



January 20, 2009

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Postal Service Officers’ Travel and Representation Expenses for Fiscal Year 2008 (Report Number FT-AR-09-006)

This report presents the results of our audit of the U.S. Postal Service officers’ travel and representation expenses for fiscal year (FY) 2008 (Project Number 08BG002FT000). We conducted the audit in response to the Board of Governors’ policies and procedures requiring annual audits of officers’ travel and representation expenses.¹ This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

Conclusion

Based on the sample and census results, officers’ travel and representation expenses totaling approximately \$1.2 million were generally supported.² However, officers did not always comply with *Postal Service Officers’ Travel and Representation Expense Guidelines*³ (Guidelines) when claiming expenses incurred during official travel and for representation.

Travel and Representation Expense Reimbursement Deviations

Officers did not always conduct their travel or request reimbursement in accordance with Postal Service Guidelines. For example:

- Written preauthorizations were not always obtained for domestic first-class airfare or attendance of spouses at official events.
- Spousal expenses were sometimes claimed in the eTravel System (eTravel) rather than being forwarded manually to Corporate Accounting to be processed as taxable income.

¹ Representation expenses normally involve one or more non-Postal Service employees (for example, suppliers, customers, and foreign postal administrators) and a Postal Service officer.

² We reviewed 169 reimbursements out of a universe of 958, including 119 from a random sample and 50 from a census stratum. We found four deviations from the Guidelines. See [Appendix C](#) for more information on our statistical sampling methodology and projected results.

³ Issued by the Postmaster General on September 13, 2006.

- The government travel card was not always used for hotel, airfare, and representation expenses.
- Claims for travel and representation reimbursement were not always submitted in a timely manner.

A memorandum from the Postmaster General, dated September 13, 2006, notified officers that the Guidelines had been updated and included a copy of the new Guidelines. In addition, the Vice President, Controller, stated that she presented the updated Guidelines to officers at their December 2006 meeting and highlighted the changes. Further, after we completed our fieldwork, management stated they initiated training for the Guidelines. However, we did not receive any further information about this training, including timeframes and attendees.

When employees do not follow guidance, the Postal Service is at increased risk that errors or omissions may occur and not be detected. Furthermore, employees could improperly accrue personal benefits and rewards or conceal details of unauthorized purchases. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Controller:

1. Direct the Manager, Corporate Accounting, to provide officers and their assistants with refresher training on the Postal Service *Officers' Travel and Representation Expense Guidelines*.

Management's Comments

Management agreed with our recommendation and made training on the *Guidelines* a goal for FY 2009. Management agreed to provide refresher training to applicable officers and their secretaries on a case-by-case basis and provide an overall class to all secretaries in Quarter 2 of FY 2009. Topics will include addressing travel and representation expense reimbursement deviations described in this report. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

OBSERVATION

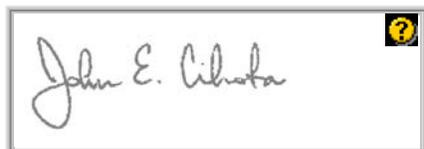
We identified an issue that was not material to the overall travel and representation expenses and did not affect the overall adequacy of internal controls. We offer this information to assist with the management and control of these expenditures.

Expenses for seven travel reimbursements were incorrectly categorized in eTravel. This occurred because claimants did not select the proper expense category from the drop-down list in eTravel. For example, travel agents' fees appeared as airfare expenses, and meal expenses appeared as officers' expenses.⁴ When expenses are not categorized correctly, Postal Service officials monitoring travel and representation expenses may misinterpret how Postal Service funds are used. When we discussed this issue with Postal Service management, they provided a list of expense classifications to the officers' and area vice presidents' assistants and emphasized the importance of correctly categorizing expenses. We will continue to monitor this issue as part of our ongoing oversight of officers' travel and representation expenses.

PROGRESS ON PRIOR YEAR OBSERVATIONS

Our audit report, *Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2007*,⁵ identified an opportunity to strengthen the Guidelines. We noted that officers may claim reimbursements of refreshment expenses related to group recognition events. However, the Guidelines neither specified a dollar limit nor defined what type of refreshments were allowable. On September 10, 2008, the Postal Service issued Management Instruction FM-640-2008-1, *Expenses for Internal and External Events*, which defined types of refreshments and set dollar limits for meals. Therefore, we consider this recommendation closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Lorie Nelson, Director, Financial Reporting, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive 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 Accountability

Attachments

cc: H. Glen Walker
Julie S. Moore
Vincent H. DeVito, Jr.
Stephen J. Nickerson
Katherine S. Banks

⁴ An expense is classified as an officer's expense when local employees participate in official business meetings with officers in a travel status, and the local employees are not reimbursed for these costs.

⁵ Report Number FT-AR-08-004, dated December 20, 2007.

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. As part of these audits, the Board of Governors adopted policies and procedures that require annual audits of officers' travel and representation expenses.

Postal Service officers shape the strategic direction of the Postal Service by setting goals, targets, and indicators within the framework established by the Postal Service Board of Governors. Their positions are classified as Postal Career Executive Service II and include the Postmaster General, the Deputy Postmaster General, and all Vice Presidents. The Board of Governors has authorized 50 Postal Service officer positions.

Postal Service officers are reimbursed for actual expenses incurred on official travel. They are also reimbursed for representation expenses incurred with customer, industry, or employee groups with whom the Postal Service conducts official business. Postal Service policy requires officers to claim reimbursement for all travel and representation expenses through eTravel.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether travel and representation expenses claimed by Postal Service officers were properly supported and complied with Postal Service policies and procedures.⁶ To accomplish our objective, we reviewed 169 reimbursements from a universe of 958, including 119 from a random sample and 50 from a census stratum.⁷ The universe of reimbursements was from October 1, 2007, through September 30, 2008. In addition, we reviewed one or more reimbursements for each officer not selected in the original random sample. We conducted our fieldwork from January through October 2008.

As our criteria in evaluating reported expenses, we used:

- Postal Service *Officers' Travel and Representation Expense Guidelines* issued by the Postmaster General on September 13, 2006.
- Handbook F-15, *Travel and Relocation*, dated February 2004, updated with *Postal Bulletin* revisions through December 20, 2007.
- Various management instructions.⁸

⁶ The audit universe was limited to reimbursements processed through eTravel.

⁷ See [Appendix C](#) for more information on our statistical sampling methodology and projected results.

⁸ Management Instructions include: (1) FM-610-2000-2, *Compliance With the Prompt Payment Act*, dated March 7, 2000; (2) FM-640-2004-1, *Government-Issued, Individually Billed Travel Charge Cards*, dated June 1, 2004; (3) FM-640-2001-4, *Payment for Meals and Refreshments*, dated September 24, 2001; (4) FM-640-2008-1, *Expenses for Internal and External Events*, dated September 10, 2008; and (5) FM-640-1999-3, *Travel Expense Charges for Meetings*, dated April 9, 1999.

We conducted this audit from November 2007 through January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We limited our tests of controls to those necessary to achieve our audit objective. Our procedures were not designed to provide assurance on internal controls. Consequently, we do not provide an opinion on such controls. Also, our audit does not provide absolute assurance of the absence of fraud or illegal acts due to the nature of evidence and the characteristics of such activities. Management chose not to meet formally on this report. However, based on discussions throughout the audit, we included management's comments where appropriate.

We relied on computer-generated data from the Accounting Data Mart (ADM) and eTravel. We performed specific internal control and transaction tests on the systems' data, to include tracing selected information to supporting source records. For example, we traced all hard copy travel reimbursements through eTravel and ADM.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2007</i>	FT-AR-08-004	12/20/07	See PROGRESS ON PRIOR YEAR OBSERVATIONS in the body of the report for information.
<i>Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2006</i>	FT-AR-07-005	12/7/06	Based on the sample results, travel and representation expenses totaling approximately \$1 million incurred by officers of the Postal Service for the year ended September 30, 2006, were properly supported and complied with Postal Service policies and procedures. We made no recommendations.
<i>Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2005</i>	FT-AR-06-003	11/16/05	Based on the sample results, travel and representation expenses totaling \$1.3 million, incurred by officers of the Postal Service for the fiscal year ended September 30, 2005, were properly supported and complied with Postal Service policies and procedures. We made no recommendations.

APPENDIX B: TRAVEL REIMBURSEMENT DEVIATIONS

Spouse Attendance at Official Events

An officer did not obtain advance written approval for the attendance of Postal Service employees' spouses at an official event. The officers' expense portion of the travel reimbursement totaled approximately \$747 and included dinner for seven people, including both spouses. Although not documented in eTravel, management stated the officer received verbal approval from the Postmaster General.

According to the Guidelines,⁹ the Postmaster General or Deputy Postmaster General must authorize the attendance of spouses or guests of officers in writing before an event, and reimbursements for the expenses of spouses and guests are considered taxable income.¹⁰ Reimbursements for any expenses considered taxable income must not be entered into eTravel. Instead, manual reports must be completed and sent to Corporate Accounting for processing.

Domestic First-Class Airfare

An officer did not obtain advance written approval for domestic first-class airfare totaling approximately \$1,305. At the time of our review, a letter authorizing the officer to travel first-class was not on file.¹¹ Management stated this was a one-time exception for a medical condition. However, comments in eTravel indicated that the exception was approved because the airplane was full and seating assignments were limited.

After we completed our fieldwork, Postal Service Corporate Accounting personnel informed us that management had verbally approved the attendance of spouses at an official event and the domestic first-class travel upgrade.

Use of Government Travel Card

Officers did not always use the government travel card for hotel, airfare, and representation expenses.¹² This occurred because officers inadvertently used their personal credit cards or paid cash, or combined personal and official travel, using their personal credit cards for the entire trip.

When employees do not follow guidance, the Postal Service is at increased risk that errors or omissions may occur and not be detected. In addition, employees could improperly accrue personal benefits and rewards or conceal details of unauthorized purchases.

⁹ Page 4, Non-Reimbursable Items, and page 6, Spousal/Guest Expenses.

¹⁰ The cost for the two spouses' participation in the dinner can be approximated by dividing the rounded dinner cost by seven people (\$100 per person) and multiplying by two spouses (\$200). ($\$700 \div 7 = \100 ; $\$100 \times 2 = \200).

¹¹ Guidelines, page 1, Deviations, and page 2, Reimbursable Items, Transportation, Air.

¹² Guidelines, page 2, Reimbursable Items.

Submission of Travel Reimbursements

Officers did not submit seven travel reimbursement requests in a timely manner. According to the Guidelines,¹³ claims for reimbursements must be submitted within 1 month of the event or activity for which reimbursement is sought. The travel reimbursements were not timely for several reasons.

- Four assistants¹⁴ were not aware of the importance of submitting travel reimbursement requests in a timely manner.
- One assistant had to wait to receive the required receipts from hotels and restaurants before submitting.
- One assistant had to resubmit a request for reimbursement for additional airfare because the original reimbursement did not include that amount.
- One officer did not have an assistant to complete his reimbursement request at the time he needed to submit it.

The table below summarizes the seven reimbursement requests that officers did not submit in a timely manner.

Officers' Travel Reimbursement Requests Not Submitted in a Timely Manner

Trip Ending Date	Submission Date	Days Late
April 10, 2008	July 31, 2008	82
November 18, 2007	January 24, 2008	37
March 19, 2008	May 4, 2008	15
September 20, 2007	October 26, 2007	6
February 21, 2008	March 25, 2008	4
April 5, 2008	May 9, 2008	4
May 22, 2008	June 26, 2008	4

During our audit, management addressed this issue by e-mailing the officers' and area vice presidents' assistants, emphasizing the importance of timely submission of requests for travel reimbursement. We will continue to monitor this issue as part of our ongoing oversight of officers' travel and representation expenses.

¹³ Guidelines, page 1, Approval of Travel Vouchers.

¹⁴ In some cases, assistants complete travel reimbursements for officers.

APPENDIX C: STATISTICAL SAMPLING AND PROJECTIONS FOR OFFICERS' TRAVEL AND REPRESENTATION EXPENSE REIMBURSEMENTS

Our audit objective was to determine whether travel and representation expenses claimed by Postal Service officers were properly supported and complied with Postal Service policies and procedures. In support of this objective, the audit team employed a random sample and found the following deviations from the Guidelines.

- Written preauthorizations were not obtained for domestic first-class airfare or attendance of spouses at an official event.
- Spousal expenses were claimed in eTravel rather than being forwarded manually to Corporate Accounting to be processed as taxable income.
- The government travel card was not used for hotel, airfare, and representation expenses.
- Claims for travel and representation reimbursement were not submitted in a timely manner.

We applied a statistical methodology to divide the universe of 958 into two strata, one stratum of 50 and the other of 908. The stratum of 50 was a census stratum in which all of the reimbursements were examined. For the stratum of 908, we took a simple random sample of 119. We used the attribute appraisal program, RAT STATS 2007, Version 2, to evaluate the statistical results of the simple random sample. We then combined the results of the census stratum to yield summary statistics of the overall population of reimbursements. We statistically projected four separate findings in this report. For the findings with low error rates, we reported the upper bound on the error rate at the 95 percent confidence level for a one-tail distribution.¹⁵ For the finding with a higher error rate, we reported the point estimate of the error rate, along with the upper and lower bounds of a two-tail confidence interval,¹⁶ at the 95 percent confidence level. The following tables summarize the results of our findings.

¹⁵ Under a one-tail confidence interval, either the upper bound or lower bound on the error rate is calculated, but not both.

¹⁶ Under a two-tail confidence interval, both the upper and lower bounds on the error rate are calculated.

Table 1. Statistical Projection (Upper Bound on the Error Rate)			
Deviations from Guidelines	Number of Reimbursements with Problems in Random Sample of 119 Reimbursements	Number of Reimbursements with Problems in Census Sample of 50 Reimbursements	One-Tailed Upper Bound on Error Rate at 95 Percent Confidence Level
Written preauthorization was not obtained	2	0	4.7%
Spousal expenses were claimed in eTravel	1	0	3.4%
Government travel card was not always used	3	1	5.9%

Table 2. Statistical Projection (Upper and Lower Bound on the Error Rate with Point Estimate)					
Deviation from Guidelines	Number of Reimbursements with Problems in Random Sample of 119 Reimbursements	Number of Reimbursements with Problems in Census Sample of 50 Reimbursements	Two-tailed Lower Bound at 95 Percent Confidence Level	Point Estimate	Two-Tailed Upper Bound at 95 Percent Confidence Level
Reimbursements were not submitted in a timely manner	6	1	2.1%	4.9%	9.8%

Results

Written Preauthorization Not Obtained

Based on the sample results, we projected an upper limit of 4.7 percent. We are 95 percent confident that the number of reimbursements with these errors in the population of 958 was not greater than 45.

Spousal Expenses Claimed in eTravel

Based on the sample results, we projected an upper limit of 3.4 percent. We are 95 percent confident that the number of reimbursements with these errors in the population of 958 was not greater than 33.

Government Travel Card Not Always Used

Based on the sample results, we projected an upper limit of 5.9 percent. We are 95 percent confident the number of reimbursements with these errors in the population of 958 was not greater than 57.

Reimbursements Not Submitted Timely

Based on the sample results, we projected a lower limit of 2.1 percent, a point estimate of 4.9 percent, and an upper limit of 9.8 percent. We are 95 percent confident the number of reimbursements with these errors in the population of 958 was between 28 and 94.

APPENDIX D: MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER



January 6, 2009

LUCINE M. WILLIS

SUBJECT: Response to Draft Audit Report—Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2008 (Report Number FT-AR-09-DRAFT)

As requested, we are responding to your December 15, 2008, memorandum and subject audit report. Our comment on your recommendation is as follows:

RECOMMENDATION

Direct the Manager, Corporate Accounting, to provide refresher training on the guidelines and procedures to the officers and their secretaries, as applicable.

RESPONSE

Management agrees with the recommendation and has made training on the Officers' Travel and Relocation Expense Guidelines a goal for fiscal year (FY) 2009. Corporate Accounting will direct refresher training to applicable officers and their secretaries on a case-by-case basis as need arises and provide an overall class to all secretaries in Quarter 2 of FY2009. Topics to be highlighted in the training are as follows:

1. Written approval for spouse attendance at official events must accompany the applicable expense report.
2. Exceptions to the domestic first-class airfare rule must be commented in eTravel.
3. Officers must use their government travel card for all business related airfare, hotel, and representation expense.
4. Officers must submit claims for reimbursement of travel expenses within one month of the event or activity for which reimbursement is sought.

This report contains no Freedom of Information Act exempt information.

Thank you for providing this draft report.


Lynn Malcolm

cc: Kathy Banks

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