



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

**Fiscal Year 2013 Postal Service
Financial Statements Audit –
Eagan Accounting Services**

Audit Report

February 24, 2014

Report Number FT-AR-14-006

February 24, 2014



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UNITED STATES POSTAL SERVICE

HIGHLIGHTS

**Fiscal Year 2013 Postal Service
Financial Statements Audit –
Eagan Accounting Services**

Report Number FT-AR-14-006

BACKGROUND:

The U.S. Postal Service Eagan Accounting Services is responsible for processing payroll, maintaining the general ledger, reconciling financial data, and maintaining cash and receivable accounts. The Postal Service's Financial Testing Compliance group is responsible for examining key financial reporting controls.

Our objectives were to determine whether Eagan Accounting Services:

- Accounting transactions were fairly stated, and selected controls were designed and operating effectively.
- Ensured account balances followed the Postal Service's general classification of accounts consistent with that of the previous year.
- Complied with laws having a direct and material effect on the financial statements taken as a whole.

We also determined whether the Financial Testing Compliance group properly tested, documented, and reported its examination of key financial reporting controls.

WHAT THE OIG FOUND:

Eagan Accounting Services' accounting transactions were fairly stated and

account balances conformed to the general classification of accounts. In addition, it complied with laws having a direct and material effect on the financial statements. Finally, the Financial Testing Compliance group properly tested, documented, and reported its examination of key financial reporting controls.

We did not propose any account balance adjustments; however, we reviewed internal controls over financial reporting and identified a control deficiency related to the retirement contributions reporting for law enforcement employees hired on or after January 1, 2013. Specifically, 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. Accurate retirement contribution reporting is important to ensure accurate retirement liability estimates.

WHAT THE OIG RECOMMENDED:

Management corrected the contribution reporting during the audit; therefore, we made no recommendations.

[Link to review the entire report](#)



February 24, 2014

MEMORANDUM FOR: SCOTT G. DAVIS
ACTING VICE PRESIDENT, CONTROLLER

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

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

SUBJECT: Audit Report – Fiscal Year 2013 Postal Service Financial
Statements Audit – Eagan Accounting Services
(Report Number FT-AR-14-006)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Eagan, MN, Accounting Services for the fiscal year ended September 30, 2013 (Project Number 13BM001FT000).

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

Attachment

cc: Julie S. Moore
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of selected financial activities and accounting records at the U.S. Postal Service Accounting Services in Eagan, MN, for the fiscal year (FY) ended September 30, 2013 (Project Number 13BM001FT000).

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. In addition, the Sarbanes-Oxley (SOX) law was enacted in 2002 to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to state its responsibility for establishing and maintaining adequate internal controls over financial reporting. The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of SOX. The Postal Service Board of Governors (Board) contracted with an independent public accounting firm (IPA) to express opinions on the Postal Service's financial statements and internal controls over financial reporting. Our audit augments the IPA's opinions. See [Appendix A](#) for additional information about this audit.

Conclusion

During our audit of Eagan Accounting Services, we noted that:

- Accounting transactions were fairly stated in the general ledger and selected key controls surrounding those transactions were designed and operating effectively.
- General ledger account balances conformed to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service complied with laws and regulations having a direct and material effect on the financial statements taken as a whole.

Finally, the Financial Testing Compliance group properly tested, documented, and reported its examination of key financial reporting controls. We did not propose any adjustments or identify any issues that were material to the financial statements or that would affect the overall adequacy of internal controls. However, throughout the year, we reviewed internal controls over financial reporting and identified a control deficiency¹ related to the retirement contributions reporting for Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE)² in law enforcement.

¹ A control deficiency exists when the design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements timely.

² Employees hired on or after January 1, 2013, whose contribution share increased due to Public Law 112-96, dated February 22, 2012.

In addition, the IPA identified control deficiencies affecting Eagan Accounting Services that were not in the scope of our audit and are not reported here. The IPA informed management of these issues on October 31, 2013.

Federal Employees Retirement System-Revised Annuity Employees Law Enforcement Retirement Contributions Reporting

For the period January 12–August 23, 2013, the Postal Service reported contributions for FERS-RAE law enforcement employees as FERS regular employees.³ The Office of Personnel Management (OPM) classifies FERS contributions separately for regular and law enforcement employees. The OPM did not provide comprehensive guidance on how to report FERS-RAE contributions nor did it update the report form⁴ to include separate categories for these employees. The Postal Service calculated and paid the FERS-RAE contributions correctly; however, because of incomplete OPM guidance, it combined FERS-RAE law enforcement contributions with FERS regular contributions in the biweekly reports. In our opinion, FERS-RAE law enforcement contributions should be combined and reported with the similar FERS law enforcement contributions rather than with FERS regular contributions. Retirement classifications are important for the OPM to properly estimate the Postal Service's retirement liability.

We found the Postal Service misreported \$455,493 of FERS-RAE contributions from January 12 through August 23, 2013. This led to a projected other impact of about \$7.5 million annually had the Postal Service continued to combine FERS-RAE law enforcement contributions with FERS regular contributions. See [Appendix B](#) for other impact.

We discussed the issue with Postal Service management on September 6, 2013, and management agreed with our position. Thereafter, management began reporting FERS-RAE law enforcement contributions with other FERS law enforcement contributions in the reports. Additionally, management retroactively adjusted all prior FERS-RAE law enforcement contributions. Because management took corrective action during our audit, we are not offering a recommendation.

Management's Comments

Although the report contains no recommendations, management disagreed with the other impact calculation. Management stated the statistical projection is irrelevant, incomplete, misleading, and invalid because the issue was remediated. Furthermore, management thinks we should base the statistical projection on more historical data with a fairer, more precise statistical model. See [Appendix C](#) for management's comments, in their entirety.

³ Regular employees are defined as "employees other than law enforcement or firefighter employees."

⁴ The Postal Service reports its retirement benefits biweekly, by category, to the OPM on the *Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirement* (Standard Form 2812).

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the finding in the report. Our report disclosed that management took corrective action during the audit. The corrective action was a direct result of the OIG's discussions with management. Had the OIG not performed the audit or identified the issue, the Postal Service may have continued to misclassify retirement contributions. Accordingly, we calculated other impact to capture this possibility.

Since management took corrective action and no further errors were likely to occur, we chose a conservative, simple, and statistically valid model for the projection. We based the projection on 100 percent of the data from the date the error was noted through the date the error was corrected. We reported the projection as other impact and categorized it as data integrity as opposed to more elevated categories under monetary impact. While we recognize that we could have used other statistical models, we believe we chose the best, most conservative method under the circumstances.

Appendix A: Additional Information

Background

Eagan Accounting Services is one of three Postal Service accounting services⁵ and functions as a large, centralized accounting and disbursement center. Its employees process payroll, maintain the general ledger, reconcile financial data, and maintain cash and receivable accounts. The Postal Service's Financial Testing Compliance group is responsible for examining key financial reporting controls.

FERS is an OPM-administered pension program offered to eligible Postal Service employees. The FERS contribution rate is based on a percentage of an employee's salary. For FERS regular employees, the contribution rate is 12.7 percent, 0.8 percent of which is paid by the employee and 11.9 percent of which is paid by the Postal Service. For FERS law enforcement employees, the contribution rate is 27.6 percent, 1.3 percent of which the employee pays and 26.3 percent of which the Postal Service pays.

Effective January 1, 2013, the OPM classified newly hired employees as FERS-RAE and increased the FERS-RAE regular employee contribution rate to 3.1 percent, while the Postal Service's contribution rate decreased to 9.6 percent. For FERS-RAE law enforcement employees, the contribution rate increased to 3.6 percent while the Postal Service's contribution rate decreased to 24 percent. The Postal Service reports its retirement benefits biweekly, by category, to the OPM on a Standard Form 2812.

We will issue separate reports for St. Louis Accounting Services and San Mateo Accounting Services and issue a separate financial statements audit report for headquarters. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA issued a separate report on its consideration of the Postal Service's internal controls and its test of compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report was to describe the scope of testing of internal controls over financial reporting and compliance and the results of that testing, not to provide an opinion on internal controls over financial reporting or on compliance.⁶ The OIG will also issue a separate report for the audit of FY 2013 information system controls at the Eagan, San Mateo, and St. Louis information technology and accounting service centers; and the Raleigh ITSC.

⁵ Other accounting services are in St. Louis, MO, and San Mateo, CA.

⁶ In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, the three Solutions Development and Support field sites, and the Raleigh, NC, Information Technology Service Center (ITSC).

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether Eagan Accounting Services:⁷

- Fairly stated accounting transactions were in the general ledger and selected key controls surrounding those transactions were designed and operating effectively.
- Ensured general ledger account balances conformed to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- Complied with laws and regulations having a direct and material effect on the financial statements taken as a whole.

In addition, we determined whether the Financial Testing Compliance group properly tested, documented, and reported its examination of key financial reporting controls.

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 the Postal Service originally completed. We conducted this audit from November 2012 through February 2014⁸ in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the comptroller general of the U.S. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a level that is, in our professional judgment, appropriate for supporting the overall audit opinion on financial statements. Those standards also require considering the results of previous engagements and following up on known significant findings and recommendations that directly relate to the 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. We believe the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA in obtaining reasonable assurance about whether the financial statements were free of material misstatements (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with the PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We discussed our observations and conclusions with management on January 8, 2014, and included their comments where appropriate.

⁷ The IPA maintains overall responsibility for testing and reviewing significant Eagan Accounting Services accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.

⁸ The scope of our audit was October 1, 2012, through September 30, 2013.

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

- Accounting Enterprise Data Warehouse Reporting.⁹
- National Accounting Oracle Financial Application.¹⁰
- Payroll Systems.¹¹

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 general ledger data from the National Accounting Oracle Financial Application System to the Accounting Enterprise Data Warehouse Reporting System. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Fiscal Year 2012 Postal Service Financial Statements Audit – Eagan Accounting Services</i>	FT-AR-13-009	2/5/2013	None
<p>Report Results: We did not propose any adjustments or report any significant issues. Management took corrective action in August 2013 to revise the policy for retaining Combined Federal Campaign documents for 4 years. Management agreed with the recommendation.</p>			
<i>Fiscal Year 2011 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-12-007	12/19/2011	\$28,758,859
<p>Report Results: We did not propose any adjustments or report any significant issues and did not make any recommendations. Management took corrective action during our audit to improve their methodology of estimating the unemployment compensation liability accrual and reduced the accrual by \$28.8 million.</p>			

⁹ A reporting technology in the areas of accounts payable, complement, finance number control master, general ledger and financial performance, payroll summary, property and equipment, and standard accounting for retail.

¹⁰ A replacement accounting system that provides a comprehensive intranet solution in a web-enabled environment that improves reporting capability and efficiency and automates data entry and collection.

¹¹ A biweekly payroll system that compensates all employees, including pay compensation rules and employee pay history.

Appendix B: Other Impact

Finding	Impact Category	Amount
1	Data Integrity ¹²	\$14,965,842

Using regression analysis,¹³ we projected other impact for 2 years based on an audit universe of \$581,476 in actual FERS-RAE contributions made from January 12 through September 20, 2013. For the period January 12 through August 23, 2013, the Postal Service reported contributions for FERS-RAE law enforcement employees as FERS regular employees. The Postal Service retroactively adjusted retirement contributions to September 20, 2013. The adjustments were the result of our audit work; therefore, we included this actual data through September 20, 2013, in our projection. The use of actual FERS-RAE contributions made through September 20, 2013, provided greater statistical accuracy than using data through August 23, 2013.

We included 100 percent of the actual historical data in the statistical projection and did not include other proximal causes (for example, attrition). Given the historical data and current assumptions, we are 95 percent confident that the true average variation in actual values will be within \$1,312 of our projection and we are 99 percent confident that it will be within \$1,803.

¹² Validation of the consistency, accuracy, and completeness of Postal Service data.

¹³ A statistical process for estimating the relationships among variables. It includes techniques for modeling and analyzing variables with a focus on the relationship between a dependent variable and one or more independent variables.

Appendix C: Management's Comments

SCOTT G. DAVIS
(A) VICE PRESIDENT, CONTROLLER



February 12, 2014

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response to Fiscal Year 2013 Postal Service Financial Statements Audit
Eagan Accounting Services audit (Report #FT-AR-14-DRAFT)

Thank you for the opportunity to review and provide comments to the subject draft audit report. Management submits the following response to the finding and Other Impact identified in the report:

Management disagrees with the assessment and valuation of the finding of a Data Integrity impact of \$14,965,942 million described in Appendix B: Other Impact. Management believes the statistical projection is irrelevant, incomplete, misleading, and invalid. The Postal Service met with the Office of Inspector General (OIG) to discuss the projection and assumptions underlying the projection and learned that polynomial regression analysis was used. The regression is forecasting an error that was remediated. Since no error is expected going forward, the forecasted error estimate is irrelevant.

The presentation of the forecast confidence interval does not present sufficient detail. The report presents the margins of error as such: "We are 95 percent confident that the true average variation in actual values will be within \$1,312 of our projection and we are 99 percent confident that it will be within \$1,803." This is presented with no information on how this was calculated. A forecast of this nature would require a larger confidence interval the further the prediction points gets from the end of available data¹. This would require an amount of statistical power that is not supported by the details presented in the report. Without the presentation of standard errors and a demonstration of how these errors accumulate from one period to the next a critical consumer of the forecast cannot verify that this is properly conceptualized or calculated. On its face, it appears that forecast error wasn't systematically accumulated over the course of the projection.

The lack of detail presented in Appendix B is misleading. The forecast predicts errors that are compounded through the course of the 20 forecasted periods to yield the topline amount presented in Finding 1. The imprecision in the forecast predictions are presented as averages over the span of the 20 intervals. A fairer representation would present the cumulative forecast error. This would allow for a more fair evaluation of the precision of the model.

Furthermore, while the polynomial regression analysis prepared by the OIG may provide the best mathematical fit of the historical data, the OIG failed to consider all available pay periods of actual data. The OIG chose to use FY2013 as the sample base (18 pay periods), even though there were 9 additional pay periods of actual data available when the report was prepared. Management compared the actual retirement amounts for the 9 additional pay periods to those projected in the regression analysis and found actual amounts are significantly less than the amounts in the projection. This indicates that the forecasted amounts presented by the OIG are biased upward.

¹ Ramirez, Jose G. Statistical Interval: Confidence, Prediction, Enclosure. Available online at https://www.sas.com/resources/whitepaper/wp_4430.pdf

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Lastly, as stated in Appendix B of report, the OIG “*did not include other proximal causes (for example, attrition)*” in the projection. The exclusion of other proximal causes in the projection makes the projection invalid, as it ignores the fact that only employees hired since January 2013 would be classified as Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) law enforcement and that the total population all employees in law enforcement is a fixed population size of less than 2,000. For the projected contributions for FERS-RAE law enforcement employees to grow from the actual dollar amounts in the sample to the projected dollar amounts in two years, the number of employees in this category would need to grow from the current level of less than 90 employees to almost 900 employees in two years. Given the fixed size of the total number of law enforcement employees in the Postal Service, for the number of FERS-RAE law enforcement employees to grow to a level commensurate with the OIG’s financial projection, there would need to be a corresponding attrition of over 20% in the number of non-FERS RAE law enforcement employees over the two-year period. Management questions the lack of incorporation of realistic attrition in the projection. Ignoring such proximal causes makes the projection invalid.

This report does not contain information which management believes may contain proprietary or other business information that may be exempt from disclosure under the Freedom of Information Act (FOIA).



Scott G. Davis

cc: Julie S. Moore
Corporate Audit Response Management