April 7, 2011

TIMOTHY F. O'REILLY
ACTING VICE PRESIDENT, CONTROLLER

EDWARD L. GAMACHE
MANAGER, MAINTENANCE POLICIES AND PROGRAMS

SUBJECT: Audit Report – Fiscal Year 2010 Financial Statements Audit – San Mateo Information Technology and Accounting Service Center (Report Number FT-AR-11-008)

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service's San Mateo, CA Information Technology and Accounting Service Center (IT/ASC) for the fiscal year (FY) ended September 30, 2010 (Project Number 10BM004FT000). 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 (CY) 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 contracted with the IPA to express an opinion on the Postal Service's financial statements and, beginning in FY 2010, that responsibility was expanded to include an opinion on the Postal Service's internal control over financial reporting.

[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 with the IPA to ensure adequate coverage.

Conclusion

During our audit of the San Mateo IT/ASC we noted that:

- The Postal Service's financial accounting policies and procedures provide for an adequate internal control structure[2] and comply with accounting principles generally accepted in the U.S.;

- Accounting transactions at the San Mateo IT/ASC impacting 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 with the general classification of accounts of the Postal Service consistent with that of the previous year; and

- 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, but we did identify issues regarding relocation service payments and shuttle service payments. In addition, we continued to note issues with managing capital personal property. These items were not material to the financial statements and did not affect the overall adequacy of internal controls. Also, throughout the year we reviewed internal controls over financial reporting and identified control deficiencies[3] regarding vehicle sales requests and eBuy purchases. Because we considered these controls key,[4] any error could impact the IPA's opinion on internal controls over financial reporting. Therefore, we brought them to management's attention at the time of discovery to assist them with their responsibility for establishing and maintaining an adequate internal control structure over financial reporting. The IPA identified additional information system control deficiencies affecting the San Mateo IT/ASC that were not in the scope of our audit and are not reported here, including application developers' write access to the production environment, no post-production reviews, system administrators ability to change or have full access to systems, and untimely removal of access to systems. The IPA informed management of these issues on October 19, 2010.

Relocation Services Payments

The Postal Service did not review supporting documentation for relocation services as part of the payment process. This occurred because the Postal Service did not have procedures in place to ensure that invoices the Cartus Corporation (Cartus), its

[2] To ensure key controls are properly designed and operationally effective.
[3] 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.
[4] A key control is a control that, if it fails, there is at least a reasonable likelihood that a material error in the financial statement would not be prevented or detected timely.

relocation management firm (RMF), submitted were supported as recommended by best practices. The Postal Service paid over $27 million in relocation payments during FY 2010. See Appendix B for our detailed analysis of this issue and Appendix C for our calculation of other impact.

We recommend the acting vice president, controller:

1. Ensure that documentation supporting relocation service invoices is reviewed through an annual sampling of invoices to ascertain whether the amounts paid are accurate. The sample should represent relocation services paid throughout the fiscal year.

Management's Comments

Management agreed with the recommendation but disagreed with categorizing all relocation expenses incurred in 2010 as disbursements at risk because it is misleading to the public. They stated they will develop a process to ensure they conduct an annual formal review of relocation expenses paid throughout the year on completed employee files. Subsequent discussions with management indicated they would review these files on a quarterly basis. Management's target implementation date is September 2012. See Appendix D for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issue identified in the report. Regarding disbursements at risk, this categorization does not mean that the $27 million in payments were improper. It does indicate, however, that the payments were at a higher risk because the Postal Service did not have a control in place to ensure invoices were supported, as recommended by best practices.

Shuttle Service Payments[5]

Personnel at one of two vehicle maintenance facilities (VMF) tested did not adequately review or maintain supporting documentation for shuttle service invoices prior to payment. This occurred because the Postal Service does not have comprehensive standard operating procedures for reviewing invoices from USAC and for retaining supporting documentation, so each facility developed its own review procedures. At both facilities, personnel performed some procedures, but neither method ensured the accuracy of all billing information. As a result, the Postal Service has no assurance that the $524,056 paid in FY 2010 for services at one of the VMFs were accurate.[6] See

[5] The Postal Service entered into a Vehicle Maintenance Repair Agreement (VMRA) contract with the U.S. Auto Club (USAC) effective January 1, 2005, for shuttle services, including the transport and movement and towing and hauling of Postal Service vehicles.
[6] Amounts paid to USAC in FY 2010 totaled approximately $6.9 million.

Appendix B for our detailed analysis of this topic and Appendix C for our calculation of other impact.

We recommend the manager, Maintenance Policies and Programs:

2. Develop and implement standard operating procedures for review and retention of U.S. Auto Club invoices prior to payment.

Management's Comments

Management agreed with the recommendation and stated that existing policy requires proper documentation and reconciliation of all invoices prior to payment. However, to aid in efficient reconciliation of USAC invoices, they agreed to publish a *Vehicle Maintenance Bulletin* that outlines steps for documentation and reconciliation of monthly USAC invoices prior to payment. Management's targeted implementation date is June 2011.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issue identified in the report.

Vehicle Sales Requests

The Postal Service sold vehicles even though Postal Service (PS) Forms 4594, Vehicle Sales Request and Report, were not always completed and approvals were not always recorded. Specifically, from our test of 25 disposals by sale, we found that one PS form 4594 was not prepared and six forms (requesting the sale of eight vehicles) did not include the signature of the regional approving official.[7] Field staff we questioned did not realize the signatures were required prior to sale. Further, the supervisors did not adequately verify that the forms were properly prepared and signed prior to sale. The sale price of the vehicle sold without a completed PS Form 4594 was $2,100, and the combined sales price of the eight vehicles sold without proper approval signatures was $13,340. See Appendix C for calculation of other impact.

At the time of our review the IPA and the OIG considered completion and approval of PS Forms 4594 a key financial reporting control. However, the IPA and the OIG subsequently determined that the annual vehicle inventory would serve as the key financial reporting control. Therefore, we did not pursue this issue further than to inform management.

[7] Postal Service Handbook PO-701, *Fleet Management*, requires preparation of PS Form 4594 to sell a vehicle. The form requires the signature of the district manager of Vehicle Maintenance prior to sale.

eBuy Purchases

Field office personnel did not always retain packing slips or receiving reports as evidence of receipt of goods purchased via eBuy, or reconcile packing slips to the monthly eBuy Billing Summary reports.[8] Specifically, our test of 12 eBuy purchases found that personnel at three offices did not retain packing slips as evidence of receipt of goods and did not reconcile packing slips to monthly eBuy Billing Summary reports. Without supporting documentation, Postal Service personnel could not verify receipt of $75,838[9] in goods for which they paid. See Appendix C for calculation of monetary impact. We noted the following:

- For one purchase made in November 2009, the purchaser verified receipt of goods to the eBuy order upon receipt. However, the purchaser threw away all packing slips prior to January 2010 because his supervisor stated it was unnecessary to retain the supporting documentation indefinitely. Further, the purchaser did not perform the monthly reconciliation to the eBuy Billing Summary because he was not aware of the requirement;

- In a second instance, the previous postmaster advised the purchaser to throw away packing slips after verifying receipt of goods. The current postmaster was not aware of the eBuy reconciliation requirement; and

- In a third instance the purchaser was unable to locate the packing slip even though she verified receipt of goods. The purchaser also did not reconcile packing slips to the monthy eBuy Billing Summary reports because she did not know how to perform the reconciliation.

Postal Service policy[10] requires supporting documentation to be retained for 2 years and personnel to reconcile eBuy Billing Summary reports with receipt reports. Personnel stated that they did not receive any guidance on retention periods or reconciliation procedures.

Management developed an aging report for eBuy purchases effective January 2011. Also, management plans to implement a compensating control in March 2011 as part of the eBuy2 system that alerts users to requisitions that are still open (for example, if a user has not acknowledged receipt of goods in the system).[11]

---

[8] Receiving report retention and eBuy Billing Summary report reconciliation were considered key financial reporting controls at the time of our review. However, the IPA and the OIG subsequently determined other controls served as key to this process.

[9] The OIG notified field offices of the eBuy record retention and reconciliation requirements in August 2010.

[10] *Administrative Support Manual* (Issue 13), Chapter 7, Section 722.61c, updated through November 19, 2009; *eBuy "On-Catalog" Payment Reconciliation Procedures*, dated March 18, 2008.

[11] The eBuy2 system retains a record of reconciliations and essentially eliminates the need to retain packing slips and other supporting documentation.

Progress on Prior Years' Recommendations

Since FY 2003, we have found that field level controls over the accountability of capital personal property[12] needed improvement.[13] The Postal Service has implemented several actions over the years to improve controls. In FY 2010, management continued to issue notices in the *Postal Bulletin* reminding sites of the semiannual capital property review requirement. Management also replaced Material Service Centers with Asset Accountability Service Centers (AASC) as a place for employees to obtain technical guidance.[14] Further, they implemented a website to track performance of semiannual reviews. The website allows personnel with Postal Service intranet access the ability to view finance and item numbers selected for review and certain cost information; provides a link to instructions on how to complete semiannual capital property reviews; contains a link to the AASC website with contact information; allows access to up-to-date information on the completion status of every semiannual capital property certification report; and provides up-to-date summary status information on how many semiannual capital property certification reports were completed by district and area.

During FY 2010, we tested 85 sites for the existence of 620 capital personal property items and 43 sites for semiannual capital property reviews and found:

- All but one site performed the required semiannual reviews during FY 2010.
- We were unable to locate four property items at four sites.
- Property officers stated that 23 items (including Point-of-Service (POS) machines and electronic, maintenance, and retail equipment) were not at the locations recorded for them in the Property and Equipment Accounting System (PEAS). Based on the property officers' answers, these items were incorrectly recorded in PEAS. We provided these items to the Postal Service to locate.
- Forty items (including POS machines, stamp vending machines, fixed unit scanners and bar code readers) assigned to 22 sites were either removed, replaced, transferred, disposed or returned. Some items were removed in prior years and, in some instances, the sites did not have the documentation to confirm the items' changed status. One responsible official was not aware of their responsibility to provide updated information. For these items, we found evidence the property was assigned to the locations at some point; however, PEAS was not updated to show the current disposition.

---

[12] Handbook AS-701 describes capital property as items that have service lives of more than 1 year; that can be identified as a stand-alone item of property throughout its useful life; that have a unit cost of $3,000 or more; and that depreciate in value.
[13] *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 2009 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-10-008, dated February 11, 2010).
[14] *Postal Bulletin* 22279, dated February 25, 2010.

- Three items at one site were not listed in the PEAS.

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

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
Susan M. Brownell
Julie S. Moore
Stephen J. Nickerson
Jean D. Parris
Steven R. Phelps
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The San Mateo IT/ASC is one of three ASCs Postal Service-wide.[15] The San Mateo IT/ASC functions as a large, centralized accounting and disbursement center and its employees are responsible for accounts payable,[16] centralized postage payments,[17] capital personal property, motor vehicles, and supply inventory.

We issued separate financial statement audit reports for headquarters and the Eagan IT/ASCs and will issue a separate financial statement audit report for the St. Louis IT/ASC. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board of Governors' 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 was 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 controls over financial reporting or on compliance.[18] The OIG issued a separate report for the audit of the FY 2010 information system controls at the Eagan, San Mateo, and St. Louis IT/ASCs; and the Raleigh Information Technology Service Center.[19]

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:[20]

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure[21] 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.

---

[15] Other IT/ASCs are in St. Louis, MO and Eagan, MN.
[16] Includes accounting for inventory purchases, contract cleaners, miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field payables.
[17] The Centralized Account Processing System is an electronic postage payment system that provides business mailers a method to pay postage at multiple post offices through a centralized account.
[18] In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, the three IT/ASCs, field sites, and the Raleigh, NC Information Technology Service Center.
[19] *Fiscal Year 2010 Selected Information Technology General Controls* (Report Number IT-AR-11-002, dated January 12, 2011).
[20] The IPA maintains overall responsibility for testing and reviewing significant San Mateo IT/ASC accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.
[21] To ensure key controls are properly designed and operationally effective.

- 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 direct and material effect on the financial statements taken as a whole.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from December 2009 through March 2011 in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the U.S. 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 based on our audit objectives.

We supported the IPA 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 conclusions with management on February 9, 2011, and included their comments where appropriate.

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

▪ Accounting Enterprise Data Warehouse Reporting ▪ National Accounting Oracle Financial Application/Accounts Payable System (NAOFA-OAP) ▪ Enterprise Imaging and Workflow System (eIWS) ▪ Material Distribution and Inventory Management System ▪ eBuy ▪ eBuy2	▪ Contract Authoring Management System ▪ PEAS ▪ Vehicle Management Accounting System (VMAS) ▪ Centralized Account Processing System ▪ Commercial Check Tracking System ▪ Program Cost Tracking System ▪ Utility Management System ▪ Supplier Order Management System

To assess the reliability of these systems' data, we performed specific internal control and transactions tests, including tracing selected financial information to supporting source records. For example, we verified that payments recorded in NAOFA-OAP were supported by certified invoices and the amounts were properly applied to the appropriate general ledger accounts. We determined the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

We issued the following reports addressing selected financial activities and accounting records at the San Mateo IT/ASC.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Fiscal Year 2009 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center	FT-AR-10-008	02/11/2010	$0	San Mateo ASC personnel did not compare payee information from 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. Management revised standard operating procedures to include the review of supporting documentation. Further, 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. Management contacted the vendors who began sending e-mail notifications that indicate both the total number and the total value of the invoices. Also, we continued to identify issues with capital personal property. See the "Progress on Prior Years' Recommendations" section of this report.
Fiscal Year 2008 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center	FT-AR-09-004	12/9/2008	$0	Management continued to improve semiannual capital property reviews and property accountability. See the "Progress on Prior Years' Recommendations" section of this report.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Fiscal Year 2007 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center	FT-AR-08-009	3/20/2008	$82,874	Management did not always pay invoiced amounts through eIWS correctly. We did not make any recommendations because management took immediate corrective action. In addition, San Mateo IT/ASC personnel did not always manage accounts receivable for which it is responsible. Management agreed with our recommendation and took corrective action. Further, we continued to identify issues with capital personal property See the "Progress on Prior Years' Recommendations" section of this report.
Fiscal Year 2006 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center	FT-AR-07-010	3/26/2007	$159,653	Personnel manually entered utility invoices into the eBuy system without proper review and management and 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.
eBuy Monthly Reconciliation Procedures	CA-AR-07-001	2/16/2007	$0	Eighty-five percent of the eBuy accounts reviewed were not reconciled and did not have adequate supporting documentation associated with the billing summaries. The majority of eBuy users were not aware of these requirements and did not retain adequate documentation. Guidance for eBuy supplies and services did not contain the reconciliation requirements and were not kept current. Management agreed with the recommendations and planned to take corrective action. See the "Progress on Prior Years' Recommendations" section of this report.

APPENDIX B: DETAILED ANALYSIS

Relocation Services Payments

The Postal Service did not review supporting documentation for relocation management services as part of the payment process. This occurred because the Postal Service did not have procedures to ensure invoices submitted by the RMF were supported, so employees did not review supporting documentation. Best practices recommend review of supporting documentation.[22] As a result, the Postal Service has no assurance that the $27 million paid in FY 2010 for these services was accurate. See Appendix C for calculation of other impact.

The Postal Service contracted with Cartus to provide relocation management services to authorized employees for residential transactions, movement of household goods, and relocation expense reimbursements. Authorized subcontractors, such as moving companies that provide approved services, submit bills to Cartus, who then reviews the expenses for accuracy and determines if the submissions are eligible for payment. Cartus includes the approved submissions on monthly invoices to the Postal Service. Multiple submissions for each employee requesting reimbursement for periodic expenses incurred can be made during the process. As a result, all of the expenses for a single relocation might not be on a single invoice to the Postal Service.

Each month, Cartus, via electronic data interchange (EDI), transmits a file requesting payment which automatically uploads to the Postal Service's NAOFA-OAP system. The NAOFA-OAP system reads the individual invoices and performs edit checks for existing finance numbers and correct accounts. In addition, Cartus sends an e-mail to Headquarters, Corporate Accounting, providing notification along with a Billing Advice Report Summary. Corporate Accounting employees compare both the total number of transactions and the value of the invoices on the Billing Advice Report Summary to the Oracle Payables Open Interface Audit Report generated by the NAOFA-OAP system to determine whether the number and value of transactions were transmitted accurately, and to correct any identified errors. In addition, Headquarters Corporate Accounting generates an Oracle Open Interface Rejections Report to determine whether any transactions were rejected during the edit check process. They then resolve any errors and authorize the invoices for payment. However, the Postal Service does not perform any validation of the individual charges to supporting documentation. Rather, it relies entirely on Cartus to determine whether the charges submitted are eligible for payment.

Prior to September 2008, Postal Service personnel traveled to Cartus periodically to review a selected sample of invoices to help ensure the amounts charged were supported and correct. Management stated that these reviews have not been performed since September 2008 due to resource issues.

[22] *Standards for Internal Control in the Federal Government* issued by the General Accounting Office (GAO/AIMD-00-21.3.1, dated November 1999).

Shuttle Service Payments

Personnel at one of two VMFs tested did not adequately review or retain supporting documentation for shuttle service invoices prior to payment.[23] This occurred because the Postal Service does not have comprehensive standard operating procedures for reviewing invoices from USAC, so each facility developed its own procedures for reviewing them. At each facility, personnel performed some procedures, but neither method ensured the accuracy of all billing information. For example, at one VMF personnel retain service tickets[24] from vendors and compare them to the spreadsheets[25] from USAC that accompany monthly invoices; however, they are unable to validate nuisance calls or gone-on-arrivals (GOA)[26] because service tickets are not issued. At a second VMF, personnel do not retain service tickets and they only compare the total amount recorded on the invoices to the total on the spreadsheets from USAC that accompany the monthly invoices. As a result, there was no assurance that the amounts USAC billed were accurate. Best practices require review of the supporting documentation for invoiced amounts.[27]

The USAC provides a Service Request Schedule worksheet[28] to VMFs to schedule shuttle services. VMF personnel populate the worksheet with information such as the post office location, vehicle number, mileage, and other data related to vehicles to be towed or hauled and e-mail it daily to the USAC to schedule shuttle services for the following day. VMF personnel may also add on service requests by telephone. These ‘add-ons’ or ‘as-needed’ requests are not included on the worksheets.

After the scheduled services are provided, subcontractors issue a service ticket signed by Postal Service personnel. Add-on and roadside or as-needed requests for shuttle service also generate service tickets. Each service ticket generates an invoice number for use by USAC in monthly billing. GOAs do not generate service tickets. Instead, vendors record GOAs on the USAC website.

Each month, the USAC sends a consolidated invoice to the responsible VMFs along with a supporting spreadsheet. The supporting spreadsheet lists each individual invoice generated during the month[29] and any charges for GOAs. VMF personnel enter the invoice information into VMAS for payment. However, VMF personnel at one site reviewed did not compare the monthly invoices (including the supporting spreadsheet) to service tickets, Service Request Schedule worksheets, and GOA information from the

[23] Postal Service Handbook AS-353, *Guide to Privacy, the Freedom of Information Act, and Records Management,* dated September 2005 and updated with *Postal Bulletin* revisions through September 24, 2009 requires retention of accounts payable records 3 years beyond the end of the fiscal year in which payment was made.
[24] The service tickets did not have any formal, specific name. We used this name based on their function.
[25] The spreadsheets accompanying the monthly invoices did not have any formal, specific name.
[26] If the VMF cancels a request without notifying USAC or the vehicle is not available and there are no other vehicles at that location to replace the requested vehicle, USAC charges the Postal Service $35 for each such GOA.
[27] *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, dated November 1999).
[28] The Service Request Schedule worksheets did not have any formal, specific name. We used this name based on their function. These documents are populated each day with vehicles to be shuttled/hauled. The VMFs e-mail these worksheets to USAC daily for service the following day.
[29] Individual invoice numbers are the same as service ticket numbers.

USAC website to ensure the accuracy of all information. At a second site, personnel were unable to confirm the GOA information as service tickets were not generated. As a result, there was no assurance that the amounts USAC billed were accurate. Because GOAs are infrequent and involve minor amounts, we only consider $524,056 of USAC invoices paid for the VMF that did not review supporting documentation from October 1, 2009 to September 30, 2010 as disbursements at risk.

APPENDIX C: MONETARY AND OTHER IMPACTS

Monetary Impacts

Finding	Impact Category	Amount
eBuy Purchases	Unrecoverable Unsupported Questioned Costs[30]	$75,838
	Total	**$75,838**

Other Impacts

Finding	Impact Category	Amount
Relocation Services Payments	Disbursements at Risk[31]	$27,036,975
Shuttle Services Payments	Disbursements at Risk	524,056
Vehicle Sales Requests	Assets or Accountable Items at Risk[32]	15,440
	Total	**$27,576,471**

[30] Unrecoverable cost that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.
[31] Disbursements made where proper Postal Service internal controls and processes were not followed.
[32] Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

APPENDIX D: MANAGEMENT'S COMMENTS

TIMOTHY F. O'REILLY
Acting Vice President, Controller

UNITED STATES
POSTAL SERVICE

March 15, 2011

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Fiscal Year 2010 Financial Statements Audit – San Mateo Information Technology and Accounting Service Center (Report Number FT-AR-11DRAFT)

Management agrees overall with the findings and observations in this report. However, we disagree with categorizing the entire relocation expenses incurred in 2010 as disbursements at risk as this grossly misleads the public into believing that we have wasted $27 million in payments. Rather, the Postal Service has been successful in reducing total relocation expenses by over $5.5 million (17 percent) from fiscal year 2009 to 2010 even while the number of relocations increased by 547 (54 percent). This was accomplished through policy changes and oversight of individual employee accounts as employees are relocating.

Recommendation 1: We recommend that Vice President, Controller:
Ensure that documentation supporting relocation service invoices is reviewed through an annual sampling of invoices to ascertain whether the amounts paid are accurate. The sample should represent relocation services paid throughout the fiscal year.

Management Response/Action Plan:
We agree with this recommendation and will develop a process to ensure that a formal review is conducted annually of relocation services paid throughout the year on completed employee files. As mentioned previously, the Relocation Unit at Headquarters handled over 50 percent more relocations in fiscal year 2010 than in 2009. Our contract provides that our Relocation Management Firm (RMF) makes payments to employees on our behalf and there is a certification that all services being billed are for services provided in accordance with contract requirements. An outside company audits the expenses charged for shipment of household goods to ensure compliance with USPS policy and that no additional services were charged. We have had many opportunities to review relocation payments by the RMF on our behalf throughout the year on an informal basis and found no irregularities. We review monthly invoices prior to reimbursement to the RMF and will ensure that a more structured review of a sampling of closed employee files is performed annually.

Target Implementation Date: September 2012.

Responsible Official: Katherine Banks, Manager, Assets and Payables, Corporate Accounting

Recommendation 2: We recommend the manager, Maintenance Policies and Programs:
Develop and implement standard operating procedures for review and retention of U.S. Auto Club invoices prior to payment.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-5200
202-268-4178
FAX: 202-268-8104
WWW.USPS.COM

- 2 -

<u>**Recommendation 2**</u>**:** We recommend the manager, Maintenance Policies and Programs: Develop and implement standard operating procedures for review and retention of U.S. Auto Club invoices prior to payment.

<u>Management Response/Action Plan</u>:
We agree with this recommendation. As with all purchases, existing Postal Service policy requires proper documentation and reconciliation of all invoices prior to payment (reference *Administrative Support Manual* (Issue 13), Chapter 7, Section 722.64). However, to aid in the efficient reconciliation of invoices pertaining to the U.S. Auto Club purchasing agreement, Headquarters Vehicle programs will publish a Vehicle Maintenance Bulletin (VMB) that clearly outlines the steps for documentation and reconciliation of monthly invoices prior to payment.

<u>Target Implementation Date</u>: June 2011

<u>Responsible Official:</u> J. O. Smith, Manager, Vehicle Programs

We believe that the name of the relocation management firm should be exempt from disclosure under the Freedom of Information Act (Exemption 4—privileged or confidential commercial or financial information provided to the Postal Service by a party outside the Postal Service, such as a supplier or customer and Exemption 3—information of a commercial nature, including trade secrets, whether or not obtained from a person outside the Postal Service, which under good business practice would not be disclosed) as there is no evidence to substantiate any inaccuracy in the payments to our employees by the RMF.

Tim O'Reilly

Tim O'Reilly
Acting Vice President, Controller

Edward L. Gamache
Manager, Maintenance Policies and Programs

cc: Joseph Corbett
Susan M. Brownell
Sally Haring
Julie S. Moore
Stephen J. Nickerson
Jean D. Parris
Steven R. Phelps