



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

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**Fiscal Year 2012 Postal Service  
Financial Statements Audit –  
San Mateo Accounting Services**

**Audit Report**

December 20, 2012

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Report Number FT-AR-13-006

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# HIGHLIGHTS

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## **BACKGROUND:**

The U.S. Postal Service San Mateo Accounting Services is responsible for accounting functions related to accounts payable, centralized postage payments, capital personal property, motor vehicles, and supply inventory.

We conducted this audit in support of the independent public accounting firm's overall opinions on the Postal Service's financial statements and internal controls over financial reporting.

Our objectives were to determine whether:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles.
- Accounting transactions are fairly stated.
- General ledger account balances conform to the general classification of accounts.
- The Postal Service complies with laws and regulations that have a direct and material effect on the financial statements.

## **WHAT THE OIG FOUND:**

Financial accounting policies and procedures provided for an adequate internal control structure and complied

with accounting principles. In addition, accounting transactions were fairly stated, and general ledger account balances conformed to the general classification of accounts. Finally, the Postal Service complied with laws and regulations having a direct and material effect on the financial statements.

We did not propose any adjustments or identify issues that were material to the financial statements or that would affect the overall adequacy of internal controls.

## **WHAT THE OIG RECOMMENDED:**

We did not propose any recommendations in this report.

[Link to review the entire report](#)



December 20, 2012

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

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

**SUBJECT:** Audit Report – Fiscal Year 2012 Postal Service Financial  
Statements Audit – San Mateo Accounting Services  
(Report Number FT-AR-13-006)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Accounting Services in San Mateo, CA, for the fiscal year ended September 30, 2012 (Project Number 12BM003FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice Millett, director, Finance, or me at 703-248-2100.

Attachments

cc: Joseph Corbett  
Julie S. Moore  
Jean D. Parris  
Scott G. Davis  
Corporate Audit and Response Management

## TABLE OF CONTENTS

Introduction .....	1
Conclusion .....	1
Progress on Prior Years' Recommendations .....	2
Appendix A: Additional Information .....	3
Background .....	3
Objectives, Scope, and Methodology .....	3
Prior Audit Coverage .....	5

## Introduction

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Accounting Services in San Mateo, CA for the fiscal year (FY) ended September 30, 2012 (Project Number 12BM003FT000). We conducted this audit in support of the independent public accounting firm's (IPA) overall 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 passed 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 San Mateo Accounting Services, we noted that:

- Financial accounting policies and procedures of the Postal Service provided for an adequate internal control structure<sup>2</sup> and complied with accounting principles generally accepted in the U.S.
- Accounting transactions at San Mateo Accounting Services impacting the general ledger account balances for assets, liabilities, equity, income, and expenses of the Postal Service were fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conformed 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 San Mateo Accounting Services 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 complied with laws and regulations relating to San Mateo Accounting Services that have a direct and material effect on the financial statements as a whole.

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, the IPA identified other control deficiencies<sup>3</sup> affecting San Mateo Accounting Services that were not in the scope of our audit and are not reported here.<sup>4</sup> The IPA informed management of these issues on November 2, 2011. Accordingly, we did not propose any recommendations in this report.

### Progress on Prior Years' Recommendation

During our FY 2010 audit, we reported that vehicle maintenance facilities (VMF) personnel did not always adequately review or maintain supporting documentation for shuttle service payments.<sup>5</sup> 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. On February 24, 2012, management issued Vehicle Maintenance Bulletin (VMB) 01-12, *Vehicle Maintenance Repair for Shuttling Service*, which included procedures for reconciling monthly activity reports to the ordered vehicle shuttles/moves during the month. Accordingly, we consider this issue closed.

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<sup>3</sup> 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 timely.

<sup>4</sup> For example, the IPA identified an issue pertaining to SmartPay credit card approvals, documentation, and reconciliation within the required time period.

<sup>5</sup> *Fiscal Year 2010 Financial Statements Audit – San Mateo Information Technology and Accounting Service Center* (Report Number [FT-AR-11-008](#), dated April 7, 2011), “Shuttle Services Payments.”

## Appendix A: Additional Information

### Background

San Mateo Accounting Services is one of three Accounting Services locations<sup>6</sup> and includes, as part of its functions, centralized accounting and disbursements. Its employees are responsible for accounts payable,<sup>7</sup> centralized postage payments,<sup>8</sup> capital personal property, motor vehicles, and supply inventory.

We will issue a separate financial statements audit report for headquarters, St. Louis, and Eagan Accounting Services. 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, and 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 FY 2012 information system controls at the Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers; and the Raleigh Information Technology Service Center.

### Objectives, Scope, and Methodology

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

- The 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 San Mateo Accounting Services 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 to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

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<sup>6</sup> Other Accounting Services offices are located in St. Louis, MO, and Eagan, MN.

<sup>7</sup> Includes accounting for inventory purchases, contract cleaners, miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field office payables.

<sup>8</sup> 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.

<sup>9</sup> In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, the three Solutions Development and Support field sites, and the Raleigh, NC Information Technology Service Center.

<sup>10</sup> The IPA maintains overall responsibility for testing and reviewing significant San Mateo Accounting Services 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.

- 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. Our audit included tests originated by the OIG and re-performance of management testing. We conducted this audit from November 2011 through December 2012<sup>12</sup> in accordance with the standards of the Public Company Accounting Oversight Board (U.S.) (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 our observations and conclusions to management who, on November 28, 2012, declined to meet 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 – Oracle Accounts Payable System (NAOFA/OAP).
- Enterprise Imaging and Workflow System.
- Supplier Order Management System.
- eBuy2.
- Contract Authoring Management System.
- Property and Equipment Accounting System.
- Program Cost Tracking System.
- Vehicle Management Accounting System.
- Centralized Accounts Processing System.
- Solution for Enterprise Asset Management.

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<sup>12</sup> The scope of our audit was October 1, 2011, through September 30, 2012.

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 testing originated by the OIG. 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
<i>Fiscal Year 2011 Postal Service Financial Statements Audit – San Mateo Accounting Service Center</i>	<a href="#">FT-AR-12-009</a>	1/18/12	None
<p><b>Report Results:</b>                      We did not propose any adjustments; however, we reviewed internal controls over financial reporting and identified two issues regarding contractual payables. We identified issues regarding supplier signatures and contract labor rates and our review of contracts from the Contract Authoring Management System found one Basic Pricing Agreement that did not include a supplier's signature. The IPA informed management of the issues on November 1, 2011. Consequently, we did not make any recommendations. We also found that management had not issued a VMB addressing reviews of supporting documentation for relocation services as part of the payment process. Management issued Vehicle Maintenance Bulletin VMB-01-12, <i>Vehicle Maintenance Repair for Shuttling Service</i>, which included procedures for reconciling monthly activity reports to the ordered vehicle shuttles/moves during the month. Accordingly, we consider this issue closed. See the <a href="#">Progress on Prior Years' Recommendations</a> section of this report.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2010 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i>	<a href="#">FT-AR-11-008</a>	4/07/11	None
<p><b>Report Results:</b>                      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 eBay 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 <a href="#">Progress on Prior Years' Recommendation</a> section of this report.</p>			
<i>Fiscal Year 2009 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i>	<a href="#">FT-AR-10-008</a>	2/11/10	None
<p><b>Report Results:</b>                      San Mateo Accounting Services personnel did not compare payee information from Postal Service 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. In 2009 we continued to identify issues with capital personal property. However, during FY 2011, we reviewed the results of the Postal Service's semiannual capital property reviews for 25 finance numbers. Because of management's continued efforts and the fact that we found no exceptions, we considered this issue closed.</p>			