



February 11, 2010

VINCENT H. DEVITO, JR.
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2009 Postal Service Financial Statements Audit
– San Mateo Information Technology and Accounting Service Center
(Report Number FT-AR-10-008)

This report presents the results of our audit of selected financial activities and accounting records at the U.S. Postal Service Information Technology and Accounting Service Center (IT/ASC) in San Mateo, CA, for the fiscal year (FY) ended September 30, 2009 (Project Number 09BM005FT000). 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 (IPA) overall audit opinion on the Postal Service's financial statements.¹ This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

Conclusion

During our audit of the San Mateo 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 San Mateo 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 to 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 taken as a whole.

¹ The IPA maintains overall responsibility for testing and reviewing significant San Mateo IT/ASC accounts and processes. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work to assist the IPA to ensure adequate coverage.

We did not propose any adjustments, but we did identify control deficiencies² regarding applications for refund of fees, products, and withdrawal of customer accounts; and non-mail freight transportation payments. In addition, we continued to note deficiencies in managing capital personal property. These items were not significant to the financial statements and did not affect the overall adequacy of internal controls.

Applications for Refunds of Fees, Products, and Withdrawal of Customer Accounts

San Mateo ASC personnel did not compare payee information from Postal Service (PS) Forms 3533, Application for Refund of Fees, Products, and Withdrawal of Customer Accounts, to supporting documentation to ensure payments were addressed to the correct customers. This occurred because Standard Operating Procedures (SOP) did not require this comparison. As a result, the Postal Service had no assurance that it made payments to the correct customers. On September 8, 2009, we informed management of the issue and they revised the SOPs to include review of supporting documentation. Accordingly, we are not making any recommendations. From October 1, 2008, through August 31, 2009, the San Mateo ASC processed about 123,400 PS Forms 3533 valued at approximately \$284 million. We consider the total amount as non-monetary impact, assets at risk.³ See [Appendix B](#) for our detailed analysis of this topic.

Non-Mail Freight Transportation Payments

San Mateo ASC personnel could not validate the total number of invoices and associated dollar values of invoices transmitted by both of the non-mail freight transportation vendors.⁴ The vendors did not provide both the number of invoices and the values for the invoices included in the files they transmitted to enable San Mateo ASC personnel to reconcile to the information in the National Accounting Oracle Financials Application/Accounts Payable Excellence System (NAOFA-APEX). As a result, the San Mateo ASC could not ensure the system interfaces were secure and the system accurately received and processed the information. Further, validating that the files the Postal Service received (which included non-mail freight transportation invoices) were complete and accurate helps avoid inefficiencies and additional processing costs created when there are omissions or wrong invoices. We notified management of the issue on July 30, 2009. As a result, they contacted the vendors and, as of August 25, 2009, both vendors began sending email notifications that

² A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

³ Assets or accountable items that are at risk of loss because of inadequate internal controls. See [Appendix C](#) for non-monetary impacts.

⁴ The Postal Service has contracts with C. H. Robinson Company (CHR) and Ryder Integrated Logistics Inc. (Ryder) for global surface and air transportation services for non-mail freight. The contracts provide for carrier management, shipment management, online tools and training, freight bill audit and payment, invoicing, claims management, and standardized accessorial schedules and rates.

indicate both the total number and the total values of the invoices. Accordingly, we are not making any recommendations. From October 1, 2008, through July 31, 2009, the San Mateo ASC paid approximately \$17.1 million for non-mail freight transportation services. We consider the total amount as non-monetary impact, assets at risk.⁵ See [Appendix B](#) for our detailed analysis of this topic.

Progress on Prior Year Recommendation

We followed up on recommendations concerning semiannual capital property reviews from prior years' financial statement audits at the San Mateo IT/ASC. The following section describes the progress the Postal Service has made in addressing the recommendations.

Since FY 2003, we have found that the field level controls over the accountability of capital personal property have needed improvement.⁶ The Postal Service has implemented actions in an effort to improve controls, including advising personnel to conduct semiannual capital property record reviews,⁷ conducting the capital equipment inventory process on a rolling 4-year cycle, aligning capital equipment inventory with semiannual inventories, reexamining the semiannual inventory requirement, and exploring opportunities to streamline the process for updating the property accounting system.⁸ Management also communicated process changes⁹ and stated they planned to update the policy requiring recording of asset transfers.¹⁰

During FY 2009, we tested 85 postal retail units¹¹ for the existence of 566 capital personal property items and tested 66 sites for semiannual capital property reviews and found:

- We were unable to locate seven property items at two sites.
- Forty-one items assigned to 20 sites were on the sites' property lists but had either been removed, replaced, transferred, disposed, or returned. Property officers did not ensure the transactions (removal, transfer, disposal) were properly recorded in the system. Some items were removed years earlier and

⁵ Assets or accountable items that are at risk of loss because of inadequate internal controls. See [Appendix C](#) for non-monetary impacts.

⁶ *Fiscal Year 2003 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-04-008, dated February 24, 2004); *Fiscal Year 2008 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-09-004, dated December 9, 2008).

⁷ *Fiscal Year 2004 Postal Service Financial Statement Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-05-007, dated January 12, 2005).

⁸ *United States Postal Service Comments on Internal Control and Other Matters Year Ended September 30, 2007*, dated December 28, 2007.

⁹ *Fiscal Year 2008 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-09-004, dated December 9, 2008).

¹⁰ Handbook AS-701, *Material Management*, dated June 2005.

¹¹ These units were randomly selected as part of our *Fiscal Year 2009 Financial Installation Audits – Post Offices, Stations, and Branches* (Report Number FF-AR-10-045, dated December 14, 2009).

management at one site could not determine the site to which they transferred an item. In some instances, the sites had not prepared the appropriate forms, and one site did not forward the forms for processing. Personnel at another site stated that, although items were removed in a 1999 district-wide purge of similar items, they were not automatically removed from the property listing.

- All sites required to perform semiannual reviews did so during FY 2009. We identified three sites that were required to do so in August 2008 but did not.¹²

In addition, although recorded in the Property and Equipment Accounting System (PEAS) as being assigned to the locations for which they were responsible, property officers stated that seven additional items were not assigned to any of the locations. As a result, we could not test those items. Further, during our completeness test,¹³ we identified four items at two sites that were not listed in the PEAS.

In FY 2009, management implemented a new policy that requires headquarters and field units to conduct a review of randomly sampled capital property assets selected by Headquarters, Accounting Policy, and transmitted by Supply Management twice a year.¹⁴ Management further stated that semiannual capital property reviews are a Sarbanes-Oxley requirement and instances of untimely reporting will be escalated for further action.¹⁵

During the year, management also lowered the dollar threshold for property sampled as part of the semiannual reviews so they now include capital assets of \$3,000 and above. However, two computer software items¹⁶ and the Point-Of-Service (POS) retail terminals¹⁷ remain excluded from selection.

Because of management's new policy and continuing effort to improve controls over capital property and the reviews, we are not making any recommendations at this time. We will evaluate the effectiveness of the new policy and control improvements as part of our annual financial statement audit work.

Since we are not making any recommendations in this report, management chose not to respond formally to this report.

¹² Semiannual reviews do not always validate all property items at the sites.

¹³ Completeness testing involves a selection of source documentation which is subsequently traced through the system to ensure the transaction was complete.

¹⁴ The new policy was communicated in *Postal Bulletin* 22253, dated February 26, 2009, and included instructions and guidelines for field and headquarters personnel regarding how to conduct the reviews.

¹⁵ *Postal Bulletin* 22263 and 22264, dated July 16, 2009, and July 30, 2009, respectively.

¹⁶ The two computer software items are for micro- and mini-computer systems and are not tangible for physical inventory purposes.

¹⁷ The Material Service Centers are working with Headquarters Accounting and Headquarters Retail on a process that will allow the Postal Service to maintain accountability for the POS retail terminals while excluding them from the semiannual reviews.

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, square icon with a question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachment

cc: Joseph Corbett
Susan M. Brownell
Stephen J. Nickerson
Jean D. Parris
Steven R. Phelps
Jack L. Meyer
Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The San Mateo IT/ASC is one of three ASCs Postal Service-wide.¹⁸ It is a large, centralized accounting and disbursement center responsible for accounts payable,¹⁹ centralized postage payments,²⁰ capital personal property, motor vehicles, and supply inventory.

We have issued separate financial statement audit reports for headquarters and the Eagan and St. Louis IT/ASCs. Further, in addition to the overall opinion on the Postal Service's financial statements, the Board's IPA — contracted to express an opinion on the financial statements — issued a separate report on the Postal Service's internal controls and compliance with laws and regulations.²¹ The OIG will also issue a separate report for the audit of the FY 2009 information system controls at the Eagan, San Mateo, and St. Louis IT/ASCs and the Raleigh, NC, ITSC.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:²²

- 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 San Mateo 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.

¹⁸ Other ASCs within IT/ASCs are located in Eagan, MN, and St. Louis, MO.

¹⁹ Includes accounting for miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field payables.

²⁰ The Centralized Account Processing System is an electronic postage payment system that provides business mailers a way to pay postage at multiple post offices through a centralized account.

²¹ In addition to work performed by the IPA, these reports encompass work performed by the OIG at headquarters, the three IT/ASCs, field sites, and the Raleigh, NC, Information Technology Service Center (ITSC).

²² The IPA maintains overall responsibility for testing and reviewing significant St. Louis IT/ASC accounts and processes. The OIG coordinated audit work to assist the IPA to ensure adequate coverage.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2008 through February 2010 in accordance with the standards of the Public Company 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, the IPA 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 February 2, 2010.

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 • NAOFA-APEX • Enterprise Imaging and Workflow System (eIWS) • Material Distribution Inventory Management System • eBuy • Supplier Order Management System 	<ul style="list-style-type: none"> • Contract Authoring Management System • PEAS • Vehicle Management Accounting System • Centralized Accounts Processing System • Commercial Check Tracking System
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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 verified that payments recorded in NAOFA-APEX were supported by certified invoices and the amounts were properly applied to the appropriate general ledger accounts.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2008 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i>	FT-AR-09-004	12/9/2008	\$0	Management continued to take action on improving semiannual capital property reviews and property accountability. See the Progress on Prior Years' Recommendations section of this report.
<i>Fiscal Year 2007 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i>	FT-AR-08-009	3/20/2008	\$82,874	The Postal Service did not always pay invoiced amounts through eIWS correctly. We did not make recommendations on the issue because the Postal Service took immediate corrective action. In addition, San Mateo IT/ASC personnel did not always manage accounts receivable for which it is responsible. We made one recommendation on which management took corrective action. Further, the Postal Service did not always make recurring service contract payments in a timely manner and did not perform semiannual capital property reviews at 31 of 75 sites. See the Progress on Prior Years' Recommendations section of this report.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<p><i>Fiscal Year 2006 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i></p>	<p>FT-AR-07-010</p>	<p>3/26/2007</p>	<p>\$159,653</p>	<p>Personnel manually entered utility invoices into the eBuy system without proper review. In addition, the Postal Service calculated Prompt Payment Act interest based on transmission dates instead of settlement dates. Management implemented our recommendations, which are now closed. Semiannual capital property reviews were not performed at 51 of 80 sites. See the Progress on Prior Years' Recommendations section of this report.</p>
<p><i>The Postal Service's Certification Process for Non- Mail Freight Transportation Invoices</i></p>	<p>CA-AR-09-002</p>	<p>2/18/2009</p>	<p>\$41,916,714</p>	<p>The contracting officer relied on annual post-performance invoice audits of the Defense Contract Audit Agency (DCAA). These audits did not — nor were they intended to — provide assurances that contractors are properly rendering services. Management agreed with the finding and recommendation and stated the issue was the result of a miscommunication regarding their reliance on DCAA audits to assure that contractors properly rendered services.</p>

APPENDIX B: DETAILED ANALYSIS

Applications for Refunds of Fees, Products, and Withdrawal of Customer Accounts

San Mateo ASC personnel did not compare payee information from PS Forms 3533 to the supporting documentation to ensure payments were addressed to the correct customers. This occurred because the San Mateo ASC's SOPs²³ did not require comparison of the payees noted on forms to the supporting documentation. Best practices require accounts payable transactions to be accurate.

Customers use PS Forms 3533 to apply for payments for refunds of fees, products, and withdrawal of customer accounts. Customers submit the forms to the Postal Service, where personnel review and approve. Once approved, personnel forward forms to the Scanning and Imaging Center (SIC) which reviews them for specific items, including the customer's signature and that of either a witness or a certifying official, supporting documentation, the correct version of the form,²⁴ and valid barcodes. Once SIC personnel determine the forms are complete, they scan them and the supporting documents into eIWS. eIWS creates a case for each submitted form, which includes the detailed information on the forms.

San Mateo ASC personnel compare eIWS case information to the forms to ensure it matches. In accordance with the SOP for processing these forms, this includes verifying that the forms included a customer's signature, a Postal Service certifying official's signature, and a witness's signature. It also includes verification of the refund amounts and establishment of payables for the refund amounts. Although the supporting documents (except for PS Forms 1412²⁵) included the customers' names, San Mateo ASC personnel did not compare the names of the customers noted on the PS Forms 3533 to the supporting documents. The SOP did not require verification to ensure that the customers on the forms were the same as those on the supporting documentation.

Once the cases are verified and all errors, if any, are resolved, the cases are submitted to NAOFA-APEX, where the payments are automatically processed. The payables are then cleared.

Without comparison of the customer names on forms to the supporting documentation, the Postal Service has no assurance that payments were made to the correct customers. After we notified San Mateo ASC management, they revised the SOP on September 11, 2009, to include comparison of PS Forms 3533 to the supporting

²³ *Standard Operating Procedure, San Mateo Accounting Service Center – PS Form 3533 Refunds.*

²⁴ The form must be dated August 2008 or later.

²⁵ Postal Service officials advised that refunds submitted with PS Forms 1412 as supporting documentation were generally for small amounts and from small Postal Service facilities, and the total value of refunds supported by PS Forms 1412 were minimal.

documentation to ensure the customer names on both were the same. Accordingly, we are not making any recommendations. From October 1, 2008, through August 31, 2009, the San Mateo ASC processed about 123,400 PS Forms 3533 valued at approximately \$284 million. We consider the \$284 million as non-monetary impact, assets at risk.²⁶

Non-Mail Freight Transportation Payments

San Mateo ASC personnel could not validate the total number of invoices and associated dollar values of invoices transmitted by both of the Postal Service's non-mail freight transportation vendors requesting payment. This occurred because the vendors did not transmit reconciling information, including the numbers and values of invoices transmitted. Best practices include reconciling data by comparing file totals to control information.

The Postal Service entered into contracts with CHR and Ryder in FY 2006 for global surface and air transportation services for non-mail freight. The contracts provide for carrier management, shipment management, online tools and training, freight bill audit and payment, invoicing, claims management, and standardized accessorial schedules and rates.

After services are rendered, CHR or Ryder reviews the carrier's charges and prepares an invoice including its fees and the carrier's fees to the Postal Service. CHR or Ryder electronically transmits the files, which include the invoices, to the San Mateo ASC for payment. The files are automatically uploaded to the NAOFA-APEX system which reads the individual invoices and performs edit checks.²⁷ San Mateo ASC employees check the NAOFA-APEX system each business day to see whether or not CHR or Ryder transmitted any files and whether or not there are errors that require correction. If there are not any errors, no action is required and the transactions are processed. If errors exist, San Mateo ASC personnel review those invoices and contact Headquarters, Non-Mail Freight Transportation, for resolution. When the correct information is established, San Mateo ASC employees make corrections directly into the NAOFA-APEX system and resubmit the invoices for processing and payment. Payments are made directly to the contractor, who then pays the carriers.

Because the vendors did not transmit both the number of invoices and the values for the invoices included in the transmitted files, the SM ASC could not ensure the system's interfaces were secure and that it accurately received and processed the information. Validating that the Postal Service received complete and accurate files, which included non-mail freight transportation invoices, would help avoid inefficiencies and additional processing costs created when there are omissions or inaccurate invoices.

²⁶ Assets or accountable items that are at risk of loss because of inadequate internal controls.

²⁷ Edit checks include ensuring finance and account numbers are valid, an amount was entered for each invoice, and there are no duplicate invoices.

We notified management of the issue on July 30, 2009. As a result, they contacted the vendors and, as of August 25, 2009, both vendors began sending email notifications that indicate both the total number and the total values of the invoices. From October 1, 2008, through July 31, 2009, the SM ASC paid approximately \$17.1 million for non-mail freight transportation services. We consider the total amount as non-monetary impact, assets at risk.

APPENDIX C: MONETARY AND NON-MONETARY IMPACTS

Non-Monetary Impacts

Finding	Impact Category	Amount
Applications for Refunds of Fees, Products, and Withdrawal of Customer Accounts	Assets at risk ²⁸	\$284 million
Non-Mail Freight Transportation Payments	Assets at risk	\$17.1 million
	TOTAL	\$301.1 million

²⁸ Assets or accountable items that are at risk of loss because of inadequate internal controls.