



Office of Inspector General | United States Postal Service

Audit Report

Fiscal Year 2017 Selected Financial Activities and Accounting Records

Report Number FT-AR-18-005 | December 29, 2017



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Highlights

Objective

Our audit objectives were to determine whether the U.S. Postal Service:

- Fairly stated selected accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively.
- Properly tested, documented, and reported its examination of selected key controls related to Headquarters and Accounting Services.

The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act. This section requires the Postal Service to report the scope and adequacy of its internal control structure and procedures and assess their effectiveness.

The U.S. Postal Service Board of Governors 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, processes, and internal controls. The U.S. Postal Service Office of Inspector General coordinates audit work with the IPA firm to ensure adequate coverage.

What the OIG Found

The Postal Service's accounting transactions were fairly stated, and selected key controls were operating effectively. In addition, we found the Postal Service properly tested, documented, and reported selected financial controls.

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, the test procedures for Intra-Governmental Payment and Collection transactions were not designed effectively to independently verify individuals authorized to approve these transactions. Management uses test procedures to assess whether controls are in place and functioning effectively, so inaccurate test procedures increase the risk that control issues are not properly identified.

Management agreed with our issue and took corrective action by revising the test procedures to include independent verification of the authorizing individuals.

What the OIG Recommended

Since the Postal Service took corrective action on the issue identified, we did not make any recommendations.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 29, 2017

MEMORANDUM FOR: MAURA A. MCDEVITT
VICE PRESIDENT, CONTROLLER

E-Signed by Michelle Lindquist
VERIFY authenticity with eSign Desk
Michelle Lindquist

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

SUBJECT: Audit Report – Fiscal Year 2017 Selected Financial
Activities and Accounting Records
(Report Number FT-AR-18-005)

This report presents the results of our audit of the 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, 2017 (Project Number 17BM005FT000).

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: Postmaster General
Corporate Audit Response Management
Julie S. Moore

Results

Introduction/Objective

This report presents the results of our self-initiated audit of selected financial activities and accounting records at U.S. Postal Service Headquarters (HQ) and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2017 (Project Number 17BM005FT000).

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

- Fairly stated selected accounting transactions in the general ledger and whether selected key controls¹ surrounding those transactions were operating effectively.
- Properly tested, documented, and reported its examination of selected key controls related to HQ and Accounting Services.

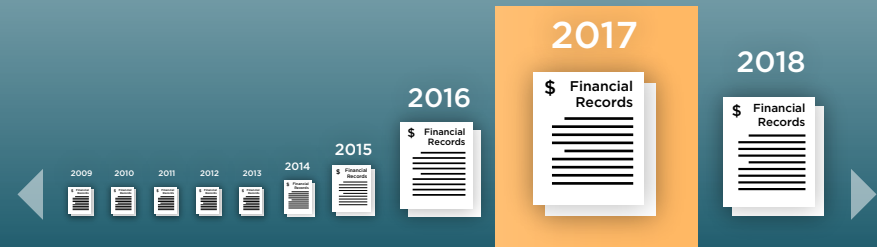
Background

The Postal Reorganization Act of 1970,² as amended, requires annual audits of the Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006³ requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX).⁴ SOX was enacted to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to report the scope and adequacy of its internal control structure and procedures for financial reporting and assess the effectiveness of such internal controls and procedures. See [Appendix A](#) for additional information about this audit.

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, processes, and internal controls. The U.S Postal Service

The Postal Reorganization Act of 1970

requires annual audits of the Postal Service's financial statements.



In addition,

The Postal Accountability and Enhancement Act of 2006



requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX). SOX was enacted to strengthen public confidence in the accuracy and reliability of financial reporting.

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 109-435, enacted December 20, 2006.
⁴ Public Law 107-204, enacted July 30, 2002.

Office of Inspector General (OIG) coordinated audit work with the IPA firm to ensure adequate coverage.

The HQ Controller's 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,⁵ centralized postage payments,⁶ capital property, motor vehicles, and supply inventory. The St. Louis Accounting Services is responsible for the accounting of money orders, real property, transportation, international mail, field sales, and accounts payable.⁷

The SOX Compliance testing team⁸ tests components of financial processes to support management's annual and quarterly SOX certifications. The testing team evaluates the effectiveness of internal controls within financial processes. These include day-to-day activities that impact the Postal Service's financial processes, such as those related to payroll, procurement, and revenue. The testing team follows a written test plan outlining the steps and evidence necessary to evaluate each control's effectiveness.

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.⁹ 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.¹⁰

Finding #1: Independent Verification of Authorized Approvers

The Postal Service's accounting transactions were fairly stated, and selected key controls were operating effectively. In addition, we found the Postal Service properly tested, documented, and reported selected financial controls. 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, the test procedures for Intra-Governmental Payment and Collection (IPAC)¹¹ transactions were not designed effectively. Specifically, the procedures required the testing team to "inquire of Eagan Senior Systems Accountant to confirm the individual authorizing the transaction is an individual approved to authorize the IPAC transaction." The tester performed the test as designed. However, for one transaction the Eagan Senior Systems Accountant and the individual authorizing the transaction were the same person. Therefore, an independent verification of individuals authorized to approve IPAC transactions could not occur.

“The Postal Service’s accounting transactions were fairly stated, and selected key controls were operating effectively. In addition, we found the Postal Service properly tested, documented, and reported selected financial controls.”

5 Includes accounting for miscellaneous disbursements, commercial credit cards, and HQ and field office payables.

6 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.

7 Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and travel.

8 The Postal Service contracts with Deloitte to test controls on behalf of the SOX testing team.

9 In addition to the IPA firm's work, these reports encompass work the OIG performed at HQ and the three Accounting Services sites.

10 Report of Independent Auditors 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, 2017.

11 A way for federal government agencies and the Postal Service (a self supporting independent federal agency) to transfer funds to and from each other.

When we brought this issue to the testing team's attention, they revised the test procedures to require review of official Postal Service systems to verify that authorizing individuals had appropriate position levels. This issue did not materially affect the results of this test. However, management uses test procedures to assess whether controls that could have a material impact on the Postal Service's financial statements are in place and functioning effectively, so test procedures that are not effectively designed increase the risk that control issues are not properly identified.

Since management took corrective actions, we are not making any recommendations.

Management's Comments

Management appreciated the OIG's diligence in the audit. Further, they stated that each of the teams that prepared the financials takes pride in ensuring the accuracy of their work, and it is reassuring to have an independent verification of that accuracy.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the conclusion in the report.

Appendices

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Appendix A: Additional Information

Scope and Methodology

We conducted this audit from November 2016 through December 2017¹² in accordance with the standards of the Public Company Accounting Oversight Board and the standards applicable to financial audits contained in *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.

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 December 12, 2017, and included their comments where appropriate.

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

- eTravel.
- Human Capital Enterprise System.

- Program Cost Tracking System (PCTS).¹³

We also relied on data from the U.S. Department of Labor included in the Workers' Compensation Master File maintained by the OIG.

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 were not limited to:

- Enterprise Data Warehouse.
- Centralized Account Processing System.
- Contract Authoring Management System.
- Electronic Facilities Management System.
- Employee Personnel Action History.
- Foreign Post Settlement System.
- Injury Compensation Performance Analysis System.
- Money Order System.
- National Accounting Oracle Financial Application – Oracle Accounts Payable System.
- Property and Equipment Accounting System.
- Solution for Enterprise Asset Management.
- Systems Applications and Products Enterprise Resource Planning.
- Transportation Contracting Support System.

¹² The scope of our audit was October 1, 2016, through September 30, 2017.

¹³ A Postal Service web-based system that facilitates tracking and invoicing of contractor labor, time, and material expenses.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2016 Postal Service Selected Financial Activities and Accounting Records</i>	The objectives of the audit were to determine whether the Postal Service:			
	<ul style="list-style-type: none"> Fairly stated accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively. 			
	<ul style="list-style-type: none"> Properly tested, documented, and reported its examination of selected key financial reporting controls related to HQ and Accounting Services. 	FT-AR-17-006	3/16/2017	None
	<ul style="list-style-type: none"> Properly tested, documented, and reported its examination of information technology general controls for the financially significant applications and their underlying infrastructure. 			
<i>Fiscal Year 2015 Postal Service Selected Financial Activities and Accounting Records</i>	Determine whether:			
	<ul style="list-style-type: none"> Accounting transactions were fairly stated in the general ledger and selected key controls were operating effectively. 	FT-AR-16-005	3/14/16	None
	<ul style="list-style-type: none"> The Postal Service properly tested, documented, and reported its examination of selected key financial reporting controls related to HQ and Accounting Services. 			

Appendix B: Management's Comments

MAURA A. MCDEVITT
VICE PRESIDENT, CONTROLLER



December 20, 2017

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Fiscal Year 2017 Selected Financial Activities and Accounting Records
Report Number FT- AR-18-DRAFT

Management has reviewed the Draft Report – Selected Financial Activities and Accounting Records and appreciates the OIG's diligence in the audit which resulted in no recommendations. Each of the teams under the Controller organization that participate in the preparation of the financials takes pride in ensuring the accuracy of their work and its reassuring to have another independent verification of that accuracy.

A handwritten signature in dark ink, appearing to read "Maura A. McDevitt".

Maura A. McDevitt

cc: Manager, Corporate Audit & Response Management

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