



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Misclassified Training Expenses

Management Advisory Report

Report Number
DP-MA-14-003

September 16, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service overstated the general ledger expense account balances for "Training - Instructor and Fees" by \$51.6 million for FYs 2013 and 2014.

Background

The U.S. Postal Service relies on monthly, quarterly, and annual financial reports to make informed decisions, which include monitoring training expenses. The Postal Service uses a comprehensive financial accounting data collection and processing system to prepare these financial reports and collect reliable and meaningful information to manage the organization.

A key component of the accounting system is the use of 8-digit account numbers that segregate accounting data into the proper accounts within the chart of accounts. In fiscal years (FYs) 2013 and 2014 (through March 31, 2014), the Postal Service charged \$60 million to the "Training - Instructor and Fees" account. Postal Service employees use this account to record tuition and contract or fee-based payments to instructors.

Our objective was to determine whether the Postal Service properly classified training expenses within general ledger accounts.

What the OIG Found

Postal Service employees misclassified \$18.9 million of operating expenses all as training expenses. Employees also misclassified \$32.7 million of travel for training costs as training for instruction and fees.

Postal Service employees misclassified these expenses because a budget memorandum provided incorrect guidance, and management did not properly configure the eTravel system to identify travel expenses associated with training.

As a result, the Postal Service overstated the general ledger expense account balances for "Training - Instructor and Fees" by \$51.6 million for FYs 2013 and 2014 (through March 31, 2014), potentially impacting its ability to make informed financial decisions.



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What the OIG Recommended

We recommended the Postal Service correct the misclassification of expenses identified during the review for FY 2014; issue a memorandum outlining the correct procedures

and general ledger accounts to charge for meetings, conferences, and training; and configure the eTravel system to allocate travel costs to the proper general ledger account.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 16, 2014

MEMORANDUM FOR: Maura A. McNerney
VICE PRESIDENT, CONTROLLER

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop


FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Revenue and Resources

SUBJECT: Management Advisory Report – Misclassified Training
Expenses (Report Number DP-MA-14-003)

This report presents the results of our review of Misclassified Training Expenses (Project Number 13RG033DP001).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Analysis and Performance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

Postal Service employees misclassified \$18.9 million of operating expenses as training expenses. They also misclassified \$32.7 million of travel for training costs as training for instruction and fees.

Introduction

This management advisory presents the results of our self-initiated review of misclassified training expenses. Our objective was to determine whether the U.S. Postal Service properly classified training expenses within general ledger accounts. See [Appendix A](#) for additional information about this review.

The Postal Service relies on monthly, quarterly, and annual financial reports to make informed decisions, which include monitoring training expenses. The Postal Service uses a comprehensive financial accounting data collection and processing system to prepare these reports and provide reliable and meaningful information to manage the organization. A key component is the use of 8-digit account numbers that segregate accounting data into the proper accounts within the chart of accounts.

Postal Service employees use 75 8-digit account numbers to record various types of training expenses. The accounts are designed to enable the Postal Service to make informed financial decisions. Employees charge expenses to the various training expense accounts based on the type of expense. For example, in fiscal years (FYs) 2013 and 2014 (through March 31, 2014), the Postal Service charged \$60 million to “Training - Instructor and Fees.” Employees use this account to record tuition and contract or fee-based payments to instructors.

Conclusion

Postal Service employees misclassified \$18.9 million of operating expenses all as training expenses. They also misclassified \$32.7 million of travel for training costs as training for instruction and fees.¹ The misclassifications occurred because a budget memorandum provided incorrect guidance and management did not properly configure the eTravel² system to identify travel expenses associated with training. As a result, the Postal Service overstated the general ledger expense account balances for “Training - Instructor and Fees” by \$51.6 million for FYs 2013 and 2014 (through March 31, 2014), potentially impacting the Postal Service’s ability to make informed financial decisions.

Training Expenses Incorrectly Recorded

In FYs 2013 and 2014 (through March 31, 2014), the Postal Service misclassified \$18.9 million of operating expenses from its training center - the National Center for Employee Development (NCED)³ - as “Training - Instructor and Fees” (see [Table 1](#)). In 2012, maintenance and human resources training and development, with senior level approval, agreed how to fund the NCED. As a result, the NCED allocates a portion of its annual operating expenses⁴ monthly to each of the seven Postal Service areas using the “Training - Instructor and Fees” account rather than operating expense accounts. A Postal Service Headquarters budget memorandum established this procedure.⁵

¹ The Postal Service records tuition fees and payment to instructors on a contract or fee basis to General Ledger Account 52363.

² The eTravel system is the online application used to create work travel expense reports.

³ The NCED is in Norman, OK.

⁴ Operating expenses include supplies, contract services, salaries and benefits, depreciation, and other administrative and program expenses.

⁵ This procedure was established in a December 2012 email message from the Postal Service field budget manager to field controllers and budget managers.

Table 1. NCED Operating Expenses Misclassified as Training - Instructor and Fees

Fiscal Year	Amount
2013	\$ 15,300,000
2014 <i>(through March 31, 2014)</i>	3,573,304
Total	\$ 18,873,304

Source: Postal Service records.

We also noted the Postal Service misclassified \$32.7 million of “Travel - Training - USPS” expenses as “Training - Instructor and Fees,”⁶ in FYs 2013 and 2014 (through March 31, 2014) (see Table 2). This occurred because management did not properly configure the eTravel system⁷ to identify travel expenses associated with training.

Table 2. Misclassified Travel - Training - Postal Service Expenses

Fiscal Year	Amount
2013	\$ 21,535,858
2014 <i>(through March 31, 2014)</i>	11,192,203
Total	\$ 32,728,061

Source: Postal Service records.

The Postal Service is responsible for establishing and maintaining a system of management and accounting controls that safeguards its assets. The incorrect procedural memorandum and improperly configured eTravel system led, the Postal Service to overstate the general ledger expense account balances for “Training - Instructor and Fees,” potentially impacting management’s ability to make informed financial decisions. Because the \$36.8 million in prior year expenses is not material to the financial statements, and the Postal Service cannot correct the misclassification, we are only recommending an adjustment for FY 2014 expenses.

⁶ The Postal Service records its costs for instructors and trainees related to training conducted within the Postal Service to General Ledger Account 51413.

⁷ The eTravel system is the online application used to create work travel expense reports.

Recommendations

We recommend management correct the misclassification of expenses identified during the review for FY 2014; issue a memorandum outlining the correct procedures and general ledger accounts to charge for meetings, conferences, and training; and configure the eTravel system to allocate travel costs to the proper general ledger account.

We recommend the vice president, Controller:

1. Correct the misclassification of the \$14.8 million in expenses identified for fiscal year 2014 (through March 31, 2014), and perform an analysis to identify and correct any additional misclassification that occurred after March 31, 2014.
2. Issue a memorandum outlining the correct procedures and general ledger accounts to charge for meetings, conferences, and training.
3. Configure the eTravel system to allocate travel costs to the proper general ledger account based on the employee's selected reason for travel.

Management's Comments

Management disagreed with the misclassification of training expenses and recommendation 1, stating that the current accounting treatment of charging training expenses on a per attendee basis to field units is appropriate and fairly represents the overall cost of training. Management also disagreed with the data integrity classification of \$18.9 million given that this amount was related to the budgeted funds and not actual expenses.

Management agreed that eTravel expenses were charged to incorrect general ledger accounts. However, management disagreed that this weakens their ability to manage those expenses because managerial decisions are made based on the budget line number and not the general ledger account number. Management also stated reallocating expenses from one account number to another within the same financial performance line will not provide additional insight to those managing expenses and thus management does not consider the cited expenses to be misreported.

Management agreed with recommendations 2 and 3 and stated they will issue a Management Instruction that will include definitions for meetings and conferences. Further, management is in the process of remapping the eTravel system to include meetings, conferences, training categories, and new training categories as reasons for travel. Once this is completed, management will issue a letter to the Officers outlining the changes and will provide the general ledger account information by September 30, 2014.

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

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments to the report partially responsive. Regarding recommendation 1, while the Postal Service developed an approach to provide a planned expense for the field to fund the NCED, the incorrect general ledger account was charged as described in our report. Additionally, we disagree with management's opinion that data reliability is not affected because decisions are made using the higher level line item. As discussed in our report, these errors may impact end users relying on this data.

The OIG considers management's comments responsive to recommendations 2 and 3, and the corrective actions should resolve the issues identified in the report.

Appendices

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Appendix A: Additional Information

Background

The Postal Service relies on monthly, quarterly, and annual financial reports to make informed decisions, which include monitoring training expenses. The Postal Service uses the General Ledger Accounting and Financial Reporting System, a comprehensive financial accounting data collection and processing system, to prepare these reports and collect reliable and meaningful information to manage the organization. A key component of the system is the use of 8-digit account numbers that segregate accounting data into the proper accounts within the chart of accounts.

In 2004, the Postal Service published Handbook F-20.⁸ The handbook describes the key components and processes of the system and also identifies the types of financial reports the system generates. The handbook also references selected policy and procedures incorporated within the General Ledger Accounting and Financial Reporting System. The handbook helps systems accountants fully understand the system and contains information such as:

- An overview of the function and purpose of the General Ledger Accounting and Financial Reporting System.
- Descriptions of the key components of the General Ledger Accounting and Financial Reporting System.
- A list of the key standard and specialized reports the system generates.
- Descriptions of the commitment accounting and budget accounting processes.
- Steps the Postal Service takes to ensure that its financial information is reliable.

The Postal Service uses 75 8-digit account numbers to record the various types of training expenses. These accounts enable the Postal Service to make informed financial decisions.

Postal Service employees charge expenses to the various training expense accounts based on the type of expense. For example, in FYs 2013 and 2014 (through March 31, 2014), the Postal Service charged \$60 million to “Training - Instructor and Fees.” Employees use this account to record tuition and contract or fee-based payment to instructors.

⁸ Handbook F-20, *General Ledger Accounting and Financial Reporting System*, December 2004.

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service properly classified training expenses within general ledger accounts. The scope of this review was expenses charged to “Training - Instructor and Fees” during FYs 2013 and 2014 (through March 31, 2014). We did not review expenses related to the National Postal Forum.

To determine whether expenses were properly classified as training, we:

- Obtained and reviewed supporting documentation for 60 judgmentally selected journal voucher⁹ transactions and interviewed credit cardholders to determine the rationale for classifying expenses.
- Conducted a site visit to the St. Louis Accounting Service Center to identify the procedures and controls used to classify expenses when a travel voucher is processed.
- Obtained documentation to support travel expenses classified in General Ledger Account 52363, “Training - Instructor and Fees.”
- Obtained and reviewed supporting documentation for NCED expenditures allocated to area offices for operating expenses.

We conducted this review from September 2013 through September 2014, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on June 19, 2014, and included their comments where appropriate.

We assessed the reliability of Enterprise Data Warehouse (EDW)¹⁰ computer-processed data. We traced sampled data to source documentation as a part of our review to determine whether we can rely on the data. We also interviewed officials knowledgeable about the data and concluded that the EDW data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG issued *Fiscal Year 2013 Conference Costs* (Report Number [DP-AR-14-003](#), dated April 29, 2014). Our report found the Postal Service should improve its procedures for monitoring and accounting for conference costs. Specifically, the Postal Service was unable to immediately identify the number of FY 2013 conferences and their associated costs because management did not have a process to accurately identify conference costs. Other federal agencies have programs to identify, track, and report publicly on conference spending for events exceeding \$100,000. Management agreed with the findings and recommendations 1 and 2. Regarding recommendation 3, management stated the misclassified expenses cannot be transferred because they occurred in the prior fiscal year.

⁹ A document that authorizes a business transaction to be entered in the book of accounts.

¹⁰ EDW is a central, enterprise-wide database that contains information extracted from operational systems.

Appendix B: Management's Comments

MAURA A. McNERNEY
Vice President, Controller



August 28, 2014

LORI DILLIARD
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report – Misclassified Training Expenses
(Report Number DP-MA-14-DRAFT)

This is in response to the subject draft management advisory report and recommendations by the Office of Inspector General. We previously addressed some of these issues in an April 15 letter in response to draft audit report number DP-AP-14-DRAFT. The recommendations and our responses are listed below.

Recommendation 1:

Correct the misclassification of the \$14.8 million in expenses identified for fiscal year 2014 (through March 31, 2014) and perform an analysis to identify and correct any additional misclassification that occurred after March 31, 2014.

Management Response/Action Plan:

Management disagrees with this recommendation. For the \$3.5 million considered as misclassified by the NCED, management believes that the current accounting treatment of charging training expenses on a per attendee basis to field units is appropriate. This approach provides a chargeable expense to the field which is planned as part of each unit's operating budget and the offsetting credit to NCED covers the expense of operating their facility which is also part of their plan. This approach also fairly represents the overall costs of training for the USPS.

Management further disagrees with the data integrity of \$18.9 million given that this amount was related to the budgeted funds and not actual expenses.

Regarding the \$11.2 million, management acknowledges the eTravel issue of charging designated Travel for Training expenses under account 52363 rather than account 51413 but disagrees the OIG's contention that it weakens the USPS's ability to manage these expenses. Managing expenses, including travel and training, is nearly almost always done at the budget line number (and not the account number) since that is where the approved funding exists. Reallocating funds from one account to another account within line 3E (Training) will not provide additional insight to those managing expenses and thus management does not consider these expenses misreported. Nevertheless, given the future efforts to reprogram the eTravel system (noted below), management will transfer all eTravel Travel for Training expenses that were reported under account 52363 to account 51413 before the FY 2014 close.

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Responsible Official:
Jack Meyer

Target Implementation Date: October 31, 2014

Recommendation 2:
Issue a memorandum outlining the correct procedures and general ledger accounts to charge for meetings, conferences, and training.

Management Response/Action Plan:
Management agrees with this recommendation. The Management Instruction on Internal and External Events will include definitions for Meetings and Conferences. We are in the process of remapping the eTravel system to include Meetings, Conferences and three separate Training categories as Purposes of Travel. We are also adding two new Training expenses. The new Purposes of Travel and Expenses will map to the General Ledger (GL) Account Numbers they represent. Once the remapping is complete, management can issue a letter to the Officers outlining the changes and provide the GL account number information.

Responsible Official:
Ricardo Jackson

Target Implementation Date:
September 2014

Recommendation 3:
Configure the eTravel system to allocate travel costs to the proper general ledger accounts to charge for meetings, conferences, and training.

Management Response/Action Plan:
Management agrees with this recommendation. We are in the process of remapping the eTravel system to include Meetings, Conferences and three separate Training categories as Purposes of Travel. We are also adding two new Training expenses. The new Purposes of Travel and Expenses will map to the GL Account Numbers they represent.

Responsible Official:
Ricardo Jackson

Target Implementation Date:
September 2014


Maura A. McNerney



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