



December 6, 2010

VINCENT H. DEVITO, JR.
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2010 Postal Service Financial Statements
Audit – Washington, D.C. Headquarters
(Report Number FT-AR-11-002)

This report presents the results of our audit of selected financial activities and accounting records at Washington, D.C. Headquarters for the fiscal year (FY) ended September 30, 2010 (Project Number 10BM003FT000). We conducted this audit in support of the independent public accounting firm's (IPA) overall audit opinions on the Postal Service's financial statements and internal controls over financial reporting.¹ This audit addressed financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. Also, the U.S. Congress enacted Sarbanes-Oxley (SOX) legislation in calendar year 2002 to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to state its responsibility for establishing and maintaining an adequate internal control structure and make an assertion on the effectiveness of the internal control structure over financial reporting. The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of SOX beginning in FY 2010. The Board of Governors (Board) contracted with the IPA to express an opinion on the Postal Service's financial statements and, beginning in FY 2010, that responsibility expanded to include an opinion on the Postal Service's internal controls over financial reporting.

Conclusion

During our audit at the Washington, D.C. Headquarters, we noted that:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.

¹ The IPA maintains overall responsibility for testing and review of significant headquarters accounts and processes. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work with the IPA to ensure adequate coverage.

- Accounting transactions at headquarters² impacting the general ledger (GL) account balances are stated in accordance with accounting principles generally accepted in the U.S.
- GL account balances conform to the general classification of accounts on a basis consistent with that of the previous year.
- The Postal Service is in compliance with laws and regulations that have a direct and material effect on the financial statements taken as a whole.

We did not propose any adjustments; however, we identified a control deficiency regarding manual journal voucher (JV) processing. This item was not material to the financial statements and did not affect the overall adequacy of internal controls.

MANUAL JV PROCESSING

In each of the last 3 years, we reported that the controls over JV preparation, approval, and review needed strengthening. As shown in the following table for FY 2010, of the 584 manual JVs reviewed, we found only one instance where a certain control was not exercised.³ Specifically, we did not find any supporting documentation explaining why the reserve was needed or how management determined the dollar amount. Overall, though, our review of JVs for FY 2010 has shown a vast improvement to the process. However, because this control over the JV process is considered key,⁴ any error could impact the opinion of the IPA on internal controls over financial reporting in FY 2011. We brought the issue identified for FY 2010 to the attention of Corporate Financial Reporting on March 24, 2010, and it has not recurred.

Control Deficiencies by Quarter – FY 2010					Internal Control Issue	Instances In FY 2009
1	2	3	4	Total		
--	--	--	--	0	Staff members approved JVs prepared by their managers	2
1	--	--	--	1	Some or all support missing	0
--	--	--	--	0	No evidence of final approval put into the <i>Journal Entry Vehicle</i> or posted to the GL	2

Source: JVs posted to the GL from October 2009 through September 2010.

² The OIG and the IPA coordinate testing and review of significant headquarters accounts and manual JVs.

³ JV 962.5, "To create \$100 million reserve for Forever Stamps for the quarter ending 12-31-09, per CFO."

⁴ A key control is one whose failure results in at least a reasonable likelihood that a material error in the financial statement would not be prevented or detected on a timely basis.

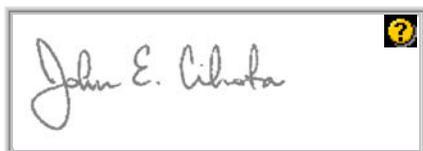
In FYs 2007, 2008, and 2009, we observed the following two issues during our JV review that were not part of the documented JV procedures. These are not considered key controls; however, we presented them to management to further enhance the JV entry process. For FY 2010, we found no issues. Accordingly, we consider these issues closed.

JV Entry Process Issue	Number of Instances in FY 2010	Number of Instances in FY 2009	Number of Instances in FY 2008	Number of Instances in FY 2007
Inconsistent evidence of approval for JVs that were prepared and approved by another office	0 1		2	14
“Approver” and “Entered By” was the same official	0 0		3	2

Source: JVs posted to the GL from October 2009 through September 2010.

Based on the results, we are not making any recommendations in this report and, 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.



John E. Cihota
 Deputy Assistant Inspector General
 for Financial Accountability

Attachments

cc: Joseph Corbett
 Julie S. Moore
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 Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

U.S. Postal Service Headquarters Finance establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. Internal control and reporting systems have been created to ensure management and the public receive meaningful financial information in accordance with generally accepted accounting principles.

We will issue separate financial statement audit reports for the [REDACTED], [REDACTED] Information Technology and Accounting Service Centers (IT/ASCs). Further, in addition to the overall opinions on the Postal Service's financial statements and internal control over financial reporting, the Board's IPA issued a separate report on its consideration of the Postal Service's internal controls and its test of compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance.⁵ The OIG will also issue a separate report for the audit of the FY 2010 information system controls at the [REDACTED] IT/ASCs; and the [REDACTED] Information Technology Service Center.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:⁶

- The financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at headquarters impacting the GL 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.
- GL 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.

⁵ 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 [REDACTED] Information Technology Service Center.

⁶ The IPA maintains overall responsibility for testing and review of significant headquarters accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.

As part of our audit, we tested and reviewed internal controls and processes and significant headquarters accounts (for example, cash, investments, and workers' compensation), manual JVs,⁷ and laws and regulations. We verified the Board travel and miscellaneous expenses totaling approximately \$136,000 and external professional fees totaling approximately \$8,000; and tested and accepted officers' travel and representation expenses totaling approximately \$628,000. We will issue separate reports for the audits of the FY 2010 Board's travel and miscellaneous expenses and officers' travel and representation expenses.

We conducted this audit from December 2009 through December 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 the financial statements. Those standards also require us to consider the results of previous engagements and follow 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 control to plan the audit and to determine the nature, timing, and extent of audit procedures. We believe the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA in obtaining reasonable assurance about whether the financial statements are 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 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 relied on computer-generated data from several Postal Service financial systems, including:

- eTravel.
- Chase Insight.
- Workers' Compensation Master File.
- Accounting Data Mart.

⁷ Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*, requires auditors to perform certain tasks to address the risk of management overriding an internal control. To address such situations, SAS No. 99 requires auditors to test the appropriateness of journal entries recorded in the GL and other adjustments.

To assess the reliability of these systems' data, we performed specific internal control and transaction tests including tracing selected financial information to supporting source records. For example, we compared the Workers' Compensation Master File data to a random sample of 60 case files. We determined the data was sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

We issued the following reports addressing selected financial activities and accounting records at Headquarters.

Report Title	Report Number	Final Report Date	Report Results
<i>Fiscal Year 2009 Postal Service Financial Statements Audit – Washington, D.C. Headquarters</i>	FT-AR-10-005	11/30/2009	We did not propose any adjustments; however, we assessed the actions taken by the Postal Service on manual JVs and found significant improvement. We did not make any recommendations.
<i>Fiscal Year 2008 Postal Service Financial Statements Audit – Washington, D.C. Headquarters</i>	FT-AR-09-007	1/16/2009	We identified a control deficiency regarding manual JV processing. This item was not significant to the financial statements and did not affect the overall adequacy of internal controls. We recommended that management develop formal written procedures for manual JV processing and distribute them to all applicable personnel. Management agreed with the recommendation and took corrective action.
<i>Fiscal Year 2007 Postal Service Financial Statements Audit – Washington, D.C. Headquarters</i>	FT-AR-08-006	2/8/2008	We identified a control deficiency regarding manual JV processing. We recommended management reiterate JV internal control procedures to all applicable personnel. Management agreed with the recommendation and took corrective action.