



November 16, 2018

**MEMORANDUM FOR:** JAIME M. SALING  
BUREAU OF THE FISCAL SERVICE  
U.S. DEPARTMENT OF THE TREASURY

RYAN HANNA  
BUREAU OF THE FISCAL SERVICE  
U.S. DEPARTMENT OF THE TREASURY

CAROLYN VOLTZ  
U.S. GOVERNMENT ACCOUNTABILITY OFFICE

CAROL S. JOHNSON  
OFFICE OF MANAGEMENT AND BUDGET

E-Signed by Tammy Whitcomb  
VERIFY authenticity with eSign Desktop  
*Tammy L. Whitcomb*

**FROM:** TAMMY L. WHITCOMB  
ACTING INSPECTOR GENERAL

**SUBJECT:** Audit Report – Opinion on the U.S. Postal Service’s Fiscal  
Year 2018 Closing Package Financial Statements

Attached is a copy of the report on our audit of the U.S. Postal Service’s Closing Package Financial Statements which comprises the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2018, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Changes in Net Position, for the year then ended, and the related notes to the financial statements (hereinafter referred to as the “closing package financial statements”). The objective of the audit was to express an opinion as to whether the closing package financial statements present fairly, in all material respects, the financial position and results of the Postal Service as of and for the year ending September 30, 2018, and the net costs and changes in net position for the year then ended, in accordance with U.S. generally accepted accounting principles (GAAP).

The closing package financial statements and notes are prepared by the Postal Service for the purpose of providing financial information to the U.S. Department of the Treasury

and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Postal Service's financial statements.

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the Postal Service as of September 30, 2018, and its net costs and changes in net position for the year then ended in conformity with U.S. GAAP.

If you have any questions, please contact Mark Duda, Assistant Inspector General for Audit, or me at 703-248-2100.

Attachments

cc: Corporate Audit and Response Management  
Michael J. Elston



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

## AUDIT REPORT

# **Opinion on the U.S. Postal Service's Fiscal Year 2018 Closing Package Financial Statements**

November 16, 2018

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Report Number FT-AR-19-002



November 16, 2018

**MEMORANDUM FOR:** JOSEPH CORBETT  
CHIEF FINANCIAL OFFICER AND EXECUTIVE  
VICE PRESIDENT

E-Signed by Tammy Whitcomb  
VERIFY authenticity with eSign Desktop  


**FROM:** TAMMY L. WHITCOMB  
ACTING INSPECTOR GENERAL

**SUBJECT:** Audit Report – Opinion on the U.S. Postal Service’s  
Fiscal Year 2018 Closing Package Financial Statements  
(Report Number FT-AR-19-002)

***Report on the Closing Package Financial Statements***

We have audited the accompanying Closing Package Financial Statements of the U.S. Postal Service which comprises the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2018, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Changes in Net Position, for the year then ended, and the related notes to the financial statements (hereinafter referred to as the “closing package financial statements”) (Project Number 18BM009FT000).

The notes to the financial statements comprise of the following:

- The GTAS Closing Package Lines Loaded Report,
- Financial Report (FR) Notes Report (except for information in the FR Notes Report entitled “2017 – September,” “Prior Year,” “PY,” “Previously Reported,” “Line Item Changes,” “Threshold,” and the information as of and for the year-ended September 30, 2017, in the “Text Data” of the FR Notes Reports), and,

- The accompanying Note Number X (except for the information as of and for the year-ended September 30, 2017).

### ***Management's Responsibility for the Closing Package Financial Statements***

Management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with U.S. generally accepted accounting principles (GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these closing package financial statements based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB); the standards applicable to financial audits contained in U.S. *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and Office of Management and Budget (OMB) Bulletin Number 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin Number 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditor's judgment, including assessments of risk of material misstatement of the closing package financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the closing package financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the closing package financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Opinion***

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the Postal Service as of September 30, 2018, and its net costs and changes in net position for the year then ended in accordance with U.S. GAAP.

## ***Emphasis of Matter***

### *Note Number X*

We draw attention to Note Number X to the closing package financial statements which describes that the accompanying closing package financial statements were prepared in accordance with the requirements of U.S. Department of Treasury's (Treasury) *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (TFM 2-4700) for the purpose of providing financial information to the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the balance sheet of the Postal Service as of September 30, 2018, as required by the Postal Reorganization Act of 1970, as amended, and the related statements of operations, cash flows, and changes in net position (hereinafter referred to as "general-purpose financial statements"). The notes to the closing package financial statements are those that the Treasury deemed relevant to the *Financial Report of the U.S. Government*. Our opinion is not modified with respect to this matter.

### *Recurring Intragovernmental Transactions*

U.S. Department of Defense (DoD) – The DoD is responsible for transporting mail from overseas military facilities to Postal Service facilities and between overseas military Postal Service facilities. Operationally, the Postal Service transports the mail on behalf of DoD, and the DoD reimburses the Postal Service for fees paid for transporting this mail. The Postal Service elected to record the reimbursements as an offset to expense, not revenue, because it invoices the DoD only to cover expenses. The Postal Service stated it does not make a profit on this transaction. The DoD records payments to the Postal Service as an expense. These accounting treatments resulted in differences in intragovernmental activity when reported to the Treasury.

During fiscal year (FY) 2015, in a dispute resolution ruling, Treasury determined the Postal Service should record this activity as revenue. The Postal Service maintains that the accounting treatment of the reimbursable military expenses as an offset to expense is appropriate and in accordance with GAAP promulgated by the Financial Accounting Standards Board (FASB), and intends to maintain its accounting treatment for the reimbursements totaling about \$149,691,793 in FY 2018.

## ***Other Matters***

### *Opinion on the General-Purpose Financial Statements*

The Postal Service's independent public accounting (IPA) firm has audited, in accordance with the standards of the PCAOB, auditing standards generally accepted in the U.S., and the standards applicable to financial audits contained in U.S. *Government Auditing Standards* issued by the Comptroller General of the U.S., the general-purpose financial statements of the Postal Service as of and for the years ended

September 30, 2018 and 2017, and its report thereon, dated November 14, 2018, expressed an unqualified opinion on those financial statements.

Additionally, in its unqualified opinion on the FY 2018 general-purpose financial statements, dated November 14, 2018, the IPA firm emphasized liquidity matters discussed in the Postal Service's Form 10-K disclosures. That view should be read in conjunction with this report.

*Required Supplementary Information and Required Supplementary Stewardship Information*

U.S. GAAP requires that the information except for such information entitled "2017 – September", "Prior Year", "PY", "Previously Reported", "Line Item Changes", and "Threshold", and the information as of and for the year ended September 30, 2017, included in the "Text Data" of the FR Notes Reports and "Other Text Data" of the Other Data Report, included in Other Data Report Numbers 1, 8, 9, 15, 17, 18, and 20, to be presented to supplement the basic closing package financial statements.

Such information, although not a part of the basic closing package financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic closing package financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the closing package financial statements, and other knowledge we obtained during our audit of the closing package financial statements. Although our opinion on the closing package financial statements is not affected, Other Data Report Number 9 contains material departures from the prescribed guidelines because the information included in these Other Data Reports presents the required information for the *Financial Report of the U.S. Government* and not the required information for the Postal Service's financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted data related to deferred maintenance and repairs in the GF007 Other Data Report, Note 9, that U.S. GAAP requires to be presented to supplement the closing package financial statements. Such missing information, although not a part of the closing package financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the closing package financial statements in an appropriate operational, economic, or historical context. Our opinion on the closing package financial statements is not affected by this missing information. Also, 39 U.S.C. § 410 generally exempts the Postal Service from federal laws dealing with budgets or funds. Based on our review of the statute, we believe the Postal Service is not required to report such information.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information other than that described in the first paragraph and the paragraph labeled *Required Supplementary Information* and *Required Supplementary Stewardship Information* are presented for purposes of additional analysis in accordance with TFM Chapter 2-4700 and are not a required part of the closing package financial statements. We read the other information included with the closing package financial statements to identify material inconsistencies, if any, with the audited closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the closing package financial statements as of and for the year ended September 30, 2018, and accordingly, we do not express an opinion or provide any assurances on it.

### ***Restriction on Use of the Report on the Closing Package Financial Statements***

This report is intended solely for the information and use of the management of the Postal Service, the Treasury, OMB, and GAO in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with the standards of the PCAOB, auditing standards generally accepted in the U.S., and *Government Auditing Standards*, the Postal Service's IPA firm issued a report<sup>1</sup> dated November 14, 2018, on its consideration of the Postal Service's internal control over financial reporting and the results of its tests of the Postal Service's compliance with certain provisions of laws, regulations, and contracts that are required to be reported under *Government Auditing Standards*. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin Number 19-01 in considering the Postal Service's internal control and compliance, and should be read in conjunction with this report in considering the results of our audit of the closing package financial statements.

In the IPA firm's report on its consideration of the Postal Service's internal control over financial reporting, the auditor did not identify any deficiencies in internal control over financial reporting considered to be material weaknesses as of September 30, 2018. However, in its FY 2018 report, the IPA firm included two significant deficiencies from FY 2017, one of which was remediated in FY 2018.

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<sup>1</sup> *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, 2018.

*Windows Privileged Access Management* - Remediated in FY 2018.

During 2017, the Postal Service identified two IT general control (ITGC) deficiencies in its Windows Operating System (OS) environment:

- Certain Windows privileged accounts either did not have the required approval documentation to support that they were appropriately provisioned and/or were inappropriately provisioned locally.
- Certain activities were not being appropriately logged, safeguarded and monitored during the course of the fiscal year as part of the Postal Service's controls around Windows security logging and monitoring.

Due to the pervasiveness of the identified issues within the Windows OS environment, management aggregated these deficiencies into one significant deficiency related to the operating effectiveness of controls. In late FY 2017, management completed a process to remove inappropriate access that was identified during the course of its testing. Additionally, during FY 2018, the Postal Service performed procedures to remediate the controls found to be deficient that led to the occurrence of the exceptions that resulted in the significant deficiency. Accordingly, the IPA firm concluded the significant deficiency was remediated as of September 30, 2018.

*Lack of Independent Board of Governors and Audit & Finance Committee under COSO 2013 Principle 2* – Not Remediated in FY 2018.

On December 8, 2016, the term of the last remaining independent Governor on the Postal Service's Board of Governors expired resulting in no independent Governors. The absence caused a departure from compliance with a Committee of Sponsoring Organizations of the Treadway Commission (COSO) principle, which establishes that a Board of Directors (Governors) shall demonstrate independence from management and exercise oversight of the development and performance of internal controls. The lack of an independent Board and Audit and Finance Committee (AFC) members resulted in a change of the operation of several key entity level controls for the Postal Service to continue to perform oversight procedures. The IPA concluded that this represented a significant deficiency in the operating effectiveness of controls.

Two independent Governors were confirmed by the U.S. Senate on August 28, 2018, after being appointed by the President of the United States to serve as Governors on the Board. However, given the short period of time the Governors have served on the Board to exercise oversight of the development and performance of internal controls, the IPA firm does not consider the control objectives under COSO 2013 Principle 2 to be met as of September 30, 2018. Accordingly, this significant deficiency remains unremediated as of September 30, 2018.

### *Compliance and Other Matters*

The IPA firm noted four instances of non-compliance with laws and regulations that were not rectified prior to September 30, 2018:

- Under Title 5 of the U.S. Code §8909a(d)(3)(A), the Postal Service was required to make a \$33.9 billion payment for amounts past due from previous fiscal years related to retiree health benefits. The Postal Service failed to comply with the law when it failed to make a payment on past due amounts from previous fiscal years.
- Under Title 5 of the U.S. Code §8909a(d)(3)(B), the Postal Service was required to make a Postal Service Retiree Health Benefits Fund normal cost payment of \$3.7 billion and an unfunded liability amortization payment of \$0.8 billion by September 30, 2018. The Postal Service failed to comply with the law when it failed to make these payments.
- Under Title 5 of the U.S. Code §8348(h), the Postal Service was required to make a Civil Service Retirement System unfunded liability amortization payment of \$1.4 billion by September 30, 2018. The Postal Service failed to comply with the law when it failed to make this payment.
- Under Title 5 of the U.S. Code §8423(b), the Postal Service was required to make a Federal Employees Retirement System unfunded liability amortization payment of \$1 billion by September 30, 2018. The Postal Service failed to comply with the law when it failed to make this payment.

Postal Service management concurred with the reported instances of noncompliance related to the non-payments. As of November 14, 2018, the Postal Service has suffered no penalties or damages because of its inability to make these payments.

### ***Internal Control over Financial Reporting Specific to the Closing Package Financial Statements***

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2018, we also considered the Postal Service's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion of the effectiveness of Postal Service's internal control. Accordingly, we do not express an opinion on the effectiveness of Postal Service's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as

previously discussed, the IPA firm identified deficiencies in internal control that they consider to be significant deficiencies.

A deficiency in internal control 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. Apart from the significant deficiencies previously mentioned, we found no material weaknesses or significant deficiencies in internal control over the financial reporting process that are required to be reported under *Government Auditing Standards* and OMB Bulletin Number 19-01.

### ***Compliance and Other Matters Specific to the Closing Package Financial Statements***

As part of obtaining reasonable assurance about whether the Postal Service's closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of TFM 2-4700, noncompliance with which could have a material effect on the closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. Apart from the instance of non-compliance previously mentioned, the results of our tests did not disclose any instances of noncompliance that would be required to be reported herein under *Government Auditing Standards* and OMB Bulletin Number 19-01.

### ***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication provided in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Postal Service's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control and compliance with provisions of laws, regulations, and contracts which could have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

Attachment

cc: Corporate Audit and Response Management  
Michael J. Elston

## Note to the Closing Package Financial Statements

### Note Number X - Closing Package Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the Government Management Reform Act of 1994 (GMRA) (Pub. L. Number 103-356), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the developed guidance in TFM 2-4700 to provide agencies with instructions to meet the requirements of GMRA. The TFM 2-4700 requires agencies to:

1. Submit a GTAS adjusted trial balance which will be used to populate a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Changes in Net Position.
2. List closing package financial statement line item amounts identified as Federal by trading partner and amount.
3. Report FR notes information that is based on the Reclassified Balance Sheet line items and other notes information required to meet FASAB standards.
4. Report other data information that is not based on the Reclassified Balance Sheet line items and other data noted information required to meet FASAB standards.
5. Report the information in the FR Notes Report and Other Data Report entitled "2017 – September", "Prior Year", "PY", "Previously Reported", "Line Item Changes", and "Threshold", and the information as of and for the year-ended September 30, 2017 included in the "Text Data" of the FR Notes Reports and "Other Text Data" of the Other Data Reports and the information in Note Number X related to the prior year balances, for purposes of additional analysis in accordance with TFM 2-4700. Such information is not a required part of the closing package financial statements.