March 31, 2011

TIMOTHY F. O'REILLY
ACTING VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2010 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center (Report Number FT-AR-11-009)

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service St. Louis, MO, Information Technology and Accounting Service Center (IT/ASC) for the fiscal year (FY) ended September 30, 2010 (Project Number 10BM002FT000).[1] 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.[2] 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 the SOX Act of 2002 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 was expanded to include an opinion on the Postal Service's internal control over financial reporting.

[1] During FY 2010, the International Accounting Branch (IAB) was separated from the St. Louis IT/ASC. However, our audit work includes this area.
[2] The IPA maintains overall responsibility for testing and review of significant St. Louis 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 St. Louis IT/ASC we noted:

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure[3] and comply with accounting principles generally accepted in the U.S.

- Accounting transactions at the St. Louis 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 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, throughout the year, we reviewed internal controls over financial reporting and identified control deficiencies[4] regarding international mail, money orders, transportation, eTravel, leases, journal voucher entries, and account reconciliations. Because these controls are considered key,[5] 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 systems control deficiencies affecting the St. Louis IT/ASC that were not in the scope of our audit and are not reported here, including monitoring controls, missing or incomplete documentation, no evidence of review, and access to systems not timely being removed. The IPA informed management of these issues on October 19, 2010.

International Outbound Parcel Post® Rates[6]

During the IAB's internal review of international outbound Parcel Post rates in the Foreign Post Settlement (FPS) System, a reviewer changed the rates in FPS for one foreign postal administration (FPA)[7] believing they were incorrect. However, the reviewer did not report the discrepancy and subsequent change of the rates to the group leader responsible for review and approval of Parcel Post rates. IAB personnel

[3] To ensure key controls are properly designed and operationally effective.
[4] 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.
[5] A key control is a control that, if it fails, there is at least a reasonable likelihood that a material error in the financial statements would not be prevented or detected on a timely basis.
[6] Parcel Post is a trademark of the Postal Service.
[7] The FPA was Guadeloupe.

stated this occurred because the reviewer was not familiar with the procedure. As a result, the rates entered in FPS by the reviewer were incorrect. Based on our audit, management corrected the rates in the FPS System in May 2010. Additionally, according to IAB personnel, an approval process in the FPS System is now fully functional that requires personnel to inactivate a rate before they enter a new rate, and both actions require approvals from two levels of management with supporting documentation. Since the subject FPA had not submitted an invoice since CY 2002, this error resulted in no overall financial effect. Because the IPA firm identified a significant deficiency in the international mail process, we did not perform any further work to verify the application's functionality.[8]

International Inbound Verification Note Reviews

The [redacted] did not review inbound verification notes (VN) created by the [redacted]. This occurred because the [redacted] was unaware of the documented control to review VNs created for inbound dispatches. This key internal control helps ensure the accuracy of international receivables and revenue so when it is not effectively executed, they could be misstated. As a result of our audit, management implemented the control, and the [redacted] began reviewing inbound dispatches in August 2010.

Money Order Edit Errors Processing

Two of 42 money order edit errors selected[11] remained unresolved for more than 3 months. These edit errors pertained to duplicate money order serial numbers. General Accounting Branch (GAB) desk procedures do not address the timeframe to resolve money order edit errors; however, branch personnel strive to resolve them within 1 week to reduce the financial impact of the edit error on the general ledger. Although GAB personnel identified and processed these edit errors as part of their daily workload, they overlooked completing the process. These unresolved edit errors increased the Postal Service's money order liability account by $480. As a result of our audit, management processed the edits errors. In addition, management improved their existing process of monitoring edit errors by adding additional spreadsheets to track the status of these errors.

[8] A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Although this issue alone did not support a significant deficiency, the IPA determined a significant deficiency existed in the international mail process.

[9] Verification Notes (CN 43) are used to communicate irregularities in the dispatch and receipt of international mail between FPAs. RU clerks generate and print these forms within the International Reconciliation System (IRS) and mail them to the FPAs via Express Mail® to reconcile irregularities in the dispatch and receipt of international mail.

[10] Effective May 11, 2009.

[11] The judgmental sample of errors included duplicate money order payments and duplicate money order serial numbers.

Air Transportation Contract Requisition Approval

During our review of eight eBuy requisitions, we found that a [redacted] approved an air transportation contract within the Logistics Contract Management System (LCMS) without verifying the eBuy requisition[12] had been properly approved and funded as required. Postal Service policy[13] requires a [redacted] to ensure that sufficient funding has been approved before making a contractual commitment or incurring potential liabilities for the Postal Service. Further, procedures[14] include a key internal control requiring the [redacted] verify that the contract is appropriately funded as indicated by an eBuy approval notification. According to management, the in-process requisition may not have been fully approved and executed partly due to management and/or system changes. While they assured us the contract was valid, that there was an approved budget for the services, and that the appropriate approvers were involved with the contractual actions, there was an oversight in ensuring that the requisition was fully executed. When [redacted] do not execute this key control, the Postal Service might not have the funds necessary to pay its obligations, or it might be obligated to pay for a contractual commitment that was not management's intent. Management indicated they would obtain appropriate eBuy requisition approvals during the FY 2011 air contracts renewal/approval process. As such, we will continue to monitor this key control over the air contract funding process as part of our FY 2011 financial statement audit work. See Appendix C for calculation of monetary impact.

Rejected Travel Expense Report Processing

The St. Louis Accounts Payable Branch (APB) back office processing[15] supervisor did not follow up on two of 25 rejected travel expense reports to ensure timely resolution and processing. Postal Service's key internal control[16] states the senior accounting specialist reviews the correction of records with exceptions on the Payables Open Interface Rejections Report from eTravel and then reviews the corrections for accuracy. The senior accounting specialist resolves any inappropriate corrections with the accounting specialist. The review is evidenced by sign-off on the Payables Validation Report from Oracle Accounts Payable (OAP). Postal Service's key internal control[17] also requires a back office processing supervisor review and follow up with the processor on any reports remaining in an approval status on the Accounting Review Report greater than 7 workdays to determine resolution and ensure exceptions are resolved.

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[12] This was an air transportation requisition valued at $39.8 million.
[13] *United States Postal Service Supply Management Transportation Portfolio Administrative Instruction*, SMTP-2005-01, dated April 7, 2005.
[14] *United States Postal Service Business Process Narrative 211*, Accounts Payable Branch – Air Transportation.
[15] According to Handbook F-15 *Travel and Relocation,* dated February 2004, updated with *Postal Bulletin* revisions through January 28, 2010, St. Louis APB back office processing personnel perform random audits of scanned reports and process expense reports for payment.
[16] Postal Service Control Number 207.05.
[17] Postal Service Control Number 207.17.

The two reports were rejected for missing account numbers but were corrected and processed to OAP. However, these invoices remained on hold in OAP awaiting validation. The back office processing supervisor did not review the Daily Balance Control Report generated from National Accounting Oracle Financial Application (NAOFA) that showed these transactions still were not approved. As a result, the APB paid these rejected expense reports 26 and 29 days from the date employees submitted them for payment. When personnel do not follow up to ensure timely resolution and processing, travel expense reimbursements may not be reflected in the financial statements in the same period as they are incurred. According to management, additional informal training was provided to back office processing personnel in March 2010 to reiterate the requirement to process rejected expense reports timely. We will continue to review this issue as part of our annual financial statement audit work.

New Lease Approvals

Controls over new lease approvals needed improvement. We identified one or more exceptions on 12 of 25 new leases reviewed.[18] Specifically, 10 leases did not have a Justification of Expenditure (JOE)[19] form included in the required documentation. In addition, officials signed two leases, even though they did not have the proper contracting authority at the time they signed the leases.

Leases were missing the required JOE because the policy surrounding the requirements of a JOE was inconsistent between Handbook F-66C, *Field Investment Policies and Procedures* and Handbook F-66, *General Investment Policies and Procedures.* [20] Handbook F-66C states a JOE is required for a new lease for an existing facility. However, a portion of Handbook F-66 states a JOE is not required for a new lease for the current facility. The differing policy caused inconsistencies in support obtained by responsible FSO personnel.

Postal Service policy requires approval for all projects within the delegations of approval authority specified by the vice president, Finance, controller.[21] According to facilities personnel, one officer was removed from the system prematurely because there was no expiration date for contracting authority. The other officer's expiration date for her contracting authority was not updated in the system.

[18] We identified one or more exceptions at six of the seven facility service offices (FSO) sampled. No exception noted at the Pacific FSO.

[19] A 1-page document used to request approval for Postal Service support systems, small field projects and headquarters projects with costs between $25,000 and $250,000. It briefly defines the problem or need for an investment; describes operational improvements; identifies alternatives; identifies operational costs or savings and service impacts; includes a recommendation, justification, and pertinent budget information; and provides appropriate backup information. Postal Control Number 208.56.

[20] Handbook F-66, *General Investment Policies and Procedures,* published November 2005, has been updated via *Postal Bulletins* through October 11, 2007. Handbook F66C, published March 2006, has been updated through April 13, 2006, via *Postal Bulletins.* Postal Control Number 208.43.

[21] Handbook RE-1, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*, originally published October 2006, has been updated through October 2008. Postal Service Control Number 208.56. Postal Service Control Number 208.43.

When personnel do not include required documentation or verify officials have the appropriate CO authority before executing new leases, there is risk of improper leases. As a result of our audit, management provided FSO personnel in January 2011 with documentation that clarifies the policy regarding JOEs as they pertain to new leases. In addition, management instituted a monthly review of expiring approval authorities along with an instruction that these approval authorities should expire and remain in the system. See Appendix C for calculation of monetary impact.

Appraisal and Appraisal Checklist

We reviewed 25 lease appraisals and found nine did not have appropriate signatures and/or did not have the appropriate documentation as required by policy.[22]

EXCEPTION DESCRIPTION	NUMBER OF OCCURRENCES		
	Value of Rent greater than $500,000	Value of Rent $250,000 – $500,000	Value of Rent less than $250,000
FSO In-House Real Estate Specialist (RES) did not sign appraisal checklist.	2 2		1
Contract appraiser (Headquarters contract review appraiser) did not sign appraisal checklist.	2		
RES did not sign appraisal checklist	2		
No Appraisal/Appraisal Outdated/Summary Not Dated.	4		
No Appraisal Checklist on file/ Not correct version.	2		
TOTAL	4	10	1

Postal Service policy[23] requires contract appraisals for new, leased construction, and alternate quarters projects when the annual rent exceeds $150,000. Leases or contract renewals where the anticipated annual rent is $150,000 or more also require a contract appraisal. Key internal controls require the RES to review the appraisal for contractual details. An FSO in-house RES reviewer performs an administrative review and sends appraisals greater than or equal to $500,000 to a contract appraiser to ensure proper methodology and reasoning and that standards were followed. The reviewers complete the Appraisal Checklist and Reviews document and sign as evidence of approval.

These errors occurred because a consistent application of policies does not exist across FSOs. When personnel do not properly approve appraisals, rental payments could exceed prevailing market rates. As a result of our audit, in June 2010, management provided lease appraisal completion training to applicable personnel. In addition, they revised the appraisal checklist to ensure personnel obtain applicable signatures as required. See Appendix C for calculation of monetary impact.

[22] Some leases had more than one error. Postal Service Control Number 302.21.
[23] Handbook RE-1.

Journal Voucher Entry Review and Approval

St. Louis ASC personnel did not review or approve the completed Postal Service (PS) Forms 824, Journal Entry Form, or compare the accounting entries to the supporting documentation as required for three journal vouchers.[24] For one journal voucher, personnel used the incorrect amount for the land value when calculating the building impairment amount,[25] which resulted in overstating the impairment expense account and the building expense account by $400.[26] In addition, two journal voucher entries related to Contract Postal Unit Technology yielded one or more discrepancies including:

- Based on evidence obtained, a second review was not performed as required. Subsequent evidence showed the second approver later signed and backdated the journal voucher.

- Personnel transposed debit and credit entries on one journal voucher entry, and although they attempted to correct the error, it was still inaccurate.

- Descriptions on the journal voucher and supporting documentation did not reflect the entry.

- Amounts on the documents did not match the general ledger, and no explanations were noted on supporting documentation.

These errors occurred due to an oversight. When personnel do not review journal voucher entries, there is an increased risk of misstatement. As a result of our audit, management corrected the journal voucher entries. In addition, according to ASC personnel, applicable personnel received additional training in March 2010 to ensure these issues do not occur in the future. We will continue to review journal voucher entries as part of our annual financial statement audit work.

Account Reconciliations

We reviewed account reconciliations for material accounts and identified five errors in PS Form 3131, Standard Reconciliation of Accounts. Account reconciliations are a detective control designed to ensure the accuracy of general ledger account balances. A Postal Service key internal control[27] states ASC personnel are responsible for reviewing the adequacy of the supporting documentation and the reasonableness of the account reconciliations. When account reconciliations are inaccurate, there is risk of significant financial statement misstatements. We notified the IPA of these errors to assist it with its consideration of overall control risk. As a result of our audit,

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[24] Postal Service Control Number 302.19.
[25] The ASC separated the building and land book values to calculate the amount of the adjustment based on the current appraised value.
[26] Account 54621, *Impairment Expense – USPS Owned Buildings* and Account 17121.069, *USPS-Owned Building (Write off as Expense)*.
[27] Postal Service Control Number 208 .25; Postal Service Control Number 302.18.

management resolved or is in the process of resolving all errors. See Appendix B for our detailed analysis of this topic.

Progress on Prior Years' Recommendations

We followed up on recommendations concerning highway extra trips, international mail, and controls over money orders. As a result of our review, we closed all recommendations for highway extra trips and international mail, but three remain outstanding for money orders. See Appendix B for our detailed analysis of this topic.

Because of management's continuing efforts and improvements in the items noted, we are not making any recommendations at this time. As a result, management chose not to respond formally to this report. 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.

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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The St. Louis IT/ASC is one of three Postal Service ASCs.[28] Its employees are responsible for accounting functions related to money orders, real property, transportation, international mail,[29] and accounts payable.[30] Employees at this facility are also responsible for processing financial and accountability data from field units.

We have issued separate financial statements audit reports for headquarters and the Eagan IT/ASC and will issue a separate report for the San Mateo IT/ASC. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls 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 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.[31] 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.[32]

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:[33]

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure[34] and comply with accounting principles generally accepted in the U.S.

- Accounting transactions at the St. Louis 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.

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[28] Other ASCs are located in Eagan, MN, and San Mateo, CA.
[29] During FY 2010, management separated the IAB from the St. Louis IT/ASC. However, our audit work includes this area.
[30] Includes accounting for rents and leases, contract stations, vehicle hire, uniform allowance, indemnity claims, tort claims, and eTravel.
[31] 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.
[32] *Fiscal Year 2010 Selected Information Technology General Controls* (Report Number IT-AR-11-002, dated January 12, 2011).
[33] The IPA maintains overall responsibility for testing and review of significant St. Louis IT/ASC accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.
[34] To ensure key controls are properly designed and operationally effective.

- 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 November 2009 through March 2011 in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in the *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 the 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 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* might 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 March 10, 2011, and included their comments where appropriate.

We relied on computer-generated data from several Postal Service financial systems, including:

- Accounting Data Mart.
- electronic Facilities Management System (eFMS).
- eTravel System.
- FPS System.
- Global Business System (GBS).
- LCMS.
- Money Order Database.
- Money Order Inquiry System.
- NAOFA.
- Retek Merchandising System.
- Transportation Contract Support System.

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 verified that payment authorizations supported payments recorded in the eFMS. We determined that the data were sufficiently reliable for purposes of this report.

PRIOR AUDIT COVERAGE

We issued the following reports addressing selected financial activities and accounting records at the St. Louis IT/ASC. We discuss the control issues further in the "Progress on Prior Years' Recommendations" section of this report.[35]

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
New York International Service Center – Inbound International Mail	FT-AR-08-005	1/24/2008	$13,700,604	Volume data used to bill FPAs for inbound Express Mail and letter class service was not always accurate. We closed two significant recommendations during our audit.
Fiscal Year 2007 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-08-010	3/31/2008	$6,644	A significant deficiency existed with international mail.[36] We also identified control deficiencies regarding extra highway trips, transportation systems' access, eTravel claims, CPU payments, and property transactions. We closed one significant recommendation regarding extra highway trips during our audit.
Los Angeles International Service Center – Inbound International Mail	FT-AR-10-001	10/13/2009	$163,000	Volume data used to bill FPAs for inbound international letter post, Parcel Post, and Express Mail service was not always accurate and properly supported. We closed the significant recommendation to expedite approved SCRs pertaining to the IRS during our audit.

[35] The transportation systems' access, eTravel claims, contract postal unit (CPU) payments, and property transactions issues are not included there. However, management either took corrective action during the audit, the recommendations are not significant, or the recommendations are closed.
[36] The IPA reported this in its *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* (dated November 14, 2007). A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The IPA reclassified the significant deficiency as a control deficiency in FY 2008. However, the IPA elevated the deficiency to a significant deficiency once again in FY 2010.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Controls Over Money Orders	FT-AR-10-009	2/22/2010	$532,716	Controls over money order replacement checks, account reconciliations, and escheatment needed improvement. Management agreed to all seven recommendations, of which, four were closed during our audit. None of the recommendations were significant.

APPENDIX B: DETAILED INFORMATION

Account Reconciliations

We reviewed account reconciliations for material accounts and identified five errors in PS Form 3131*.* The five reconciliation errors are as follows:

- Account 16125, *Building Improvement.*[37] This account had an unreconciled difference every month since October 2008 and adjustments to the subsidiary ledger[38] ranged from $142 to $2,644,550. Management was aware of the unreconciled differences in this account and had reported them each month to Corporate Financial Reporting. Our review of the April and May 2010 reconciliations showed adjustments to the subsidiary ledger of $22,251 and $531,283. Management concluded that these differences existed because the subsystem, eFMS, was not designed to accommodate all financial cut-offs and detailed transaction records.[39] By the end of FY 2010, ASC personnel developed a new report, *CIP (Construction in Progress) Subledger – YTD (Year to Date)*, along with a new process to track each project from inception to final closure.[40] As a result, in September 2010, ASC personnel were able to reconcile the CIP subsidiary ledger to the general ledger.[41]

- Account 13810, *Mortgage Receivable.* This account balance included a delinquent amount of $347,447.[42] The balance pertained to three debtors, including a debtor's balance of $242,000 that the FSO personnel stated had already been collected by the Postal Service 2 years ago. However, ASC personnel could not verify receipt of the cash, so the account was not updated to reflect receipt of the payment. They will continue to work with FSO personnel to obtain the needed support to expense this portion. ASC personnel noted another debtor's balance of $105,023 continued to show quarterly payment activity although support was not available to verify the activity. Finally, ASC personnel plan to expense the remaining debtor balance of $424 by July 2011.

- Account 15130, *Employee Travel Advances*. This account had adjustments to the general ledger balance for $1,442 for advances made from FYs 2001 through 2005 that ASC personnel never cleared. ASC personnel stated there was no formal policy for uncollected travel advances, although an informal policy allows them to expense adjustments under $500,000. At the time of our audit, Postal Service management

[37] Account 16125, *Building Improvement* -This account is also referred to as CIP, which records the cost of design construction and support services related to building improvement projects.
[38] Adjustments to subsidiary ledger is a line item on the PS Form 3131 to record explained differences or reconciling items.
[39] Per the new policy issued in May 2010, entitled *Unrecognized Differences*.
[40] This new report can identify reconciling issues timely, such as payment timing issues, wrongfully cancelled projects, and erroneous closeouts. The new process also identifies projects that are not balancing due to sporadic system problems that IT continues to research.
[41] There were several journal voucher adjustments to the subsidiary ledger plus a $3.96-million adjustment because of project timing differences identified in the new subsidiary report.
[42] Delinquent for more than 366 days.

determined the outstanding travel advances were uncollectible and adjusted the subsidiary ledger as they were not expensed on the general ledger in a timely manner.

- Account 23463, *Deposits by Contractors - Others and Reconciliation.* We noted an unsupported amount of $656,826 in supplier balances, of which the ASC stated it was aware. The preparer, approving official, or systems accountant did not sign or date the May 2010 amended reconciliation provided. At the time of our audit, the ASC had undertaken the task of creating a subsidiary ledger for this account rather than using a carry forward balance adjusted for monthly activity. ASC personnel performed additional research and located support for approximately $165,300 of this balance. They expensed the remaining unsupported balance of $491,526 in August 2010.

- Account 23465, *Current Portion Depreciation and Escrow*[43]*- Facility Transfer.* This account contained an escrow balance of $181,745 since September 2009. The Postal Service received payment in FY 2009, but personnel did not reflect it in the general ledger. Based on our audit, ASC personnel cleared the escrow in July 2010.

Progress on Prior Years' Recommendations

We followed up on recommendations concerning highway extra trips, international mail, and controls over money orders.

Highway Transportation Extra Trips[44]

The current payment process did not include validation from the destination facility. Instead, the originating facility initiated and maintained control of authorization and certification and submitted certification forms directly to the St. Louis IT/ASC for further processing. In response to our recommendation to modify policies and procedures, management issued a policy letter on March 11, 2009, that requires the facility manager or postmaster to verify the extra service is justified and sign the PS Form 5397, Contract Route Extra Trip Authorized. It also requires personnel to enter the information in Surface Visibility or Transportation Information Management Evaluation System, which the administrative official uses to verify services performed as part of the certification of payment process. In addition, area offices established tracking procedures to monitor and account for extra service use. As a result, we closed the outstanding significant recommendation on October 13, 2010.

[43] An escrow is an arrangement where an independent trusted third-party receives and disburses money and/or documents for two or more transacting parties, with the timing of such disbursement by the third-party dependent on the performance by the parties of agreed-upon contractual provisions.
[44] *Fiscal Year 2007 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-08-010, dated March 31, 2008).

New York International Service Center – Inbound International Mail[45]

Volume data used to bill FPAs for inbound Express Mail[46] and letter class service was not always accurate. In response to our recommendation to establish and communicate policies and procedures to address the complete processing and billing cycle for inbound international mail, management developed and communicated those policies with relevant parties 3 months after implementing the new settlement system. In response to our recommendation to direct IAB and appropriate systems personnel to establish controls to ensure that FPAs are correctly billed for all valid dispatches, management communicated and distributed standard operating procedures to appropriate personnel. We also confirmed that management implemented critical software change requests (SCR) for the GBS. As a result, we closed the outstanding significant recommendations on April 20, 2010, and April 7, 2010, respectively.

Los Angeles International Service Center – Inbound International Mail[47]

Volume data used to bill FPAs for inbound international letter post, Parcel Post,[48] and Express Mail service was not always accurate and properly supported. Specifically, proper source documentation was not always available and weights and piece counts were not always correct. We recommended management expedite approved SCRs to enable the IRS (a subsystem of GBS) to reconcile data and provide valid dispatch-level data for billing. Management implemented these critical SCRs, and we closed the outstanding significant recommendations on January 28, 2010.

Controls Over Money Orders[49]

Controls over replacement checks, account reconciliations, and escheatment[50] needed improvement. We recommended management reconcile the differences between Postal Service policy and Money Order Inquiry System programming; revise and communicate policy for completing PS Forms 6401, *Money Order Inquiry;* and initiate an SCR for system edit(s) as necessary based on policy updates. We also recommended management implement an SCR to eliminate the need for the manual calculation of the reconciling item, and continue to research and resolve the remaining unreconciled difference in the Outstanding Money Order Liability Account. Further, we recommended management—

- Use the newly acquired data analytics tool to review the detailed money order data at least annually to ensure money orders are properly escheated.

[45] *New York International Service Center – Inbound International Mail* (Report Number FT-AR-08-005, dated January 24, 2008).
[46] Express Mail is a trademark of the Postal Service.
[47] *Los Angeles International Service Center – Inbound International Mail* (Report Number FT-AR-10-001, dated October 13, 2009)
[48] Parcel Post is a trademark of the Postal Service.
[49] *Controls Over Money Orders* (Report Number FT-AR-10-009, dated February 22, 2010).
[50] This is the monthly process of recording money orders outstanding for more than 2 years as miscellaneous revenue and removing them from the Outstanding Money Order Liability Account in the subsidiary ledger.

- Escheat those money orders identified in our audit that were still outstanding after 2 years.

- Meet applicable business rules.

Management implemented or plans to implement the following:

- Implemented a new electronic money order inquiry process (e6401) in January 2011 and communicated information regarding the new process, along with any updates to the policy for completing PS Forms 6401.

- Submitted an SCR in October 2009 regarding account reconciliations that is dependent on funding, and that funding is expected to be available by September 30, 2011.

- Developed an alternative analytics tool to identify additional money orders eligible for escheatment and, in February 2010, escheated more than 1,500 money orders, including those previously identified by the OIG.

- Will initiate a SCR for system edits based on PS Form 6401 policy updates, if necessary.

- Will continue to review monthly the unidentified difference in the Outstanding Money Order Liability Account.

- Will continue to run the analytics tool regularly.

As a result, we consider all but three recommendations closed. We will continue to monitor the replacement check and account reconciliation issues as part of our annual financial statement audit work.

APPENDIX C: MONETARY IMPACTS

Finding Impact	Category	Amount
Air Transportation Contract Requisition Approval	Unrecoverable Unsupported Questioned Costs[51]	$39,797,030
New Leases without JOE or Signed by Officials Without Proper Contracting Authority in eFMS	Unrecoverable Unsupported Questioned Costs	12,446,311
Lease Appraisals Without Appropriate Signatures and/or Appropriate Documentation	Unrecoverable Unsupported Questioned Costs	21,200,204
Total		**$73,443,545**

[51] Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations. These costs are also not supported by adequate documentation.