



November 20, 2009

VINCENT H. DEVITO, JR.
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2009 Postal Service Financial Statements
Audit – Eagan Information Technology and Accounting Service Center
(Report Number FT-AR-10-004)

This report presents the results of our audit of selected financial activities and accounting records at the U.S. Postal Service Eagan, MN, Information Technology and Accounting Service Center (IT/ASC), for the fiscal year (FY) ended September 30, 2009 (Project Number 09BM006FT000). 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. This audit addressed financial risk. See [Appendix A](#) for additional information about this audit.

Conclusion

During our audit of the Eagan IT/ASC, we noted:

- Financial accounting policies and procedures provided for an adequate internal control structure and complied with accounting principles generally accepted in the U.S.
- Accounting transactions at the Eagan IT/ASC impacting the general ledger account balances were stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conformed with the general classification of accounts on a basis consistent with that of the previous year.
- The Postal Service complied with laws and regulations that have a direct and material effect on the financial statements.

We did not propose any adjustments.

Observation

The Eagan ASC has established procedures to evaluate payroll processing. However, we did not find evidence to support required testing¹ for:

- Payroll calculations for two of the four groups of rural employees during six pay periods from October 10, 2008, through January 2, 2009.²
- Contractual salary increases implemented by one Software Change Request for one Rate Schedule Code, effective November 22, 2008.³

The required procedures reduce the risk of material miscalculations, identify potential errors timely, and provide overall assurance and reliability over payroll processing. We performed this review quarterly, and procedures were adequately documented in subsequent periods. In addition, we tested the accuracy of all Software Change Requests relating to contractual salary increases implemented during the year. Officials agreed with the discrepancies.

Progress on Prior Years' Recommendations

In 2005, we reported⁴ that the Postal Service did not always follow Internal Revenue Service (IRS) employment tax regulations for reporting salary overpayments. We recommended that management revise policy to comply with IRS regulations, establish accounts receivable for gross amounts due, and inform employees of tax implications.

Management has issued a Software Change Request to modify accounts receivable processing as follows:

- For current year salary overpayments, management will generate an account receivable invoice for the net amount due. If the receivable is not repaid by December 31 of the current calendar year, management will consider the outstanding amount taxable income and will establish an additional receivable for the applicable taxes due.
- For prior year salary overpayments, management will generate an account receivable invoice for the gross amount due.
- Management will notify the employee disclosing the IRS tax regulations.

¹ Postal Service *Pay Calc Desk Procedures* (dated February 1, 2008, updated November 7, 2008) require verification of the mechanical calculations for gross pay, deductions, and leave to validate the payroll processing. In addition, they require similar testing when a Software Change Request is implemented.

² Each payroll period, these groups represent an average of \$66 million of the \$1.5 billion total gross payroll expense.

³ The test represents a compensating control to ensure the integrity of the payroll processing. The impact of this Software Change Request was approximately \$1.2 million for the payroll period.

⁴ *Reporting Salary Overpayments to the Internal Revenue Service* (Report Number FT-MA-05-002, dated September 28, 2005).

The Postal Service plans to implement these changes by January 1, 2010. If the changes are processed as planned, it will satisfy our recommendations. We will continue to monitor this area as part of our annual financial statement audit work. We are not making any additional recommendations in this report. As a result, management chose not to respond formally to this report.

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 script that reads "John E. Cihota". In the top right corner of the box, there is a small, square icon with a yellow background and a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachment

cc: Joseph Corbett
Julie S. Moore
Jo Ann E. Mitchell
Stephen J. Nickerson
Steven R. Phelps
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Eagan IT/ASC is one of three Postal Service-wide ASCs.⁵ It functions as a large, centralized accounting and disbursement center, and its employees are responsible for processing payroll, maintaining the general ledger, reconciling financial data, and maintaining cash and receivable accounts.

We will issue separate financial statement audit reports for headquarters and the St. Louis and San Mateo 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 U.S. Postal Service Office of Inspector General (OIG) will also issue a separate report for the audit of the FY 2009 information system controls at the Eagan, MN; San Mateo, CA; and St. Louis, MO, IT/ASCs; and the Raleigh, NC, Information Technology Service Center.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the Eagan IT/ASC that impact the general ledger account balances for assets, liabilities, equity, income, and expenses of the Postal Service are fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conform to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service complies 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 2008 through November 2009. As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2008 through November 2009 in accordance with the standards of the Public Company

⁵ Other IT/ASCs are located in St. Louis, MO, and San Mateo, CA.

Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on financial statements. Those standards also require considering the results of previous engagements and following up on known significant findings and recommendations that directly relate to the objectives of the audit. An audit also includes obtaining a sufficient understanding of internal controls to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. We believe the evidence obtained provides a reasonable basis for our conclusion and observation based on our audit objective.

We supported the external auditors in obtaining reasonable assurance about whether the financial statements were free of material misstatement (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We discussed our observations and conclusions with management officials on October 30, 2009, and included their comments where appropriate.

We relied on computer-generated data from a number of Postal Service financial systems, including the following.

<ul style="list-style-type: none">• Accounting Data Mart• General Ledger• Time and Attendance Collection System• Pay Calc and Adjustment Processing System• Complement Management and Selection System• Accounts Receivable System• Chesapeake Reconciliation• Returned and Check Management System• Commercial Check Tracking System	<ul style="list-style-type: none">• Rural Adjustment Processing System• National Accounting Oracle Financials Application - Accounts Payable Excellence• Payroll File Maintenance• Human Capital Enterprise System• Employee Personnel Action History• Retirement and Insurance Transfer System• PostalEASE• Eagan Accounts Payable System• Employee Master File
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We performed specific internal control and transaction tests to validate 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

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2008 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-09-002	November 20, 2008	\$0	No significant issues reported. Management took corrective action on the interim issue regarding Federal Employees' Retirement System Contribution Rates during our audit.
<i>Fiscal Year 2007 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-08-007	February 8, 2008	\$2,706,979	We identified an internal control deficiency regarding account reconciliations. We made three recommendations and management took correction action. The recommendations are closed.
<i>Management Advisory – Reporting Salary Overpayments to the Internal Revenue Service</i>	FT-MA-05-002	September 28, 2005	\$0	See the " Progress on Prior Years' Recommendations " section of this report.