



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

**Fiscal Year 2011 Postal Service
Financial Statements Audit -
San Mateo Accounting Service
Center**

Audit Report

January 18, 2012

Report Number FT-AR-12-009

January 18, 2012



OFFICE OF
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UNITED STATES POSTAL SERVICE

HIGHLIGHTS

Fiscal Year 2011 Postal Service Financial Statements Audit – San Mateo Accounting Service Center

Report Number FT-AR-12-009

IMPACT ON:

Financial reporting at the San Mateo, CA, Accounting Service Center (ASC) for fiscal year (FY) 2011.

WHY THE OIG DID THE AUDIT:

The objectives of the audit 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 San Mateo 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 complied with laws and regulations as they relate to the San Mateo ASC and that have a direct and material effect on the financial statements.

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 San Mateo 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 that of the previous year, and the Postal Service complied with laws and regulations as they relate to the San Mateo ASC and that have a direct and material effect on the financial statements. We did not propose any adjustments; however, we did identify two issues regarding controls over contractual payables.

WHAT THE OIG RECOMMENDED:

We are not making any recommendations because management plans to consider the contractual payables issues in their communication of control deficiencies for FY 2011.

WHAT MANAGEMENT SAID:

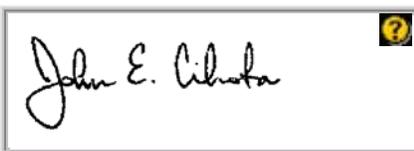
We provided a draft of this report to management on December 15, 2011, and because we made no recommendations, management chose not to respond formally.

[Link to review the entire report](#)



January 18, 2012

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

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". There is a small yellow question mark icon 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 – San Mateo Accounting Service Center
(Report Number FT-AR-12-009)

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service San Mateo, CA, Accounting Service Center for the fiscal year ended September 30, 2011 (Project Number 11BM006FT000).

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
Susan Brownell
Jean D. Parris
Steven R. Phelps
Paula S. Garner
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 San Mateo, CA, Accounting Service Center (ASC) for the fiscal year (FY) ended September 30, 2011 (Project Number 11BM006FT000). 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 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 an opinion on the Postal Service's financial statements and internal controls over financial reporting.

Conclusion

During our audit of the San Mateo ASC we noted:

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure² and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the San Mateo 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 complied with laws and regulations as they relate to the San Mateo ASC and that have a direct and material effect on the financial statements.

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

² To ensure key controls are properly designed and operationally effective.

We did not propose any adjustments; however, throughout the year, we reviewed internal controls over financial reporting and identified two issues regarding contractual payables. In addition, the IPA identified information system control deficiencies³ affecting the San Mateo ASC that were not in the scope of our audit and are not reported here.⁴ The IPA informed management of these issues on November 1, 2011.

Contractual Payables

As part of the overall review of controls over contractual payables, we identified issues regarding supplier signatures and contract labor rates. Although these issues by themselves and absent other controls do not have a material effect on the overall financial statements, they assist in the overall contracting process by assuring the Postal Service's right to goods or services and corresponding obligation to pay according to the terms of the contract. Good contracting controls collectively ensure that payments correspond to authorized contracts. Management plans to consider these issues in their communication of control deficiencies for FY 2011. As a result, we are not making a recommendation at this time but will re-evaluate these issues as part of our FY 2012 financial statements audit work.

Supplier Signature

We reviewed 25 contracts from the Contract Authoring Management System and found one Basic Pricing Agreement (BPA)⁵ that did not include a supplier's signature. The supplier's signature acknowledges and authorizes the contract and documents their responsibility to provide the Postal Service with the agreed upon goods or services. Officials requested the supplier provide a signed copy of the contract on several occasions, but the supplier did not respond.

Management stated that it is a good practice to receive a supplier signature on an agreement.⁶ They also stated that, although the supplier's signature was missing, the supplier performed the work, indicating acceptance of the agreement. Further, they have extensive budgetary and financial controls in place, including invoice certification, to ensure the Postal Service receives the goods or services at the intended price. A supplier signature as part of a collective suite of contracting controls helps to provide reasonable assurance that internal controls are maintained in all material respects.

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 The information system control deficiencies included system administrators rights and capabilities to change their accesses, no review of post-production changes to ensure the change management process was followed, and errors on an Electronic Marketing Reporting System exception transaction listing that had not been corrected.

⁵ Postal Service (PS) Form 8203, Order/Solicitation/Offer/Award. A BPA is an ordering agreement that permits individuals designated by name or title to place orders with a maximum limit of \$10,000 by telephone, over-the-counter, or in writing. There is no obligation on either party to place or fulfill orders.

⁶ Management also stated that a supplier signature on an agreement is not the only way for a supplier to acknowledge acceptance in forming a binding contract.

Contract Labor Rates

We reviewed 25 invoices with labor costs processed through the Program Cost Tracking System (PCTS)⁷ and identified one instance where a labor rate was not accurate. This occurred because personnel entered an incorrect labor rate and a control did not exist to ensure labor rates entered into the PCTS were accurate. As a result, the Postal Service underpaid a contractor approximately \$935.

While the National Accounting Oracle Financials Application-Oracle Accounts Payable System (NAOFA-OAP) includes a control limiting total payments to the committed contract amounts, a control does not exist to ensure labor rates applied to contract hours on individual invoices are accurate. Accurate labor rates as part of a collective suite of contracting controls ensure the Postal Service pays its contractors according to the terms of the contract. As a result of our audit, management corrected the labor rate and has initiated action to pay the contractor the additional amount due.

Progress on Prior Years' Recommendations

Capital Property

Since FY 2003, we determined that field-level controls over the accountability of capital personal property needed improvement and, over those years, the Postal Service has implemented several actions to improve controls. During FY 2011, management reminded the sites to complete and certify the semiannual capital property inventory. Asset Accountability Service Center (AASC) personnel were also available for questions regarding the certification of capital property inventory. Additionally, the AASC website gave material accountability officers (MAOs) and installation heads with intranet access the ability to verify asset numbers, acquisition costs, and undepreciated balances for capital property items selected as part of the semiannual capital property inventory. The AASC website also provided a link to the instructions on how to complete the certification report. MAOs and installation heads could access the AASC website and obtain current information on the completion status of their semiannual capital property certification reports. This same information was available by district and area.

During FY 2011, we reviewed the results of the Postal Service's semiannual capital property reviews for 25 finance numbers.⁸ Of 66 capital personal property items they reviewed, the sites located 47 items but could not locate 19 items assigned to six finance numbers. All 19 items were fully depreciated. As a result, they removed the items from the Property and Equipment Accounting System (PEAS). We subsequently verified that all 19 items were removed from inventory. Because of management's

⁷ PCTS is a web-based system that facilitates tracking and invoicing contractors' time, labor, and material expenses associated with Information Technology (IT) projects or programs. PCTS is part of a suite of products the IT department uses to provide and track deliverables, services, chargeback labor costs, and capital costs to internal Postal Service customers.

⁸ Postal Service Control Number 308.037.

continued and recent efforts, and the fact that we found no exceptions, we consider this issue closed.

Relocation Services Payments

During FY 2010, we reported the Postal Service did not review supporting documentation for relocation services as part of the payment process.⁹ There was no procedure in place to ensure invoices submitted by Cartus Corporation, the Postal Service's relocation management firm, were supported, as recommended by best practices. We recommended management ensure they review documentation supporting relocation service invoices. Management agreed with the recommendation and stated they would conduct an annual formal review of relocation expenses. Management implemented a program and began reviewing relocation expenses during FY 2011. Accordingly, we consider this issue closed.

Shuttle Services Payments

Also during FY 2010, we reported that vehicle maintenance facilities (VMF) personnel did not always adequately review or maintain supporting documentation for shuttle service payments. We recommended management develop and implement standard operating procedures for review and retention of U.S. Auto Club (USAC) invoices prior to payment. Management agreed with the recommendation and stated they would establish steps for documenting and reconciling monthly USAC invoices prior to payment. Management's targeted implementation date was June 2011. Management advised they provided the field offices with a draft *Vehicle Maintenance Bulletin* in October 2011 and have targeted final publication of the bulletin by February 2012. We will continue to evaluate the effectiveness of management's efforts as part of our annual financial statement audit work.

⁹ *Fiscal Year 2010 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-11-008, dated April 7, 2011).

Appendix A: Additional Information

Background

The San Mateo ASC is one of three ASCs Postal Service-wide.¹⁰ The San Mateo ASC functions as a large, centralized accounting and disbursement center and its employees are responsible for accounts payable,¹¹ centralized postage payments,¹² capital personal property, motor vehicles, and supply inventory.

We issued separate financial statements audit reports for headquarters and the Eagan ASC and will issue a separate report for the St. Louis 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 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.¹³ The OIG issued a separate report for the audit of the FY 2011 information system controls at the Eagan, San Mateo, and St. Louis ASCs; and the Raleigh Information Technology Service Center.¹⁴

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:¹⁵

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure¹⁶ and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the San Mateo 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 with the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

¹⁰ Other ASCs are in St. Louis, MO and Eagan, MN.

¹¹ Includes accounting for inventory purchases, contract cleaners, miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field payables.

¹² 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.

¹³ In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, the three ASCs, field sites, and the Raleigh, NC Information Technology Service Center.

¹⁴ *Fiscal Year 2011 Information Technology Internal Controls* (Report Number IT-AR-12-003, dated January 9, 2012).

¹⁵ The IPA maintains overall responsibility for testing and reviewing significant San Mateo ASC accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.

¹⁶ 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 2010 through January 2012 in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the 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 officials on December 15, 2011, and since we did not make any recommendations, management chose not to respond formally.

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

- Accounting Enterprise Data Warehouse Reporting.
- NAOFA-OAP.
- Enterprise Imaging and Workflow System.
- Material Distribution and Inventory Management System.
- eBuy2.
- Contract Authoring Management System.
- PEAS.
- PCTS.
- Vehicle Management Accounting System.
- Centralized Account Processing System.

We assessed the reliability of these systems' data by performing specific internal control and transaction 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 that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<p><i>Fiscal Year 2010 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i></p>	<p>FT-AR-11-008</p>	<p>4/07/2011</p>	<p>\$75,838</p>	<p>The Postal Service did not review supporting documentation for relocation services as part of the payment process and personnel at a VMF were not adequately reviewing or maintaining supporting documentation for shuttle services prior to payment. We also identified control deficiencies regarding vehicle sales requests and eBuy purchases. Management agreed to conduct an annual sampling of invoices to review supporting documentation for relocation services and to develop and implement a standard operating procedure for review and retention of USAC invoices prior to payment. See the Progress on Prior Years' Recommendations section of this report.</p>

<p><i>Fiscal Year 2009 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i></p>	<p>FT-AR-10-008</p>	<p>2/11/2010</p>	<p>\$0</p>	<p>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. Also, they could not validate invoice information transmitted by the non-mail freight transportation suppliers. Management revised standard operating procedures to include a review of supporting documentation and contacted the suppliers who began sending email notifications that indicate both the total number and values of the invoices. Also, we continued to identify issues with capital personal property. See the Progress on Prior Years' Recommendations section of this report.</p>
<p><i>Fiscal Year 2008 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i></p>	<p>FT-AR-09-004</p>	<p>12/9/2008</p>	<p>\$0</p>	<p>Management continued to improve semiannual capital property reviews and property accountability. See the Progress on Prior Years' Recommendations section of this report.</p>