



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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# ***HIGHLIGHTS***

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## **Fiscal Year 2011 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center**

### **Audit Report**

December 19, 2011

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Report Number FT-AR-12-007

December 19, 2011



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**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

**Fiscal Year 2011 Postal Service Financial  
Statements Audit – Eagan Information  
Technology and Accounting Service  
Center**

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# HIGHLIGHTS

Report Number FT-AR-12-007

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### **IMPACT ON:**

Financial reporting at the Eagan, MN, Information Technology and Accounting Service Center (IT/ASC) for the fiscal year ended September 30, 2011.

### **WHY THE OIG DID THE AUDIT:**

Our objectives were to determine whether:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the Eagan IT/ASC 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 on a basis consistent with that of the previous year.
- The U.S. Postal Service complies with laws and regulations that have a direct and material effect on the financial statements as a whole.

### **WHAT THE OIG FOUND:**

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

transactions at the Eagan IT/ASC 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 on a basis consistent with the previous year; and the Postal Service complied with laws and regulations relating to the Eagan IT/ASC and having a direct and material effect on the financial statements. We did not propose adjustments or identify issues that were material to the financial statements or that would affect the overall adequacy of internal controls. However, we determined management could improve the methodology for estimating the Postal Service's unemployment compensation liability accrual. As a result of our audit, management reduced the accrual by \$28.8 million.

### **WHAT THE OIG RECOMMENDED:**

We are not making recommendations because management took corrective action to improve their methodology of estimating the unemployment compensation liability accrual.

### **WHAT MANAGEMENT SAID:**

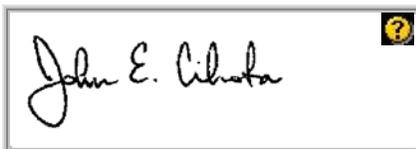
We provided a draft of this report to management on December 12, 2011, and because we made no recommendations, management chose not to respond formally.

[Link to review the entire report](#)



December 19, 2011

**MEMORANDUM FOR:** TIMOTHY F. O'REILLY  
VICE PRESIDENT, CONTROLLER

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". A small yellow question mark icon is visible in the top right corner of the box.

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

**SUBJECT:** Audit Report – Fiscal Year 2011 Postal Service Financial  
Statements Audit – Eagan Information Technology and  
Accounting Service Center  
(Report Number FT-AR-12-007)

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service Eagan, MN, Information Technology and Accounting Service Center for the fiscal year ended September 30, 2011 (Project Number 11BM003FT000).

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.

Attachments

cc: Joseph Corbett  
Julie S. Moore  
Jean D. Parris  
Dean R. Rodman  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service Eagan, MN, Information Technology and Accounting Service Center (IT/ASC) for the fiscal year (FY) ended September 30, 2011 (Project Number 11BM003FT000). 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.<sup>1</sup> This audit addresses 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. The Board of Governors (Board) contracted with the IPA to express opinions on the Postal Service's financial statements and internal controls over financial reporting.

## Conclusion

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

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure<sup>2</sup> and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the Eagan, MN, 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.

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<sup>1</sup> The IPA maintains overall responsibility for testing and reviewing significant Eagan 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.

<sup>2</sup> To ensure key controls are properly designed and operationally effective.

- The Postal Service is in compliance with laws and regulations relating to the Eagan, MN, IT/ASC and having a direct and material effect on the financial statements as a whole.<sup>3</sup>

We did not propose any adjustments or identify any issues that were material to the financial statements or that would affect the overall adequacy of internal controls. However, we identified an issue regarding management's methodology for estimating the Postal Service's unemployment compensation liability accrual.

### Unemployment Compensation Accrual

Management could improve the methodology for estimating the unemployment compensation liability accrual. Management's estimate included, among other assumptions:

- Benefits the Department of Labor (DOL) already paid to eligible Postal Service claimants for the previous quarter (13 weeks) but not yet billed.
- Total maximum potential liability for future unemployment benefits.

The Postal Service participates in the Unemployment Compensation for Federal Employees (UCFE) program which entitles eligible claimants<sup>4</sup> up to 26 weeks of unemployment compensation.<sup>5</sup> The Federal–State Extended Benefit Program also provides additional weeks, depending on state law.<sup>6</sup> The DOL administers the UCFE program and bills the Postal Service quarterly for payments made on behalf of eligible Postal Service employees. Since the billing for each quarter does not occur until after completion of that period, management appropriately accrues for the amounts not yet billed. However, management adds the estimated total maximum potential liability for future unemployment benefits to calculate the total accrual amount. Accounting standards<sup>7</sup> state that an accrual should only be made for probable expenses that can be reasonably estimated. We do not believe it is probable that all claimants will receive the maximum potential liability because as of September 30, 2011, some eligible claimants may have already exhausted a portion of their benefits. As such, we believe the methodology for calculating the total maximum liability component could be improved.

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<sup>3</sup> In our report *Fiscal Year 2011 Postal Service Financial Statements Audit – Washington, D.C., Headquarters* (Report Number FT-AR-12-005, dated December 12, 2011), we noted the Postal Service had one instance of noncompliance related to the suspension of the employer Federal Employees Retirement System obligation.

<sup>4</sup> The Postal Service pays unemployment compensation for eligible former employees and employees because their hours have been reduced below applicable state thresholds.

<sup>5</sup> Public Law 94-566, 90 Statute 2667, 5 U.S.C. 8501-8509, provides for a permanent program of unemployment compensation. Most states provide 26 weeks of benefits.

<sup>6</sup> The American Recovery & Reinvestment Act of 2009 establishes from 13 to 20 weeks of extended benefits, depending on state law. These benefits will continue through January 4, 2012.

<sup>7</sup> Financial Accounting Standards Board, Accounting Standards Codification 710 and 712.

## Recommendation

As a result of our audit, management reduced the liability by \$28.8 million. Because management reduced the unemployment compensation liability accrual, we are not making a recommendation at this time. However, we will continue to monitor the accrual as part of our future annual financial statements audit work. See [Appendix B](#) for our calculation of monetary impact. Since we did not make a recommendation, management chose not to respond formally to this report.

## Appendix A: Additional Information

### Background

The Eagan IT/ASC is one of three ASCs Postal Service-wide<sup>8</sup> and functions as a large, centralized accounting and disbursement center. Its employees are responsible for processing payroll, maintaining the general ledger, reconciling financial data, and maintaining cash and receivable accounts.

We issued a separate financial statements audit report for headquarters and will issue a separate report for the St. Louis and San Mateo IT/ASCs. 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 controls 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.<sup>9</sup> The OIG will also issue a separate report for the audit of the FY 2011 information system controls at the Eagan, San Mateo, and St. Louis IT/ASCs; and the Raleigh Information Technology Service Center.

### Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:<sup>10</sup>

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure<sup>11</sup> and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the Eagan IT/ASC that impact the general ledger account balances for assets, liabilities, equity, income, and expenses of the Postal Service are fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conform to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service complies with laws and regulations that have a direct and material effect on the financial statements taken as a whole.

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<sup>8</sup> Other IT/ASCs are located in St. Louis, MO, and San Mateo, CA.

<sup>9</sup> 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.

<sup>10</sup> The IPA maintains overall responsibility for testing and reviewing significant Eagan IT/ASC accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.

<sup>11</sup> To ensure key controls are properly designed and operationally effective.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2010 through December 2011<sup>12</sup> 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 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 requires a sufficient understanding of internal controls to plan the audit and 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 misstatements (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 the PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We provided a draft of this report to management on December 12, 2011, and because we did not make any recommendations, management chose not to respond formally.

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

- Accounting Enterprise Data Warehouse Reporting.
- National Accounting Oracle Financial Application.
- Accounts Receivable-Oracle.
- Commercial Check Tracking System.
- Payroll Systems.
- SAP Human Capital Management.
- Employee Personnel Action History.
- PostalEASE.

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 traced payroll system reports to original *Notification of Personnel Action* documentation. We determined that the data were sufficiently reliable for the purposes of this report.

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<sup>12</sup> The scope of our audit was from October 1, 2010, through September 30, 2011.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Report Results
<i>Fiscal Year 2010 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-11-005	12/30/2010	We did not propose any adjustments or report any significant issues, and did not make any recommendations. Management took corrective action during our audit to update the certifying officer list and implement additional controls to prevent improper certification of payments. Management also took action to correct the formula in the <i>Time and Attendance System Close Out Report</i> .
<i>Fiscal Year 2009 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-10-004	11/20/2009	We did not propose any adjustments or report any significant issues and did not make any recommendations. Management took corrective action during our audit to document evidence when evaluating payroll processing.
<i>Fiscal Year 2008 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-09-002	11/20/2008	We did not propose any adjustments or report any significant issues and did not make any recommendations. Management took corrective action during our audit regarding Federal Employees' Retirement System Contribution Rates.

### Appendix B: Monetary Impacts

Finding	Impact Category	Amount
Unemployment compensation accrual	Unsupported Questioned Cost <sup>13</sup>	\$28,758,859

Management initially calculated the liability amount at \$94,758,859 which included the maximum potential liability for each eligible claimant. They revised the estimate to \$66,000,000 to reflect a reduced number of weeks each eligible claimant would be entitled to, for a difference of \$28,758,859.

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<sup>13</sup> A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures, but does not necessarily connote any real damage to Postal Service.