



March 5, 2007

JERRY D. LANE
VICE PRESIDENT, CAPITAL METRO AREA

JOSEPH M. LENNON
MANAGER, SURFACE OPERATIONS

SUBJECT: Audit Report — Rail Management Information System Service Claim
Payments — Capital Metro Distribution Networks Office
(Report Number FT-AR-07-008)

This report presents issues concerning Rail Management Information System (RMIS) service claim payments at the Capital Metro Distribution Networks Office (Project Number 06BM003FT002). We identified these issues during our audit of the fiscal year (FY) 2006 Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC).

Background

RMIS is a computerized system that provides certification for rail payments and trailer movement control simultaneously. The system operates in a real time mode; therefore, its success is dependent on the employees responsible for collecting and inputting the required data. Origin distribution networks offices (DNO) process all RMIS service claims for manual payments (for example, line haul claims¹). However, RMIS processes most line haul payments automatically. RMIS service claim payments are processed manually when the origin bulk mail center uses erroneous routing instructions; when the origin, intermediate point, or destination Postal Service facility personnel enter erroneous data; or when an emergency routing² is created.

¹ Line haul claims are payment requests for services rendered for delivering mail from an originating facility to a destination facility.

² Emergency routing is used to meet unusual needs that interrupt normal transportation services, such as a catastrophic event or a labor dispute.

Objective, Scope, and Methodology

The objective of the audit was to determine whether internal controls over RMIS at the Capital Metro DNO were adequate to ensure management properly authorized service claim payments made to rail carriers, and employees accurately and timely recorded the transactions into the payment system.

To accomplish our objective, we initially examined all 70 service claim payments in RMIS that were processed by the Capital Metro DNO between October 1, 2005, and May 6, 2006 (totaling \$152,871). Based on the results of our initial review of the 70 payments, we expanded our review to include 269 additional service claim payments processed during FYs 2005 and 2006:³

- We used RMIS payment data previously extracted during our FYs 2005 and 2006 financial statement audits to obtain 175 service claim payments, totaling \$297,946, processed from October 13 through December 29, 2004; January 5 through May 11, 2005; and May 7 through June 6, 2006.
- We used RMIS payment data available at the time of our audit to obtain all 94 service claim payments, totaling \$204,311, processed between June 7 and July 26, 2006.

We relied on computer-generated data extracted from RMIS to calculate the monetary impact of the internal control weakness. However, we were unable to validate the accuracy of system data because supporting documentation was not available.

We conducted this audit from May 2006 through March 2007 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.

Prior Audit Coverage

During our FY 2005 audit,⁴ we reported personnel at the Seattle Branch DNO did not always obtain appropriate supporting documentation for service claim payments. We recommended management strengthen control procedures and ensure future contract requirements include adequate provisions covering the service claim payment process. Management agreed to strengthen control procedures by requesting suppliers submit a

³ Because RMIS payment data was only available within the system for 60 days, we were not able to completely expand our scope to include all payments made during FYs 2005 and 2006.

⁴ *Fiscal Year 2005 Postal Service Financial Statements Audit - St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-06-019, dated April 21, 2006).

copy of a delivery receipt as part of the documentation used to review service claims. Management also agreed to update future contracts to include requesting delivery confirmation.

Results

Internal controls over RMIS at the Capital Metro DNO were not adequate to ensure management properly authorized service claim payments to rail carriers, and employees accurately and timely recorded transactions into the payment system. Specifically, Capital Metro DNO personnel did not maintain supporting documentation for 338 of the 339 sampled RMIS service claim payments as required by Postal Service policy. Without the required documentation, we were unable to ascertain whether payments were processed accurately and timely.

Postal Service policy requires the DNO to prepare a documentation package, which includes verification of the carrier's arrival at the destination,⁵ prior to entering claims into RMIS.⁶ The policy also requires the DNO to maintain records submitted for service claims for a period of 2 years after the date of the payment.⁷

Capital Metro DNO personnel were not aware of the requirement to prepare a package of supporting documentation before service claim payments are entered into RMIS and approved. In addition, they were not aware of the retention period policy. Furthermore, this Postal Service policy does not require the supervisor to review the package prior to approving payment.

When service claim payment documentation is not retained, as required, and supervisors are not required to review documentation prior to approval, the Postal Service increases its risk of erroneous, duplicate, or fraudulent payments. During the timeframes reviewed, the Postal Service processed undocumented RMIS service claim payments valued at approximately \$356,807 in FY 2006 and approximately \$297,946 in FY 2005. We will report total undocumented service claim payments of \$654,753 as unsupported questioned costs in our *Semiannual Report to Congress*.⁸

⁵ Examples of verification of arrival include an arrival record of the delivery destination in a Postal Service computer application, or a signed delivery receipt from the supplier.

⁶ Management Instruction PO-540-2006-2, *Surface Intermodal/Rail Payments Manual Processing*, dated May 1, 2006, pages 7 and 8, was updated to include the request that carriers submit copies of signed delivery receipts, if available, and the Postal Service verify arrival at the destination through information from a Postal Service computer application, or a signed delivery receipt of the supplier.

⁷ Management Instruction PO-540-2006-2, *Surface Intermodal/Rail Payments Manual Processing*, dated May 1, 2006, pages 7 and 8.

⁸ We acknowledge these payments may have been proper. However, because source documents did not exist at the time of our audit, we were not able to validate them.

Recommendations

We recommend the Vice President, Capital Metro Area, direct distribution networks office personnel to:

1. Prepare a supporting documentation package prior to entering service claims in the Rail Management Information System.
2. Maintain records used to support service claim payments made in the Rail Management Information System for 2 years after the payment date.

Management's Comments

Management agreed with recommendations 1 and 2; however, they did not completely agree with the finding. Management disagreed with the statement that Capital Metro DNO personnel were not aware of the requirement to prepare a package of supporting documentation before service claim payments were entered into RMIS and approved. Management contends it has been their practice to prepare supporting documentation packages and verify services prior to approving payment. Further, with regard to the \$654,753 of unsupported questioned costs, management disagreed with the statement that the Postal Service processed undocumented RMIS service claim payments during the timeframes reviewed and stated that no finding was presented supporting the assertion that improper payments were made. Management conceded that employees did not adhere to the Management Instruction regarding retention of supporting documentation but stated supporting data was gathered and verification of service was attained prior to approving payment. Management continues to believe the manual rail payments were proper and justified, although supporting documentation was discarded.

Management did not provide a target date for corrective action in their initial written comments. However, through subsequent communication, management indicated they currently comply with both recommendations. Management's comments, in their entirety, are included in Appendix A.

Evaluation of Management's Comments

We continue to believe Capital Metro DNO personnel were not aware of the requirement to prepare a package of supporting documentation before service claim payments were entered into RMIS and approved. Our review of supporting documentation for the most recent transactions disclosed that DNO personnel did verify that a payment was not processed previously. However, we found no evidence of a package, including documentation to support van assignment, verification of arrival, and verification of RMIS contract master rate.

Also, as previously stated, we acknowledge these payments may have been proper. However, because source documents did not exist at the time of our audit, or supporting

documentation packages were not complete, we were not able to validate them. As such, we consider those payments undocumented and classify them as unsupported questioned costs in accordance with the definition provided in the Inspector General Act of 1978.⁹

Since management stated they agreed and now comply with our recommendations, their comments are responsive to recommendations 1 and 2, and the actions taken should correct the issues identified in the finding.

Recommendations

We recommend the Manager, Surface Operations:

3. Revise existing Postal Service policy to require supervisors to review supporting documentation before approving Rail Management Information System service claim payments.
4. Communicate the revised policy to appropriate Postal Service personnel.

Management's Comments

Management agreed with recommendations 3 and 4. Management will revise Management Instruction PO-540-2006-2, *Rail Payments Manual Processing*, to require supervisors and contracting officers, if appropriate, to review and approve supporting documentation for RMIS service claim payments. The revised policy will be communicated to appropriate Postal Service personnel. Management did not provide a target date for corrective action in their initial written comments. However, through subsequent communication, they stated the target date for corrective actions is March 31, 2007.

Management did not agree with the claim of unsupported questioned costs. They believe that although documentation was not available at the time of our audit to support RMIS service claim payments, there is no evidence that appropriate paperwork did not exist at the time the payments were processed.

Management also offered additional suggestions to the report. Management's comments, in their entirety, are included in Appendix B.

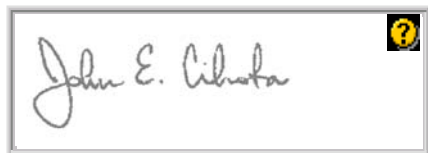
⁹ Inspector General Act of 1978, 5 U.S.C. App. § 5 (f)(1)(B) states the term "questioned cost" is a cost that is questioned by the office because of a finding that, at the time of the audit, such cost is not supported by adequate documentation.

Evaluation of Management's Comments

Management's comments are responsive to recommendations 3 and 4 and actions planned should correct the issues identified in the finding. As appropriate, we incorporated management's additional suggestions into the report. Further, as discussed in our Evaluation of Management's Comments for Recommendations 1 and 2, we acknowledge that these payments may have been proper. However, due to the issues identified, we classify them as unsupported questioned costs in accordance with the definition provided in the Inspector General Act of 1978.

The U.S. Postal Service Office of Inspector General (OIG) considers recommendations 3 and 4 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the follow-up tracking system until OIG provides written confirmation that the recommendation can be closed.

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 Reporting, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive script that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachments

cc: William P. Galligan
Lynn Malcolm
Vincent H. DeVito, Jr.
Stephen J. Nickerson
Anthony M. Pajunas
Jeffery L. Jones
Deborah A. Kendall

APPENDIX A. MANAGEMENT'S COMMENTS – Capital Metro DNO

MANAGER, OPERATIONS SUPPORT
CAPITAL METRO AREA OPERATIONS



February 8, 2007

Kim H. Stroud
Office of Inspector General
Director, Audit Reporting
1735 North Lynn Street
Arlington, Virginia 22209-2020

SUBJECT: Draft Audit Report – Rail Management System Service Claim Payments
Capital Metro Area Distribution Networks Office
(Report Number NL-AR-07-DRAFT)

The Capital Metro Area has reviewed the subject Draft-Audit-Report but does not completely agree with the findings.

Specifically, we disagree with the statement on page three (3) of the draft audit under the "Results" heading in the third paragraph that reads, "*Capital Metro personnel were not aware of the requirement to prepare a package of supporting documentation before service claims are entered into RMIS and approved.*"

It has been and continues to be the practice of the Capital Metro DNO to prepare a package of supporting documents and verify that the service was provided prior to approving payment for said services. Moreover, the packages in support of the most recent transactions of May and June of 2006 were provided to the auditors upon their review in July of 2006.

We also disagree with the statement in paragraph four in the same section of the document that reads, "*During the timeframes reviewed, the Postal Service processed undocumented RMIS service claim payments valued at \$654,753 in FYs 2005 and 2006.*"

Although the copies of the supporting documentation at the Capital Metro DN office for the periods June, 2004 – April, 2006 were erroneously discarded in July of 2006, the supporting data was gathered and verification of service was attained prior to approving payment during this period.

In terms of the recommendations, we agree with recommendation #1 requiring the preparation of supporting documents prior to entering service claims in RMIS, as is our practice. We further agree with recommendation #2 requiring the retention of these records for 2 years after the payment date.

In terms of the \$654,753 in unsupported questioned costs, no finding was presented in the draft audit supporting the assertion that improper payments were made. We do however concede the fact that the management instructions regarding the retention of the supporting documents were not adhered to and have taken steps to correct this defect. Although the supporting documents were improperly discarded, we contend that the manual rail payments were indeed proper and justified and have initiated a process to recover replacement copies of the discarded documentation.

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If you have any questions or require further information, please contact Robert Borris, Manager
Distribution Networks at 301-618-4401.


Per Jeffrey Becker

cc: Jerry D. Lane
Robert Borris

APPENDIX B. MANAGEMENT'S COMMENTS – Surface Operations

SURFACE OPERATIONS



January 23, 2007

KIM H. STROUD

SUBJECT: Audit Report Number FT-AR-07-DRAFT

Enclosed are Surface Operations comments to Report Number FT-AR-07-DRAFT, Rail Management Information System Service Claim Payments (RMIS) – Capital Metro Distribution Network Office.

Recommendation 3 reads:

"Revise existing Postal Service policy to require supervisors review supporting documentation before approving Rail Management Information System service claim payments."

Surface Operations agrees with the recommendation and will modify Management Instruction PO-540-2006-2, *Rail Payments Manual Processing*. The revised Management Instruction will include a section regarding Area Office Distribution Networks procedures as follows:

Area Office Distribution Networks

1. Investigates the RMIS non-payment, damage, detention, misuse, or other claim.
2. Receives, verifies, and communicates with the supplier on supplier claim matters.
3. Compiles the support documentation per 'Postal Service Claim Processing' of this Management Instruction for each manual payment record.
4. Creates and/or reviews the first level data entry manual payment Form 5994 record.
5. Reviews documentation and approves payments at the second level approval and third level contracting officer approval, as appropriate, based on the documentation and type of claim.
6. Establishes and maintains the RMIS Manual Payment records file and retains each record for a minimum of two years from the date of payment.

We are also including a note under Postal Service Claim Processing that states: "(Note: A copy of the computer application data screen can be pasted into a return e-mail, provided as an attachment, or faxed, for example, if provided by the destination office)."

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Recommendation 4 reads:

"Communicate the revised policy to appropriate Postal Service personnel."

Surface Operations will communicate the revised policy to appropriate Postal Service personnel. We wish to point out several other suggestions regarding the discussion draft document.

1. The name of the system is the "Rail Management Information System (RMIS)." Please correct references in the document that read "Rail Information Management System."
2. **Page 1 – Second paragraph, Sentence 3 should read:**
"Origin Distribution Network Offices (DNO) process all RMIS service claims *for manual payment processing* (e.g., line haul claims are payment requests for services rendered for delivering mail from an originating facility to a destination facility). RMIS automatically processes most RMIS line haul payments."
3. **Page 3 – Fourth paragraph, Sentence 2 reads:**
"During the timeframes reviewed, the Postal Service processed unsupported RMIS service claim payments valued at approximately \$356,807 in FY2006 and approximately \$297,946 in FY2005." We believe your statement is incorrect. Your first sentence states service claim payment documentation is not retained. The fact that documentation is not available for you to review after the fact should not lead to a conclusion that Capital Metro processed unsupported payments at the time they were reviewed and approved. There is no evidence that appropriate documentation did not exist at the time the payments were processed."

If you have any questions, please contact Rick Fallica at 202-268-4379.



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Stephen R. Phelps
Richard J. Fallica
Wanda S. Dameron