



November 15, 2007

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VICE PRESIDENT, SUPPLY MANAGEMENT

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VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Audit Report – Manual Transportation Payments  
(Report Number FT-AR-08-001)

This report concerns manual transportation payments processed by Transportation Portfolio Category Management Centers (CMC) located in Washington, D.C. We identified this specific issue during our audit of the fiscal year (FY) 2007 Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 07BM002FT001).

### **Background**

The Transportation Portfolio establishes surface and air transportation and fuel-related services through three CMCs: the Air Transportation CMC, the Surface Transportation CMC, and the Transportation Asset Management CMC.

The Air Transportation CMC provides logistics, air transportation, and ground handling solutions primarily for Network Operations Management and its departments. This includes domestic air transportation services, terminal handling services in support of air service, policies for the purchase and administration of air taxi transportation services, and manual air payment processing for contract carriers who supply the services.

The Surface Transportation CMC is responsible for establishing surface transportation and providing related services to include those associated with freight transportation, rail, nonmail cargo, inter-Bulk Mail Center trucking transportation, and trailer services.

The Transportation Asset Management CMC centrally manages fuel, a major supply item for the Postal Service.

The Logistics Contract Management System (LCMS) provides payment parameters for domestic air and terminal handling services provider contracts. It also stores manual air transportation payment documentation for processing. This documentation includes — but is not limited to — supplier invoices, evidence of service completion, and documentation from contracting officers. The accuracy of manual transportation payments depends on the employees responsible for collecting, researching, and inputting the required documentation into LCMS; a contracting officer approving the documentation; and St. Louis Accounting Service Center (ASC) personnel authorizing and releasing the payment.

### **Objective, Scope, and Methodology**

The objective of this portion of the audit was to determine whether manual transportation payments within LCMS were properly supported, approved, and authorized; and accurately recorded.

To accomplish our objective, we examined manual transportation payment documentation in LCMS processed by Transportation Portfolio CMCs between October 1, 2006, and March 16, 2007. Of the 812 manual transportation payments made during this timeframe (totaling approximately \$150 million) we randomly<sup>1</sup> selected a sample of 50 payment transactions (totaling about \$8.5 million) for review.<sup>2</sup> We interviewed St. Louis ASC, Transportation Portfolio, and Network Operations personnel.

We conducted this performance audit from March through November 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on April 20, May 8-9, June 4, and August 23, 2007, and included their comments where appropriate. We relied on computer-generated data from the LCMS. We performed specific internal control and transaction tests on this system's data to include tracing selected financial information to supporting source records. For example, we traced payment data extracted from LCMS to documentation indicating payment was certified.

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<sup>1</sup> We selected the random sample using the Audit Command Language software sample generating tool.

<sup>2</sup> Our sample of manual transportation payments included 41 air-related and nine surface-related manual payments.

## Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

## Results

Although manual transportation payments were accurately recorded, they were not always properly supported, approved, or authorized prior to payment. Specifically, Transportation Portfolio personnel did not always enter adequate documentation into LCMS to support manual transportation payments. Further, Transportation Portfolio personnel approved<sup>3</sup> — and St. Louis ASC personnel authorized and released — manual transportation payments without ensuring the documentation in LCMS supported the payments.

The Postal Service did not maintain adequate support in LCMS for 26 of the 50 manual transportation payment transactions reviewed.<sup>4</sup> Supporting documentation entered in LCMS varied throughout Transportation Portfolio CMCs. In several instances, employees used Excel spreadsheets with unknown origins as supporting documentation for an invoice for payment. Additionally, employees included invoices without Postal Service certification of service. Further, supporting documentation in LCMS sometimes referenced data stored on a headquarters shared network drive as detailed support for manual transportation payments; however, that drive was not accessible to all personnel involved in manual transportation payment processing.

The Postal Service also did not always ensure personnel properly approved or authorized payments. A contracting officer advised they did not review supporting documentation as part of their approval responsibility. In addition, St. Louis ASC personnel did not always validate support for manual transportation payments prior to authorizing and releasing these payments.

These issues occurred because the Postal Service does not currently have policies and procedures in place regarding the level of documentation required to support manual transportation payments<sup>5</sup> or responsibilities in the payment process. In addition, St. Louis ASC personnel advised that it was not their responsibility to validate support. Instead, they felt it was the contracting officer's responsibility to review supporting documentation. St. Louis ASC personnel also did not have access to the headquarters shared network drive in order to review detailed support prior to payment.

Although policies regarding the level of documentation required in LCMS for manual transportation payments do not currently exist, best practices suggest all transactions and other significant events need to be clearly documented, and the documentation

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<sup>3</sup> This includes responsibilities of Transportation Portfolio personnel designated as contracting officers.

<sup>4</sup> Of the 26 LCMS payments not having adequate support, 19 were air-related and seven were surface-related payments.

<sup>5</sup> Excluding air taxi payments.

should be readily available for examination. It should appear in management directives, administrative policies or operating manuals. All documentation and records should be properly managed and maintained.

As a result, Transportation Portfolio CMC and St. Louis ASC personnel approved and authorized manual transportation payments between October 1, 2006, and April 20, 2007 (totaling \$5,826,948<sup>6</sup>) without ensuring that adequate supporting documentation existed. When adequate supporting documentation does not exist, particularly for manual payments, the Postal Service is at an increased risk of making improper (erroneous, duplicate, or fraudulent) payments. We plan to report the \$5.8 million as Assets at Risk (non-monetary impact) in our *Semiannual Report to Congress*.

### **Recommendations**

We recommend the Vice President, Supply Management, in coordination with the Vice President, Network Operations, and the Vice President, Controller:

1. Establish policies and procedures regarding
  - a) documentation in the Logistic Contract Management System necessary to support manual transportation payments; and
  - b) approval and authorization responsibilities in the payment process.
2. Communicate policies and procedures to appropriate personnel.

### **Management's Comments**

Management agreed with our recommendations to improve the payment process and will assess and improve current processes; ensure adequate controls are in place, including detailing approval and authorization responsibilities; and communicate this information to appropriate personnel. They stated they should complete these efforts during Quarter 3, FY 2008.

Management also reiterated the following two inaccuracies previously provided to us. First, they asserted that the information we obtained from a contracting officer regarding review of supporting documentation related to fuel payments, not manual transportation payments. Second, they stated a process is in place that requires contracting officers to verify and authorize payments.

Finally, although management feels existing controls work to mitigate risk, they do not object to tracking them as "Assets at Risk." Management's comments, in their entirety, are included in the appendix of this report.

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<sup>6</sup> This represents the dollar value of 26 of 50 manual transportation payment transactions reviewed that did not have adequate support.

## Evaluation of Management's Comments

Management's comments are responsive to the recommendations and the actions taken or planned should correct the issues identified. We acknowledge the contracting officer we mentioned in the report was responding to an inquiry on fuel payments. However, although fuel payments were not part of the sample, these payments are a part of the manual transportation payment universe. Further, while a process may exist requiring contracting officers to verify and authorize payments, the Postal Service does not have a formal written policy for this requirement. Since management agreed with the recommendations and will improve current processes, we do not intend to pursue the issue further at this time.

The U.S. Postal Service Office of Inspector General (OIG) considers both recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small yellow circular icon with a black question mark inside.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

### Attachment

cc: H. Glen Walker  
William P. Galligan, Jr.  
Vincent H. DeVito, Jr.  
Constance M. Beatty-Griffith  
Katherine S. Banks

## APPENDIX. MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT



October 25, 2007

JOHN E. CIHOTA

SUBJECT: Draft Management Advisory – Manual Transportation Payments, FT-AR-08-DRAFT

Thank you for the opportunity to review and comment on the subject October 5 draft audit report. This response was coordinated with applicable staff representing the Controller and Network Operations organizations. As evidenced by your report, our organizations do maintain an effective working relationship that facilitates accurate recording and payment of manual transportation payments in the Logistics Contract Management System (LCMS).

We also concur that there are some weaknesses in the manual transportation payment process and that documenting the process and responsibilities to support manual payments makes sense. However, there is incorrect information on page three of the draft report. First, the contracting officer mentioned was responding to an inquiry on fuel payments, not the manual transportation payment transactions covered by this report. Second, a process is in place that requires the contracting officer to verify and authorize payments submitted to the St. Louis ASC prior to payment. This information was previously relayed to your staff.

Despite these report inaccuracies, we do agree with the report's two recommendations to improve this payment process. With input from personnel in the Controller and Network Operations organizations, we will assess and improve the current process, ensure adequate controls are in place, including detailing approval and authorization responsibilities, and then communicate to appropriate personnel. This process review effort should be completed during the third quarter of FY2008.

Based on our subsequent review of the 26 payments totaling \$5,826,948, we are confident that all were proper, and did not include any erroneous payments. Considering these payments were valid, the existing process controls did work and should mitigate the identified documentation risk and classifying these payments "at risk." Regardless, we will not object to tracking these payments in your new nonmonetary "assets at risk" category. In addition, for future reports using this categorization, we suggest the Office of Inspector General establish a methodology to classify the associated risk level. Doing so will help management both determine and prioritize appropriate response activities.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. You may contact Marie Martinez if you have any questions regarding this response or actions taken to satisfy the report's recommendations. She can be reached at (202) 268-4117.

A handwritten signature in cursive script that reads "Susan M. Brownell".

cc: H. Glen Walker  
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