt and Disbursing Activities* (Report Number FT-AR-07-006, dated December 21, 2006).

The results of the audit were discussed with management on November 29, 2006. 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) 248-2100.

E-Signed by John Cihota 
VERIFY authenticity with Approve!
John E. Cihota

John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachment

cc: H. Glen Walker
Vincent H. DeVito, Jr.
Elizabeth L. Novillis
Dean R. Rodman
Steven R. Phelps

INTRODUCTION

Background

The Eagan Information Technology and Accounting Service Center (IT/ASC) is one of three accounting service centers Postal Service-wide.² It is a large centralized accounting and disbursement center that processes payroll, maintains the general ledger, reconciles financial data, and maintains cash and receivable accounts. We conducted this audit in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements.

We issued a separate financial statement audit report for headquarters³ and will also be issuing separate reports for 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. The OIG will also issue a separate report for the audit of the 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 of the Eagan 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 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 U.S.
- General ledger account balances conformed with the general classification of accounts of the Postal Service on a basis consistent with that of previous years.

² The other IT/ASCs are located in San Mateo, California, and St. Louis, Missouri.

³ *Fiscal Year 2006 Postal Service Financial Statements Audit – Washington, D.C., Headquarters* (Report Number FT-AR-07-004, dated December 7, 2006).

- 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 2005 through November 2006. As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2005 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 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

We have audited the financial activities and accounting records at Eagan IT/ASC since FY 1998. We disclosed the results of our most recent audit for FY 2005 in the audit report *Fiscal Year 2005 Postal Service Financial Statement Audit – Eagan Information Technology and Accounting Service Centers* (Report Number FT-AR-06-009, dated January 10, 2006). We address issues that remain outstanding under 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, 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 U.S. Further, general ledger account balances 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.

Although we did not propose any adjusting journal entries to the center's trial balance as of September 30, 2006, we identified an opportunity for the Eagan IT/ASC to improve its Disbursing Branch activities. This item was not material to the financial statements and did not affect the overall adequacy of internal controls.

Interim Report on Disbursing Activities

We identified and reported the following two issues to Eagan IT/ASC management through an interim report during our financial statements audit.

Examination of Forms for Proper Certification

Disbursing Branch personnel processed payments totaling \$23,917,906 that were certified by an officer that did not have a valid signature/designation card on file. During our audit, the Finance Branch discovered the error and completed a valid signature/designation card. When certifying officials are not validated, the Postal Service increases its risk of improper payments.

We recommended management instruct disbursing personnel to compare certifying officials with signature/designation cards and confirm changes to the certifying officer list are proper. In addition, we recommended they confirm changes to the certifying officer list are proper before revoking signature/designation cards.

Management agreed with our recommendations and their actions taken should correct the issues identified. Since we

communicated these recommendations to management through an interim report, we are not providing any further recommendations.

Depositing Cash into Personal Accounts	Two employees deposited Postal Service funds in their own personal accounts to convert cash to checks so they could deposit them with the Federal Reserve Bank of Minneapolis. ⁴ During the course of our audit, management established an account at the financial institution located at the Eagan IT/ASC and discontinued the practice of depositing cash into employee accounts to convert to checks. Therefore, we provided no recommendation regarding mingling funds but will monitor this issue as necessary.
Progress on Prior Year Recommendations	As part of our audit, we followed up on prior years' recommendations related to our financial statement audits at the Eagan IT/ASC. ⁵ The status of management's actions in response to our recommendations is as follows:
Timekeeping Duties	Regarding Postal Service employees with access authority within TACS to enter or change their own work and leave hours, management removed employees' access where feasible. In addition, management issued guidance detailing exceptions to the separation of duties requirement. We considered the actions to address these recommendations sufficient.
Reporting Salary Overpayments to the Internal Revenue Service	The Postal Service did not always follow Internal Revenue Service (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. To date, management has not implemented our recommendations to revise Postal Service policy to comply with IRS tax regulations, establish accounts receivable for gross amount due, and inform employees of tax implications. However, management is in the process of enhancing the payroll and accounts receivable systems so they have the capability to comply

⁴ *Treasury Financial Manual*, Volume 1, Part 5-2000, Checks and Cash received in Collections, states that Federal Reserve Bank deposits must not contain cash.

⁵ *Fiscal Year 2004 Postal Service Financial Statement Audit – Eagan Information Service Center* (Report Number FT-AR-05-005, dated January 10, 2005) and *Fiscal Year 2005 Postal Service Financial Statement Audit – Eagan Information Service Center* (Report Number FT-AR-06-009, dated January 10, 2006).

with the recommendations. Target completion date for system enhancements, including associated notifications, is September 30, 2007. We will continue to monitor this area as part of our annual financial statement audit work.

**Management's
Comments**

We discussed the results of the audit with Postal Service management on November 29, 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.