





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

### Highlights

***The HQ Finance group establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions.***

### Background

The U.S. Postal Service Headquarters Finance group establishes accounting policies and guidelines for recording and reporting financial transactions. The three Accounting Services (Eagan, MN; San Mateo, CA; and St. Louis, MO) are responsible for functions related to accounts payable, capital property, vehicles, transportation, money orders, international mail, and payroll.

The U.S. Postal Service Board of Governors contracted with an independent public accounting firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The firm maintains overall responsibility for testing and reviewing significant accounts and processes. The U.S. Postal Service Office of Inspector General coordinates audit work with the firm to ensure adequate coverage.

Our objectives were to determine whether:

- Accounting transactions were fairly stated in the general ledger and selected key controls were operating effectively.
- The Postal Service properly tested, documented, and reported its examination of selected key financial reporting controls related to Postal Service Headquarters and Accounting Services.

### What The OIG Found

The Postal Service's accounting transactions were fairly stated and selected key controls were operating effectively.

We did not propose any adjustments or identify any issues or control deficiencies that were material to the financial statements or that would affect the overall adequacy of internal controls. However, management did not always properly test key controls for highway transportation activity. This occurred because testers were inexperienced and were not adequately monitored. As a result, there is an increased risk that control failures are not detected and reported.

Effective June 8, 2015, management began transitioning most activities required by the Sarbanes-Oxley Act to a third-party contractor. This contractor partnered with the Postal Service for Sarbanes-Oxley program management and expanded its role to include testing of internal controls in fiscal year 2015.

### What The OIG Recommended

Management recognized the challenges in fiscal year 2015 and provided oversight, training, and collaboration to the contracted testers prior to starting fiscal year 2016 testing. Therefore, we are not making recommendations.

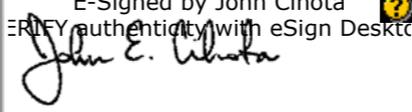
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

March 14, 2016

MEMORANDUM FOR: MAURA A. MCNERNEY  
VICE PRESIDENT, CONTROLLER

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop  


FROM: John E. Cihota  
Deputy Assistant Inspector General  
for Finance and Supply Management

SUBJECT: Audit Report – Fiscal Year 2015 Postal Service Selected  
Financial Activities and Accounting Records  
(Report Number FT-AR-16-005)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Washington, D.C. Headquarters and the Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2015 (Project Number 15BM002FT000).

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

Attachment

cc: Julie S. Moore  
Corporate Audit and Response Management

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# Findings

***The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements.***

## Introduction

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Washington, D.C. Headquarters (HQ) and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2015 (Project Number 15BM002FT000).

The objectives of the audit were to determine whether the Postal Service:

- Accounting transactions were fairly stated in the general ledger and selected key controls<sup>1</sup> surrounding those transactions were operating effectively.
- Properly tested, documented, and reported its examination of selected key financial reporting controls related to HQ and Accounting Services.

The Postal Reorganization Act of 1970,<sup>2</sup> as amended, requires annual audits of the Postal Service's financial statements. In addition, the Sarbanes-Oxley (SOX) Act<sup>3</sup> was enacted to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to state responsibility for establishing and maintaining adequate internal controls over financial reporting. The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006)<sup>4</sup> requires the Postal Service to comply with Section 404 of SOX.

The U.S. Postal Service Board of Governors (Board) contracted with an independent public accounting (IPA) firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts and processes. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work with the IPA firm to ensure adequate coverage. See [Appendix A](#) for additional information about this audit.

## Summary

During our audit of selected financial activities and accounting records at HQ and three Accounting Services, we found accounting transactions were fairly stated in the general ledger, and selected key controls surrounding those transactions were operating effectively. We did not propose any adjustments or identify any issues or control deficiencies<sup>5</sup> that were material to the financial statements or that would affect the overall adequacy of internal controls.<sup>6</sup>

However, management did not always properly test or document its examination of key controls for exceptional contract services performed or modifications to existing highway contracts or payment adjustments. This occurred because testers were inexperienced during the initial test period and management did not adequately oversee them due to the timing of the testing and review process. This increased the risk that control failures are not detected and reported.

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1 A key control is designed to prevent or detect financial statement misstatements.

2 Public Law 91-375, enacted August 12, 1970.

3 Public Law 107-204, enacted July 30, 2002.

4 Public Law 109-435, enacted December 20, 2006.

5 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 timely detect and correct misstatements.

6 The IPA firm identified other control deficiencies affecting the Postal Service that were not in the scope of our audit and are not contained in this report.

Effective June 8, 2015, Postal Service management began transitioning most SOX functions to a third-party contractor (contractor). The contractor has been the Postal Service's partner for SOX program management and expanded its role to include internal controls testing during fiscal year (FY) 2015. Management recognized the challenges with the transition and provided training and collaboration to the contracted testers during FY 2015. For example, management jointly tested controls with the contractor as an integrated team; conducted meetings between the Postal Service and contractor testing coordinators to review the overall current testing approaches, tools, and processes; and provided multiple training sessions to the contractor from June through August 2015. We believe this additional training and oversight will remediate the issues and, therefore, we are not making recommendations. However, we will continue to monitor these issues as part of our ongoing coordinated audit work with the IPA firm to ensure adequate coverage.

### **Certification of Exceptional Contract Service Performed**

The Headquarters/Accounting Services Center (HQ/ASC) Testing Team (testing team) did not always properly test or document its key control examinations of electronic Postal Service (PS) Form 5429, *Certification of Exceptional Contract Service Performed*, for highway transportation activity.<sup>7</sup> This occurred because the testers were inexperienced during the initial test period and management did not adequately oversee them due to the timing of the testing and review process. Management tested controls related to PS Form 5429 to determine if proper payments are being made to suppliers and appropriately documented on supporting forms.

At the request of the IPA firm, we tested all eight PS Forms 5429 with exceptions identified by the testing team.<sup>8</sup> For three of the eight, we found exceptions not identified by the testing team. Specifically, the testing team did not identify:

The PS Forms 5466 and 5397 are used as supporting documentation for payments made on PS Form 5429.

Management agreed with our issue that PS Forms 5466 and 5397 were incomplete and stated this was an oversight by the testing team. For the two late slips with missing route numbers, management stated testers relied upon alternative test procedures to ensure the control was properly performed. But, the alternative test procedures were not documented in the working papers. Management indicated they would review their test procedures for future testing. Although these issues were not material to the overall financial statements, if the testing team does not properly test or document key financial reporting controls, there is an increased risk that control failures are not detected and reported.

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<sup>7</sup> Control Number 209.CA002.

<sup>8</sup> Control Number 209.CA002 was in remediation due to the number of exceptions noted by the testing team. The IPA firm requested the OIG test the exceptions noted by the testing team to determine if we agree with their exceptions.

## Contract Route Service Orders

The testing team did not always properly test the key control for modifications to existing highway contracts or payment adjustments<sup>9</sup> on PS Forms 7440, *Contract Route Service Orders*. This occurred due to an oversight by the testing team during its initial testing and review for this control. This control tests highway contract modifications and payment adjustments to determine if suppliers are properly paid.

At the request of the IPA firm, we tested all five PS Forms 7440 with exceptions<sup>10</sup> identified by the testing team and found issues with two of the five. Specifically, we identified the team:

We notified the testers and the IPA firm of the errors. The testing team retested using the correct PS Form 7440 and screen print and updated its test results reporting no exceptions for these items. We agreed with the three remaining exceptions identified by the testing team.

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<sup>9</sup> Control Number 209.CA006.

<sup>10</sup> Testing team results for Control Number 209.CA006 included exceptions beyond test requirements the IPA firm established. The IPA firm requested the OIG test all exceptions noted by the testing team to determine if we agreed with the team's exceptions.

<sup>11</sup> Used Form 7440 for route number 12 instead of 11.

<sup>12</sup> Used screen print for route number 37 instead of 36.

# Recommendation

Management recognized the challenges in fiscal year 2015 and provided oversight, training, and collaboration to the contracted testers prior to starting fiscal year 2016 testing. Therefore, we are not making recommendations.

## Management's Comments

Management agreed with all findings within this report. Specifically, management agreed that they did not always properly test key controls for highway transportation activity due to testers' inexperience and not being adequately monitored. Further, they agreed improvements could have been made to the documentation of tests; however, the conclusions of the results would have remained the same. Finally, they agreed that the findings were not material to the overall financial statements and the Postal Service's IPA firm concurred with the conclusion of the control testing. See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

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

# Appendices

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## Appendix A: Additional Information

### Background

The HQ Finance group establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. The three Accounting Services function as large, centralized accounting centers. The Eagan Accounting Services processes payroll and disbursements, maintains the general ledger, reconciles sales and banking data, and maintains cash and receivable accounts. The San Mateo Accounting Services is responsible for accounts payable,<sup>13</sup> centralized postage payments,<sup>14</sup> capital property, motor vehicles, and supply inventory. The St. Louis Accounting Services is responsible for money orders, real property, transportation, international mail, field sales, and accounts payable.<sup>15</sup>

In addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA firm 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>16</sup>

### Objectives, Scope, and Methodology

The objectives of the audit were to determine whether the Postal Service:<sup>17</sup>

- Accounting transactions were fairly stated in the general ledger and selected key controls surrounding those transactions were operating effectively.
- Properly tested, documented, and reported its examination of selected key financial reporting controls at Accounting Services and HQ.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. The OIG originated independent audit tests and re-performed key control tests originally completed by the Postal Service.

We conducted this audit from October 2014 through March 2016<sup>18</sup> in accordance with the standards of the Public Company Accounting Oversight Board 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 we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our 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 audit objectives. 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. The evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

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<sup>13</sup> Includes accounting for miscellaneous disbursements, commercial credit cards, relocation, and HQ and field office payables.

<sup>14</sup> The Centralized Account Processing System is an electronic postage payment system that gives business mailers a way to pay postage at multiple post offices through a centralized account.

<sup>15</sup> Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and travel (eTravel).

<sup>16</sup> In addition to the IPA firm's work, these reports encompass work the OIG performed at HQ and the three Accounting Services sites.

<sup>17</sup> The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts and processes. The OIG coordinated audit work with the IPA firm to ensure adequate coverage.

<sup>18</sup> The scope of our audit was October 1, 2014, through September 30, 2015.

We supported the IPA firm 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 Public Company Accounting Oversight Board 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 discussed our observations and conclusions with management on February 11, 2016, and included its comments where appropriate.

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

- Employee Personnel Action History.
- eTravel.
- Injury Compensation Performance Analysis System.
- Payroll Systems.
- Program Cost Tracking System (PCTS).
- SAP Human Capital Management.
- Workers' Compensation Master File.

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 traced PCTS invoice labor rates to Postal Service contract documentation. We determined the data were sufficiently reliable for the purposes of this report. We considered other computer generated data in conducting our tests; however, the scope of the testing did not require us to validate the computer-generated data. These systems include but are not limited to, the following:

- Accounting Enterprise Data Warehouse Reporting.
- Centralized Account Processing System.
- Contract Authoring Management System.
- Electronic Facilities Management System.
- Enterprise Imaging and Workflow System.
- Foreign Post Settlement System.
- Fuel Asset Management System.
- Money Order System.
- National Accounting Oracle Financial Application – Oracle Accounts Payable System.
- Property and Equipment Accounting System.
- Solution for Enterprise Asset Management.
- Transportation Contracting Support System.

## Prior Audit Coverage

| Report Title   | Report Number | Final Report Date | Monetary Impact (in millions) |
|--|---------------|-------------------|-------------------------------|
| <i>Fiscal Years 2014 Postal Service Financial Selected Financial Activities and Accounting Records</i> | FT-AR-15-006  | 4/20/15           | None                          |

### Report Results:

We did not propose any adjustments; however, controls over eTravel reimbursement claims, high dollar manual invoices, rejected invoice batches, and capital property disposals were not always designed or operating effectively. Additionally, management did not always properly test or document their key control examinations of high dollar invoices and rejected invoice batches. The Postal Service could have potentially recorded \$54.9 million in rejected invoice batches in an improper accounting period for FY 2014.

Management agreed with our recommendations to 1) reinforce to all reimbursement claim approvers the requirement to include canceled checks or rental receipts for lease expense reimbursement claims; 2) reinforce to testers to document control test results based only on test procedure requirements; and 3) revise key control language and test procedures over capital property disposals.

Management disagreed with our recommendations to 1) establish procedures to review rejected invoices for Prompt Payment Act interest payment consideration and 2) revise key control language and test procedures over rejected invoice batches. Management resolved rejected invoices and batches and properly corrected and timely resubmitted or properly deleted the majority of the rejected invoices for FY 2014.

|   |              |            |      |
|---|--------------|------------|------|
| <i>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – San Mateo Accounting Services</i> | FT-AR-14-010 | 5/28/2014  | None |
|   | FT-AR-13-006 | 12/20/2012 | None |

### Report Results:

FY 2013 – We did not propose any adjustments; however, we identified issues related to inaccurate contract labor rates in two of 25 invoices we reviewed and inaccurate capital property reviews. These issues resulted in more than \$9,000 in contract overpayments, misclassification of nearly 8,000 potentially obsolete assets, and about \$3 million in data integrity issues for FY 2013. Management agreed with our recommendations to implement a control to verify and collect correct contract data entered into the contract labor system prior to payment and to revise testing and reinforce procedures for the semi-annual capital property reviews. They also agreed to modify the report and instructions to include additional data for the review and remove obsolete assets from inventory.

FY 2012 – 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. We did not propose any recommendations.

| Report Title  | Report Number                | Final Report Date | Monetary Impact<br>(in millions) |
|---|------------------------------|-------------------|----------------------------------|
| <i>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – St. Louis Accounting Services</i> | <a href="#">FT-AR-14-009</a> | 3/20/2014         | None                             |
|   | <a href="#">FT-AR-13-005</a> | 12/17/2012        | None                             |

**Report Results:**

FY 2013 – We did not propose any adjustments; however, we found the automated travel system was not designed to automatically return travel expense reports to St. Louis Accounting Services personnel for follow up to ensure travelers addressed initial concerns. In addition, we found the Postal Service could reduce costs associated with foreign currency conversion for international travel. Management agreed with our recommendations to modify the travel system to return resubmitted expense reports for review and revise official travel policy to direct employees to decline merchants' offers of foreign currency conversion.

FY 2012 – We did not propose any adjustments; however, we identified control issues regarding domestic air mail irregularities, travel expense reimbursements, travel card use, and international mail. We communicated these issues to management through interim reports and did not propose any recommendations.

|   |                              |           |      |
|---|------------------------------|-----------|------|
| <i>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – Eagan Accounting Services</i> | <a href="#">FT-AR-14-006</a> | 2/24/2014 | None |
|   | <a href="#">FT-AR-13-009</a> | 2/5/2013  | None |

**Report Results:**

FY 2013 – We did not propose any adjustments; however, we found that due to insufficient guidance from the Office of Personnel Management, the Postal Service misreported \$455,493 in retirement contributions for newly hired law enforcement personnel. Management took corrective action, and we did not make any recommendations.

FY 2012 – We did not propose any adjustments. However, we determined the Postal Service did not comply with federal regulations regarding records retention for the Combined Federal Campaign (CFC) program. Management agreed with our recommendation to revise their records retention policy for the CFC to comply with federal regulations.

|   |                              |           |      |
|---|------------------------------|-----------|------|
| <i>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – Washington, D.C. Headquarters</i> | <a href="#">FT-AR-14-007</a> | 2/21/2014 | None |
|   | <a href="#">FT-AR-13-007</a> | 1/4/2013  | None |

**Report Results:**

FY 2013 – We did not propose any adjustments and did not make any recommendations. However, we reported that the Postal Service defaulted on the required \$5.6 billion prefunding payment to the Retiree Health Benefit Fund and continued to suffer from a severe lack of liquidity in FY 2013. We also reported that management reported a significant deficiency related to the revenue, pieces, and weight process in FY 2012, and remediated the issue as of September 30, 2013.

FY 2012 – We did not propose any adjustments and did not make any recommendations. However, we reported two instances of noncompliance. One related to the suspension of the Postal Service's obligation to the Federal Employee Retirement System (FERS) and the other to a default on two required prefunding payments to the Postal Service's Retiree Health Benefit Fund. The Postal Service resumed the FERS obligation and repaid amounts previously suspended.

## Appendix B: Management's Comments

MAURA A. MCNERNEY  
VICE PRESIDENT, CONTROLLER



March 4, 2016

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Fiscal Year 2015 Postal Service Selected Financial Activities and  
Accounting Records – FT-AR-16-DRAFT

Management agrees with the OIG's finding that the Postal Service's accounting transactions were fairly stated and selected key controls were operating effectively. This resulted in the OIG not having to propose any adjustments and not having identified any issues or control deficiencies that were material to the financial statements or that would affect the overall adequacy of internal controls.

The OIG additionally found that management did not always properly test key controls for highway transportation activity. Management agrees that this occurred because testers were inexperienced and were not adequately monitored. The timing of these tests occurred during the integrated testing period and in transition of tests from the Postal Service to a third-party auditor (July 2015). Management acknowledges that there were improvements that could have been made to the documentation of the tests; however, the conclusions of the results would have remained the same. Management agrees that these findings were not material to the overall financial statements and the Postal Service's external auditors concurred with the conclusion of the control testing.

A handwritten signature in black ink, appearing to read "Maura A. McNerney".

Maura A. McNerney

cc: Corporate Audit and Response Management

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