March 31, 2008

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SUBJECT: Fiscal Year 2007 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center (Report Number FT-AR-08-010)

This report presents the results of our audit of selected financial activities and accounting records at the U.S. Postal Service Information Technology and Accounting Service Center (IT/ASC) in St. Louis, Missouri, for the fiscal year (FY) ended September 30, 2007 (Project Number 07BM002FT000). The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. We conducted this audit in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements. Click here to go to Appendix A for additional information about this audit.

## OVERALL AUDIT CONCLUSION

- Financial accounting policies and procedures provided for an adequate internal control structure and complied with accounting principles generally accepted in the U.S.
- Accounting transactions at the St. Louis IT/ASC impacting the general ledger account balances were stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conformed with the general classification of accounts on a basis consistent with that of the previous year.
- The Postal Service complied with laws and regulations that have a direct and material effect on the financial statements.

- Adjustments identified were subsequently recorded. (Click here to go to Appendix B.)
- A significant deficiency existed with international mail rates and accruals.[1] (Click here to go to Appendix C and here to go to Appendix D).
- Control deficiencies regarding highway extra trips, transportation systems' access, eTravel claims, contract postal unit (CPU) payments, and property transactions were identified. These items were not significant to the financial statements and did not affect the overall adequacy of internal controls.

## INTERNATIONAL MAIL RATES

Rates in the St. Louis International Accounting Branch (IAB) rate table were not always accurate or supported.[2] This occurred because the Postal Service did not have complete policies and procedures to require employees to enter and update rates timely, request necessary support for rates, or perform periodic reviews of the rates. Further, headquarters personnel prepared rate documentation based on incorrect terminal dues rates published by the Universal Postal Union (UPU) and distributed it to the IAB to update rates in the international web-based application. When rates are not accurate, the risk that financial information is misstated or billings are incorrect increases.

As a result of our audit, the IAB corrected all rates and informally documented high-level desk procedures over establishing rates, to include a review process. Click here to go to Appendix C for our detailed analysis of this topic.

We recommend the Manager, St. Louis Accounting Service Center:

1. Direct the Manager, International Accounting Branch, to implement and communicate complete written policies and procedures to require employees to enter and update rates timely, to obtain support for rates as necessary, and to periodically verify international rates.

### Management's Comments

Management agreed with the recommendation and has implemented procedures to ensure all sequentially numbered UPU Circulars are received and acted upon. Also, for bilateral agreements with no uniform rate change frequency, IAB personnel that detect

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[1] Ernst and Young, LLP, the independent public accounting firm contracted to opine on the Postal Service's financial statements, also reported this as a significant deficiency in its *Report 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, 2007). A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

[2] International rate tables are updated via the international web-based application.

rate discrepancies during the billing and settlement processes will initiate inquiries to International Postal Affairs at Postal Service Headquarters for updated rate information. Further, management developed and implemented detailed desk procedures that outline steps for entering and verifying new rates and require review and comparison of the entered data to the source documentation. Finally, in addition to verification of rates after entry, another review (annual, Parcel Post® quarterly, periodic) is conducted and recorded. In subsequent separate correspondence, management advised these procedures have been communicated and are currently in place. Click here to go to Appendix L 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 responsive to the recommendation and the corrective actions should resolve the issue.

## PARCEL POST PAYABLE ACCRUAL

The Postal Service did not always use accurate volumes or rates to calculate monthly accruals[3] for the Parcel Post payable account. During the time of converting data to a new web-based application, the Integrated Business System Solutions Center (IBSSC) computer program extracted volume data from two data files, thereby duplicating volumes. In addition, IAB personnel did not update rates in the Parcel Post rate table for calendar year (CY) 2007 prior to the beginning of the CY. As a result, the IAB overstated accruals for international Parcel Post outbound mail in the general ledger by approximately $38.8 million.

As a result of our audit, the IAB updated the CY 2007 Parcel Post rates, recorded a $28.3 million adjustment to correct the accrual balance in the general ledger (click here to go to Appendix B), and implemented controls to review and verify monthly reports. In addition, the IBSSC corrected the computer program used to generate the monthly reports beginning April 2007. Because of corrective actions taken and the fact that we already addressed timely rate updates in our previous recommendation, we are not making a recommendation on this issue at this time. We will continue to monitor this issue as part of our ongoing financial statement audit work. Click here to go to Appendix D for our detailed analysis of this topic.

## HIGHWAY TRANSPORTATION EXTRA TRIPS

Internal controls over payments made to highway transportation contractors for trips in addition to those under contract (extra trips) need strengthening. The current payment process does not include validation from the destination facility. Instead, the originating facility initiates and maintains control of the authorization and certification forms and

[3] Accruals are items of expense that have been incurred during the period but have not yet been recorded or paid. As such, they represent liabilities at the end of the period.

submits the certification form directly to the St. Louis IT/ASC for further processing. When validation from the destination facility is not part of the process, the Postal Service increases its risk of unauthorized, duplicate or fraudulent payments for extra trips. Click here to go to Appendix E for our detailed analysis of this topic.

We recommend the Vice President, Supply Management:

2. Direct the Manager, Transportation Portfolio, to modify policies and procedures to include the destination facility validation in the highway extra trips payment process.

## Management's Comments

Management agreed with the intent of the recommendation. However, they advised that even though the destination facility does not verify the form used for payment, current controls require the destination facility to complete its portion of the form used as support to prepare the payment form. Management advised they will review this payment process as part of the Postal Service's efforts to comply with the Sarbanes-Oxley Act (SOX) and anticipate any related actions to be completed during FY 2009.

## Evaluation of Management's Comments

We acknowledge the facts management provided and agree that the destination facility must complete its portion of the form used to prepare the payment form. However, the current payment process allows the originating facility or administrative official to prepare the summary payment form and does not include an independent validation from the destination facility. Therefore, we continue to maintain that the information provided to the St. Louis Accounting Service Center (ASC) as justification for payment must also include a signature from appropriate personnel at the destination facility as evidence the extra trip actually took place. When this control signature does not exist, the Postal Service increases its risk that trips that did not take place or were not authorized go undetected. Since management will review the process as part of SOX efforts, we will pursue this issue as part of our future financial statement audit work.

## TRANSPORTATION CONTRACT SUPPORT SYSTEM AND SURFACE AIR MANAGEMENT SYSTEM ACCESS

[redacted] and [redacted] management did not update access to transportation systems in accordance with Postal Service policy. This occurred because management did not perform a periodic review of personnel needing access to the Transportation Contract Support System (TCSS) or the Surface Air Management System (SAMS). As a result, the Postal Service could jeopardize the integrity of highway contract route and air transportation payments. Click here to go to Appendix F for our detailed analysis of this topic.

As a result of our audit, management promptly revoked individuals' access to these systems. Therefore, we are not making a recommendation at this time. However, we will continue to monitor this issue as part of our ongoing financial statement audit work.

## TRAVEL EXPENSE CLAIMS

Postal Service employees did not always accurately complete their expense report in the eTravel system. Specifically, we identified errors on nine of 80 approved expense reports in eTravel. These errors occurred because employees did not always follow Postal Service policy for travel expense reimbursements, and local officials approved travel expense claims with errors. As a result, travel expense claim errors resulted in incorrect reimbursements to employees and overstatement of the eTravel expense account by $415. Click here to go to Appendix G for our detailed analysis of this topic.

As a result of our audit, management explained overpayments to approving officials and requested they obtain reimbursement from affected employees. Since management took corrective action and we did not expand our audit steps to determine whether the errors were systemic, we are not making a recommendation at this time. However, we will continue to monitor this issue as part of our ongoing financial statement audit work.

## CONTRACT POSTAL UNITS PAYMENTS

The Postal Service did not always terminate CPU firm-fixed price contract payments upon conversion to performance-based contracts. District retail offices did not timely notify the Denver Category Management Center (CMC) of the conversion date. As a result, the Postal Service made duplicate payments to two CPU suppliers totaling $6,644.

As a result of our audit, Postal Service personnel terminated automatic payments under the firm-fixed price contracts and initiated action to collect the duplicate payments. We will report duplicate payments of $6,644 as recoverable questioned costs in our *Semiannual Report to Congress*. Click here to go to Appendix H for our detailed analysis of this topic.

We recommend the Vice President, Supply Management:

3. Establish written policies and procedures to ensure timely notification to the Denver Category Management Center of converted Contract Postal Unit contracts.

### Management's Comments

Management agreed with the recommendation, including the associated monetary benefits, and has initiated action to collect the duplicate payment. Also, to enhance current processes, they will create a report in the CPU Technology (CPUT) system that shows CPUs where two invoices were generated in the same month for the same contract number and will review this report on a monthly basis to verify that the invoices are valid. In addition, management will establish and communicate additional written policies and procedures to ensure timely notification of converted CPU contracts. The target completion date for corrective action is the end of Quarter 3, FY 2008.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issue.

## PARTIAL LAND SALES

Postal Service personnel did not always accurately record partial land sales. This occurred because of an inadvertent error made by St. Louis IT/ASC personnel. In addition, there was no evidence of management oversight. As a result, the general ledger land account and the gain on the land sale account were understated by $886,016.

As a result of our audit, St. Louis ASC personnel recorded adjustments to correct the land and land sale accounts. In addition, the Postal Service plans to implement additional reviews by St. Louis IT/ASC personnel for routine sales and by headquarters personnel for more complex sales. Click here to go to Appendix I for our detailed analysis of this topic.

We recommend the Manager, St. Louis Accounting Service Center:

4. Reiterate to the Manager, General Accounting Branch, and applicable personnel the requirement to remove only the partial land cost from inventory upon closing partial sales.

5. Implement a procedure requiring periodic reviews to ensure proper processing of routine property sales.

## Management's Comments

Management agreed with the recommendations and has implemented procedures requiring the systems accountant to clear all real estate transactions prior to recording. Further, for more complex, non-standard real estate transactions, the systems accountant will consult with headquarters Accounting Policy prior to recording entries to the general ledger. In addition, to enhance the monthly review process, the monthly real estate transactions report shows reconciliation of accounts where sales proceeds are deposited as well as the associated gain and/or loss on sales account.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues.

## PROJECT FINANCIAL SYSTEM UNRECORDED LIABILITY

St. Louis IT/ASC personnel did not timely complete year-end closing instruction procedures. Specifically, at the time of our audit, they did not create a liability accrual to record Project Financial System (PFS) payments as required by year-end closing instructions.

PFS is designed to establish, maintain, and report all outstanding budget authorizations, commitments, payments, and closeouts on construction and improvement projects. PFS covers land, buildings, and mail processing equipment and related noncapital expenses. In accordance with Postal Service policy[4] and the St. Louis IT/ASC year-end processing schedule,[5] the St. Louis IT/ASC must accrue for PFS payments related to construction or procurement projects to accommodate situations where the payment is invoiced prior to year end but the payment is not approved until after the year end.

This occurred because St. Louis IT/ASC personnel inadvertently overlooked the accrual. As a result, St. Louis IT/ASC personnel needed to accrue the full amount of about $26.7 million in late October 2007. Management noted they would have identified this oversight prior to final close of general ledger.

Click here to go to Appendix B for the adjustment to correct the accrual balance in the general ledger.

We recommend the Manager, St. Louis Accounting Service Center:

6. Direct branch managers to reiterate year-end closing instruction requirements and verify all items are completed timely.

## Management's Comments

Management agreed with the recommendation and instructed branch managers to adhere to closing schedules and instructions. In addition, branch personnel have recently developed more detailed closing checklists tailored to their accounting operations to ensure all required information is entered into the accounting records in a timely manner. Specifically, with regard to the PFS accrual, the Manager, General

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4 Postal Service Handbook F20 – *General Ledger Accounting and Financial Reporting System*, Chapter 7, December 2004.

5 *Accounting Service Center Year-End Processing Schedule – General Ledger – Accounting Data Mart (ADM) Checklist – FY 2007.*

Accounting Branch (GAB), will ensure the preliminary amount is recorded per the closing schedule.

Management also clarified the OIG's audit comments by describing its dual close process and advised that it is now applicable to the quarter closings in FY 2008.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issues.

## LEASEHOLD IMPROVEMENT AMORTIZATION

Postal Service personnel did not always timely resolve leasehold improvement project exceptions. According to St. Louis IT/ASC personnel, there were no specific Postal Service policies or procedures in place to resolve these exceptions. Further, personnel were not adequately trained on resolving exceptions or had higher priority projects. As a result, leasehold amounts were not reported correctly in the general ledger. Click here to go to Appendix J for our detailed analysis of this topic.

We recommend the Vice President, Facilities:

7. Develop and communicate policies to require appropriate personnel review and clear the *Leasehold Amortization Calculation Exception Lists* report.

8. Train responsible personnel on resolving leasehold amortization exceptions.

## Management's Comments

Management agreed with the recommendations and will coordinate with St. Louis ASC personnel to develop and communicate policies to ensure the review and resolution of any issues on the *Leasehold Amortization Calculation Exception Lists* report. In addition, management plans to provide training on how to resolve leasehold amortization exceptions to headquarters Facilities personnel. In subsequent separate correspondence, management advised they plan to complete these tasks by October 1, 2008.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues.

Click here to go to Appendix K for details of control issues regarding manual transportation payments, FY 2007 peak season fuel, and New York International Service Center (ISC) inbound international mail that were not significant to the financial statements, did not affect the overall adequacy of internal control, and were reported to management through interim reports.

## PROGRESS ON PRIOR YEARS' RECOMMENDATIONS

We followed up on prior years' recommendations related to our financial statement audits at the St. Louis IT/ASC.

### San Francisco International Service Center – Inbound International Mail[6]

Except for Parcel Post, including Coventry (upgraded) Parcels, inbound international mail volumes were not always accurate, and internal controls for recording inbound international mail at the San Francisco ISC record unit needed strengthening. Specifically, personnel did not properly process letter class inbound international mail documents and timely enter the information into the international web-based application. Also, employees did not retain Express Mail® documentation as required. We recommended management implement a procedure requiring adequate oversight to ensure proper processing of inbound international letter class documents and communicate the current record retention policy to San Francisco international record unit employees.

#### Progress

- Management implemented a procedure requiring adequate management oversight to ensure proper processing of inbound international letter class documents.
- Management communicated the current record retention policy to San Francisco international record unit employees.

#### Audit Comment

Management's actions taken were responsive to our recommendations and should correct the issues identified in the finding. Accordingly, these recommendations are considered closed.[7]

### Facilities Management System - Windows[8]

Postal Service Facilities personnel continued to make enhancements to the Facilities Management System - Windows to better control lease and capital project payment transactions and address internal control issues identified in previous audit reports. However, improvements were needed to strengthen controls related to login password

[6] *San Francisco International Service Center – Inbound International Mail* (Report Number FT-AR-07-012, dated March 30, 2007).
[7] These recommendations were not considered significant and, therefore, do not need to be closed through the formal closeout process.
[8] *Fiscal Year 2000 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-01-009, dated March 6, 2001).

protection, approval codes, security enhancements, and documentation. We recommended management implement the remaining recommended controls in the Facilities Management System - Windows.

### Progress

In December 2006, the Postal Service implemented an upgraded web-based Facilities Management System to address weaknesses identified in previous audits.

### Audit Comment

Management's actions taken were responsive to our recommendation and should correct the issues identified in the finding. Accordingly, these recommendations were closed.

## International Parcel Post Accruals[9]

Internal controls over international Parcel Post accruals needed improvement. Specifically, the rates in the International Parcel Post Rate Master File were not always accurate. We recommended management implement a procedure to continuously monitor changes to the Parcel Post Rate Master File and communicate to all IAB personnel the requirement to monitor and document management review of the monthly accrual reports.

### Progress

Beginning in FY 2006, management implemented a procedure to verify the accuracy of rates within the Parcel Post Rate Master File on a quarterly basis and communicated the requirements to monitor and document review of monthly accrual reports. Additionally, personnel review monthly accruals and verify accuracy of rates on a sample basis and document those reviews monthly.

### Audit Comment

Management's actions taken were responsive to these recommendations. Accordingly, these recommendations can be closed.[10] However, since Parcel Post rate table[11] issues continued to exist during FY 2007 (Click here to go to Appendix C and here to go to Appendix D), we will continue to monitor this area as part of our annual financial statement audit work.

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[9] *International Parcel Post Accruals* (Report Number FT-AR-06-007, dated December 27, 2005).
[10] These recommendations were not considered significant and, therefore, do not need to be closed through the formal closeout process.
[11] Formerly referred to as the International Parcel Post Rate Master File.

## J.T. Weeker (Chicago) International Service Center – Inbound International Mail[12]

Except for letter class mail, inbound international mail volumes were not always accurate and internal controls for recording inbound international mail at the J.T. Weeker (Chicago) ISC needed strengthening. Specifically, mail volumes on manifests did not support billing and revenue data in the General Ledger for inbound international Express Mail and Parcel Post. For Coventry (upgraded) Parcels, the Postal Service did not always request missing source documents.[13] In addition, the Postal Service did not have a process in place to monitor volume data entered for inbound international mail. We recommended management reiterate the requirement to request missing source documents for Coventry (upgraded) Parcels and implement a procedure to continuously monitor the reliability of inbound international mail volume data used to support billings to include manual and scanned data.

### Progress

- Management reassigned and trained new personnel and reinforced the need to request missing documents.
- To monitor the reliability of inbound international mail volume data used to support billings, St. Louis IBSSC personnel stated they planned to develop a computer program that will compare system data to data from billing documents and generate an exception report. This report was going to be provided to the ISCs to allow them to investigate differences. However, based on our follow up in FY 2007, the St. Louis IBSSC discontinued the development of exception reports once it was determined to move forward with the development of new international systems.

### Audit Comment

- Management's actions taken regarding reiterating requirements to request missing documents were responsive to the finding and should correct the issue identified. Accordingly, that recommendation was closed.
- We will continue to monitor management's efforts to develop the new international systems, which are expected to increase the reliability of inbound international mail volume data as part of our annual financial statement audit work.

The OIG considers recommendations 1 and 2 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.

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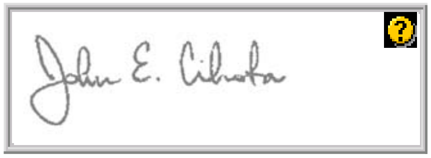
[12] *J.T. Weeker (Chicago) International Service Center – Inbound International Mail* (Report Number FT-AR-06-013, dated March 22, 2006).
[13] Inbound international mail documents supporting weights and pieces of mail received to support billings to FPA. These documents are filed on-site at ISCs, international exchange offices, or international records units.

We will report CPU duplicate payments of $6,644 as monetary impact, recoverable questioned costs, in our *Semiannual Report to Congress*

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.



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: H. Glen Walker
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# APPENDIX A. ADDITIONAL INFORMATION

## BACKGROUND

The St. Louis IT/ASC includes one of three ASCs Postal Service-wide.[14] It is responsible for accounting functions related to money orders, real property, transportation, international mail, and accounts payable.[15] The St. Louis IT/ASC is also responsible for processing financial and accountability data from field units.

We will be issuing separate financial statement audit reports for headquarters and the Eagan and the San Mateo IT/ASCs. Further, in addition to the overall opinion on the Postal Service's financial statements, the Board of Governors' independent public accounting firm, contracted to express an opinion on the financial statements, will issue separate reports on the Postal Service's internal controls and compliance with laws and regulations. The OIG will also issue a separate report for the audit of the FY 2007 information system controls at the Eagan, Minnesota; San Mateo, California; and St. Louis, Missouri IT/ASCs and the Raleigh, North Carolina, Information Technology Service Center.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the St. Louis IT/ASC impacting the general ledger account balances for assets, liabilities, equity, income and expenses of the Postal Service are fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conform to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service complies with laws and regulations that have a material and direct effect on the financial statements as a whole.

To accomplish our objectives, we conducted fieldwork from November 2006 through January 2008. As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2006 through March 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our professional

[14] Other ASCs within IT/ASCs are located in Eagan, Minnesota, and San Mateo, California.
[15] Includes accounting for rents and leases, contract stations, vehicle hire, uniform allowance, indemnity claims, tort claims, and eTravel.

judgment, appropriate for supporting the overall audit opinion on the 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 objectives of the audit. An audit also includes obtaining a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. We supported the external auditors in obtaining reasonable assurance about whether the financial statements are free of material misstatement (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 generally accepted government auditing standards may not detect a material misstatement. However, the 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 officials on February 29, 2008, and included their comments where appropriate.

We relied on computer-generated data from several Postal Service financial systems, including the ADM, Accounts Payable Excellence, electronic Facilities Management System (eFMS), Money Order History File, eTravel, Settlement Management Subsystem, SAMS, the Retek Merchandising System, and TCSS. We performed specific internal control and transaction tests on these systems' data to include tracing selected financial information to supporting source records. For example, we verified that payment authorizations supported payments recorded in eFMS, and the Postal Service applied the amounts to the appropriate general ledger accounts.

## PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Results |
|---|---|---|---|
| *Fiscal Year 2000 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* | FT-AR-01-009 | March 6, 2001 | See "Progress on Prior Years' Recommendations" section in this report. |
| *International Parcel Post Accruals* | FT-AR-06-007 | December 27, 2005 | See "Progress on Prior Years' Recommendations" section in this report. |
| *J.T. Weeker (Chicago) International Service Center – Inbound International Mail* | FT-AR-06-013 | March 22,2006 | See "Progress on Prior Years' Recommendations" section in this report. |
| *Fiscal Year 2006 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* | FT-AR-07-011 | March 28, 2007 | We identified opportunities to improve Postal Service operations regarding international mail issues related to Mexico's Parcel Post mail rate and accrual adjustments. Postal Service personnel implemented actions to address these issues. |
| *San Francisco International Service Center – Inbound International Mail* | FT-AR-07-012 | March 30, 2007 | See "Progress on Prior Years' Recommendations" section in this report. |

## APPENDIX B: RECORDED ADJUSTMENTS

FY 2007
($ Thousand)
Debit (Credit)

### Parcel Post Accrual Adjustment

To record adjustment to the Parcel Post accounts over-accrued from July 2006 to March 2007.

| ACCOUNT NUMBER | ACCOUNT DESCRIPTION | ASSETS | LIABILITIES | EQUITY | REVENUE | EXPENSE |
|---|---|---|---|---|---|---|
| | | | | | | |
| 23240 | Parcel Post Payable | | $28,306 | | | |
| 53262 | Parcel Post Transit Charge Expense | | | | | $(28,306) |
| | | | | | | |
| | **TOTAL** | | **$28,306** | | | **$(28,306)** |

### Project Financial System Accrual

To record accrual for PFS payments processed October 1 - 23, 2007, with invoice date of September 30, 2007, or prior.

| ACCOUNT NUMBER | ACCOUNT DESCRIPTION | ASSETS | LIABILITIES | EQUITY | REVENUE | EXPENSE |
|---|---|---|---|---|---|---|
| | | | | | | |
| 16125 | Building-Improvements | $17,213 | | | | |
| 17111 | Land-Purchases | 4 | | | | |
| 54232 | Building Improvement – Alteration -Owned | | | | | $9,438 |
| 23455 | Accounts Pay - Cumulative Project | | $(26,655) | | | |
| | | | | | | |
| | **TOTAL** | **$17,217** | **$(26,655)** | | | **$9,438** |

## APPENDIX C. INTERNATIONAL MAIL RATES

Rates in the international rate tables were not always accurate or supported. Specifically:

- The Parcel Post rate table contained incorrect rates for two countries (Gibraltar and Saudi Arabia). In addition, the IAB could not support the rate for Taiwan.[16]
- The Terminal Dues rate table contained an incorrect rate for two of the four revision mechanism countries (Hong Kong and Ukraine).[17] In addition, for target system countries, the table included CY 2006 rates instead of CY 2007 rates.[18]
- The Express Mail rate table contained incorrect rates for one country (Romania) out of 40 sampled countries. In addition, the IAB could not support the rates for two countries (Grenada and Vanuatu).

The exchange of parcel[19] mail and letter class[20] mail between countries is governed by the UPU and bilateral agreements between FPAs. The UPU establishes Parcel Post and Terminal Dues[21] rates for each country and publishes them annually in the International Bureau Circular.

Terminal Dues rates differ for each letter class mail category. In addition, for the letter post mail category, rates differ between each group of countries, including target system countries, transitional system countries,[22] and revision mechanism countries. For the target countries, part of the rate is determined by the UPU and the other part is determined by FPAs. Express Mail rates are determined by bi-lateral agreements between the Postal Service and FPAs.

Based on UPU circulars and bi-lateral agreements, the IAB at the St. Louis IT/ASC updates the rates in the Parcel Post, Terminal Dues, and Express Mail rate tables in the international web-based application. These files are used to calculate payable amounts for outbound mail, to generate billings to foreign countries for inbound mail, and to calculate the monthly accrual amounts.

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[16] This rate was based on a bi-lateral agreement between foreign postal administrations (FPA).
[17] Revision mechanism countries have a mechanism for revising terminal dues rates. FPAs that meet certain requirements established by the UPU may apply for the revision mechanism to get lower terminal dues rates. The FPA must follow UPU guidelines to determine the new rate.
[18] Target system countries are primarily industrialized countries. For terminal dues purposes, the UPU classified all countries as industrialized or developing based on gross national per capita income. Examples of industrialized countries include France, Germany, and Great Britain.
[19] Parcel mail refers to air and surface parcels, or Parcel Post.
[20] Letter class mail includes letter post and other categories such as International Business Reply Services, printed matter (M-bag), insured mail, and Registered Mail™.
[21] Terminal dues refers to the fee that the destination FPA charges the originated FPA for delivering its *letter class items* from the destination FPA's terminal to the addressee.
[22] Transitional system countries are developing countries. Examples of developing countries include Chile, India, and Indonesia.

At the time of our audit, no specific policies or procedures existed to ensure employees enter or update rates timely; request rate documentation when not on file; or require periodic rate reviews (except for limited review procedures for Parcel Post inbound rates). However, to ensure accurate financial information and correctly stated billings, the rates must be accurate and supported. Further, regarding Terminal Dues, headquarters personnel prepared rate documentation based on incorrect terminal dues rates published by the UPU and distributed it to the IAB to update rates.[23]

When rates are not accurate, the risk that financial information is misstated or billings are incorrect increases.

Based on our audit work, IAB personnel corrected the erroneous rates identified and informally documented high-level desk procedures regarding establishing rates, to include a review process.

[23] For industrialized countries, the UPU published the 'Rate per item' and 'Rate per kilogram', which are used to calculate amounts for letter mail. Headquarters personnel reviewed the UPU document, prepared the rate analysis spreadsheet, and provided it to the IAB personnel to enter into the Terminal Dues rate file.

## APPENDIX D. PARCEL POST PAYABLE ACCRUAL

Internal controls over international Parcel Post accruals needed improvement**.** Specifically, the Postal Service did not always use accurate volumes or rates to calculate Parcel Post payable monthly accruals. The Parcel Post payable accrual calculation included duplicate volume information from July 2006 until March 2007, and rates were incorrect for 101 out of 217 countries and islands.

Although Postal Service policy does not specifically address use of accurate rates and volumes, best practices suggest that management ensure all transactions are completely and accurately recorded.[24]

As noted in Appendix C, the UPU establishes and publishes Parcel Post rates for each country. These rates are subject to change annually. Based on UPU circulars, the St. Louis IAB updates the Parcel Post rate table, which is used to calculate amounts due to and from FPAs. The rate table is also used by the St. Louis IBSSC to generate monthly reports by applying current rates to historical mail volume.[25] Using those reports, the IAB records the accruals, at the country level, into the Settlement Management System, which are eventually posted to the general ledger.

This issue occurred because during the time of conversion to the new web-based application,[26] the IBSSC generated the monthly reports using volume data from both the old and new data files, thereby duplicating volumes. In addition, IAB personnel did not timely update rates in the Parcel Post rate table for CY 2007. As a result, the IAB overstated accruals for international Parcel Post outbound mail by approximately $38.8 million from July 2006 thru March 2007.[27]

During the course of our audit, the IAB updated the CY 2007 rates into the Parcel Post rate table. In addition, the IBSSC corrected the computer program used to generate the monthly reports beginning April 2007. The IAB also recorded an adjustment of $28.3 million in June 2007 to correct the accrual balance in the general ledger. Click here to go to Appendix B. The adjustment amount was less than the overstated accrual amount due to routine settlement activities and related reversals that occurred from April to June 2007. The IAB also created an accrual variance control sheet to review reasonableness of monthly accruals in comparison to previous periods. In addition, they assigned personnel to review and verify the monthly reports and work with IBSSC personnel to resolve any issues.

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[24] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).
[25] Historical volume is volume of the same month from the prior year. Parcel Post outbound volume data includes gross weight and piece count.
[26] Parcel Post outbound volume data used to be stored on a mainframe platform (i.e., a large computer with large databases, generally referring to an International Business Machines (IBM) large-scale computer). In June 2006, these files were moved to the international web-based application.
[27] The incorrect rates may not have contributed to this over-accrual. That $38.8 million represents the net effect of duplicate volumes and rate differences.

## APPENDIX E. HIGHWAY TRANSPORTATION EXTRA TRIPS

Internal controls over payments made to highway transportation contractors for trips in addition to those under contract (extra trips) needed strengthening. Specifically, the current payment process does not include validation from the destination facility. Instead, the originating facility initiates and maintains control of the authorization and certification forms and submits the certification forms directly to the St. Louis IT/ASC for further processing.

Appropriate segregation of duties is achieved when one or more employees or functions acts as a check and balance on the activities of another, such that no one individual has control over conflicting phases of a transaction or activity. Assigning different people responsibility for authorizing transactions, recording transactions, reconciling information and maintaining custody of assets reduces opportunity for any one employee to conceal errors or perpetrate fraud in the normal course of his or her duties.[28]

Postal Service personnel process highway transportation transactions through the TCSS.[29] When administrative officers at origin facilities determine the need for an extra trip, they complete Postal Service (PS) Form 5397, *Contract Route Extra Trip Authorization.* The form, comprised of four copies, is authorized and signed by the postal supervisor at the office of origin and also includes the driver's signature. The office of origin keeps copy 4 for its records. Office of destination personnel complete their portion of the form to validate arrival, retain copy 3 for their files, forward copy 2 to the driver for contractor's records, and forward copy 1 to the administrative official at the office of origin.[30] Each month, administrative officers at the origin facilities summarize these extra trips on PS Form 5429, *Certification of Exceptional Contract Service Performed,* and submit it directly to the St. Louis IT/ASC for payment. The St. Louis IT/ASC personnel rely on this form as verification for the trip and approval for payment. Upon receipt, the St. Louis IT/ASC enters information from the form into TCSS for further payment processing. Based on this process, management believes appropriate segregation of duties exists.

However, although the office of destination retains a copy of PS Form 5397 for their files, it is not required to validate information on PS Form 5429 prior to payment. Therefore, the initiation of extra trips and the approval to process payment for these trips is solely handled by the originating facility.[31]

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[28] The Committee of Sponsoring Organizations (COSO) of the Treadway Commission guidance, *Internal Control over Financial Reporting - Guidance for Smaller Public Companies • Volume II: Guidance*, dated June 2006.
[29] TCSS is an automated procurement contracting system for administering over 17,500 Postal Service highway, rail, air and ocean mail fixed rate transportation contracts at local postal units.
[30] For round trips, office of destination personnel retain copy 3 for their files and give copies 1 and 2 to the contract driver to accompany the mail back to the office of origin. Upon completion of the trip, the driver keeps copy 2 for the contractor's records and forwards copy 1 to the administrative official.
[31] *Highway Contract Route (HCR), Transportation Routes Only, Terms and Conditions*, Issue 4, based on the Postal Service's Supplying Principles and Practices (2006).

When validation from the destination facility is not part of the process, the Postal Service increases its risk of unauthorized, duplicate, or fraudulent payments for extra highway trips.

## APPENDIX F. TRANSPORTATION CONTRACT SUPPORT SYSTEM AND SURFACE AIR MANAGEMENT SYSTEM ACCESS

[redacted] DNO and [redacted] AMC management did not update access to transportation systems in accordance with Postal Service policy. Specifically, five employees formerly at the [redacted] DNO and 13 employees formerly at the [redacted] AMC required revocation of access from TCSS and SAMS, respectively, due to changes in job functions.

Postal Service personnel with access to TCSS at the DNO level can enter, manage, and maintain highway contract payment data, and process query/report management information from that data. Postal Service personnel with access to SAMS can assign, reassign and repossess containers used to transport mail to Federal Express, commercial airlines, United Parcel Service and highway routes; can cancel mail assignment at the "Scan Where You Band;" and can query and report management information from the assignment log.

Postal Service policy[32] requires that all managers ensure access to information resources is immediately revoked for personnel when no longer required because of change in job responsibilities, transfer, or termination. In addition, on a semiannual basis, managers must review access granted to personnel under their supervision to ensure that the access is still required for personnel to perform their duties. Management's prompt notification to security personnel of changes in employee job functions is an important element in protecting Postal Service information resources from unauthorized use, modification, disclosure, or destruction.

This issue occurred because management did not perform a periodic review of access granted to personnel under their supervision. As a result, sensitive Postal Service computer resources were at risk of accidental or unauthorized use, modification, or disclosure. Specifically, the integrity of highway contract route and air transportation payments were jeopardized.

We brought these issues to management's attention, and they promptly revoked access as appropriate.

[32] Postal Service Handbook AS-805, *Information Security*, Section 9-4.2.7 – Revoking Access, March 2002 (updated with *Postal Bulletin* revisions through November 28, 2006).

## APPENDIX G. TRAVEL EXPENSE CLAIMS

Postal Service employees did not always accurately complete their expense reports in the eTravel system. Specifically, from our judgmental sample of 80 approved expense reports in eTravel, we identified 10 errors on nine expense reports as follows:

- Seven errors on six reports were for incorrect expense amounts claimed for hotel, telephone, and per diem expenses, totaling approximately $282.
- One error on one report was for incorrectly claiming driving expense instead of airline expense as the lower expense. The difference between driving and flying was $133.
- Two errors on two reports were for missing receipts, one for a hotel expense and one for a cash advance fee greater than $50.[33]

Postal Service employees on official business travel file expense claims using the eTravel system. The eTravel system automates all phases of expense reporting, including submission, approval, cost tracking, verification, and payment. After employees create an expense report in eTravel, the local approving official reviews and approves the report in eTravel. The employees send a hardcopy of the summary expense report to the St. Louis ASC along with required receipts. The St. Louis ASC scans the barcode on all hardcopy eTravel summary expense reports into the eTravel system and also reviews certain reports for accuracy and completeness. The system automatically sends the approved report to the accounts payable system for employee reimbursement.

Postal Service Handbook F-15, *Travel and Relocation*, outlines travel reimbursement requirements for Postal Service employees on official business travel, including:

- When traveling from an average-cost area to a high-cost area or vice versa, the per diem rate for the entire day becomes that of the final destination for the day.
- On the first day of the trip, employees are reimbursed 75 percent of daily per diem rate of the destination.
- If travel arrangements do not seem advantageous to the Postal Service — such as using a privately owned vehicle only as a personal convenience — employees must submit a cost comparison on the expense report and are reimbursed the lesser amount.
- Receipts are required if the cost exceeds $50.

These errors occurred because Postal Service employees did not always follow Postal Service policies, and local officials approved eTravel expense claims in error. As a result, Postal Service employees were reimbursed for incorrect travel expense claims and the eTravel expense account was overstated by $415.

[33] A fee of $62.50 was charged for a large cash advance used to pay for monthly rental expense while on extended travel detail.

As a result of our audit, management explained overpayments to approving officials and requested they obtain reimbursement from affected employees.

## APPENDIX H. CONTRACT POSTAL UNIT PAYMENTS

Postal Service personnel did not always terminate CPU firm-fixed price contract payments upon conversion to performance-based contracts.

A CPU is a supplier-owned or supplier-leased site under contract to the Postal Service to provide postal services to the public. CPUs are usually located in retail stores or other places of business and accept mail from the public, sell postage and Postal Service supplies, and provide other selected services. There are over 4,100 active CPUs nationwide operating under either firm-fixed price or performance-based contracts.[34] District retail offices prepare a CPU request package to establish CPUs based on contract type. Contract types include firm-fixed price contracts, whereby CPU suppliers receive a fixed monthly amount for services provided, and performance-based contracts, whereby suppliers are paid monthly based on a percentage of sales. Since headquarters' goal is to move toward performance-based contracts where it makes good business sense, district retail offices are working with CPU suppliers to convert firm-fixed contracts to performance-based contracts. Upon receipt from the district retail offices, the Denver CMC reviews and enters new CPU contracts, contract modifications, and contract conversions into the Contract Postal Unit Technology (CPUT) system. CPUT provides a file for automatic monthly payment to CPU suppliers.

This issue occurred because district retail offices did not timely notify the CMC of the actual start date of the contract conversions. The Postal Service did not have written policies and procedures to require timely notification of contract conversions. As a result, two CPU suppliers received automatic payments for both contracts: one supplier for 6 months and the other for 2 months, totaling $6,644.

During the course of our audit, the Postal Service canceled automatic payment on the fixed price contracts and initiated action to collect the duplicate payments. We will report the duplicate payments of $6,644 as monetary impact, recoverable questioned costs, in our *Semiannual Report to Congress* as shown:

[34] The Postal Service paid approximately $79.1 million to CPU suppliers in FY 2007.

## RECOVERABLE QUESTIONED COSTS

| CPU | Calculation[35] | Amount | Total |
|---|---|---|---|
| 1 | January 2007 (Prorated) | $742 | |
| | February through June 2007 (5 months X $1,000) | $5,000 | |
| | Subtotal | | $5,742 |
| 2 | May 2007 (Prorated) | $307 | |
| | June 2007 | $595 | |
| | Subtotal | | 902 |
| | | | |
| | **TOTAL** | | **$6,644** |

[35] Pro-rated amount was provided by Denver CMC.

## APPENDIX I. PARTIAL LAND SALES

Postal Service personnel did not always accurately record partial land sales. Specifically, in two instances, St. Louis IT/ASC personnel removed the entire dollar amount of the land from the general ledger inventory account[36] rather than the dollar amount of the portion sold.[37]

Facilities Service Office (FSO) personnel are responsible for identifying the need for and initiating disposal action on excess property. When FSO personnel accept a purchase offer, they provide written notification to the St. Louis IT/ASC. Upon property closing, they immediately forward the balance of the sales proceeds to the St. Louis GAB, which makes the appropriate accounting entries in the general ledger. Postal Service policy[38] requires the St. Louis IT/ASC to remove the partial land cost from inventory upon closing of the sale.

This occurred because of an inadvertent error by St. Louis IT/ASC personnel. In addition, there was no evidence of oversight by management. As a result, the general ledger land account and the gain on the land sale were understated by $886,016. Based on our audit, St. Louis GAB personnel prepared adjusting journal entries in July 2007. In addition, the Postal Service plans to implement an additional review by St. Louis IT/ASC personnel for routine sales, and by headquarters personnel for more complex sales.

[36] Account 17111 – USPS Owned Land.
[37] Original land values for the Cameron, Missouri, and Nashville, Tennessee, facilities were $489,197 and $686,058 respectively. Rather than a zero balance, the adjusted land values after the partial sale should have been $394,239 and $491,777.
[38] Handbook F-25, *Real Property and Leasehold Improvement Accounting*, dated November 1990.

# APPENDIX J. LEASEHOLD IMPROVEMENT AMORTIZATION

Postal Service personnel did not always timely resolve leasehold improvement project exceptions. Twenty-four of 53 exceptions[39] we examined on the October 2006 *Leasehold Amortization Calculation Exception List* remained on the September 2007 exception list.[40]

The Postal Service incurs leasehold improvement costs in order to provide additional space or upgrade existing space in leased facilities. Leasehold improvements refer to costs other than normal maintenance and repair expense. Leasehold improvements costing $5,000 or more are eligible to be capitalized. St. Louis IT/ASC personnel process journal vouchers to capitalize leasehold improvements. The *Leasehold Amortization Calculation Exception List* monthly report shows all current leasehold improvement projects that meet the $5,000 threshold but were not capitalized, and provides the reason for the exception. According to St. Louis ASC personnel, Postal Service Facilities Headquarters personnel are responsible for resolving exceptions to make leasehold improvements eligible for capitalization.

The Postal Service does not have any policies and procedures in place to timely resolve leasehold improvement project exceptions. However, Handbook F-20, *General Ledger Accounting and Financial Reporting System*, requires the Postal Service to devise a system of internal controls that will ensure the production of properly presented financial statements. Further, management advised Facilities headquarters personnel were not adequately trained on resolving exceptions or had higher priority projects. As a result, leasehold improvements on the exception list were not capitalized timely, and leasehold amounts were not reported correctly in the general ledger.

[39] We could not assess the overall value for these 24 leasehold improvements since this information was not available on the *Leasehold Amortization Calculation Exception List*.
[40] Two additional exceptions remained through June 2007 but were resolved prior to September 2007.

# APPENDIX K. INTERIM FINDINGS

During our audit, we identified and reported the following three issues to management through interim reports.

## Manual Transportation Payments

Although manual transportation payments were accurately recorded, they were not always properly supported, approved, or authorized prior to payment.[41] Specifically, Transportation Portfolio CMC personnel did not always enter adequate documentation into the Logistics Contract Management Systems (LCMS) to support manual transportation payments. Further, Transportation Portfolio personnel approved — and St. Louis ASC personnel authorized and released — manual transportation payments without ensuring the documentation in LCMS supported the payments. 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) without ensuring that adequate supporting documentation existed.

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.

## FY 2007 Peak Season (Christmas 2006) Fuel

Postal Service personnel could not determine whether payments represented the actual costs associated with the transportation of FY 2007 peak season (Christmas 2006) mail.[42] Specifically, they did not properly validate peak season (Christmas 2006) fuel invoices or perform post-season reconciliations of those fuel payments. As a result, the Postal Service paid fuel costs totaling over $22 million when actual fuel costs may have been less. Management agreed the peak season jet fuel invoicing process could be improved by enhancing payment-related documentation and implemented a process change for FY 2008 contracts to require fuel suppliers and air carriers provide supporting documentation to validate invoices.

[41] *Manual Transportation Payments* (Report Number FT-AR-08-01, dated November 15, 2007).
[42] *Fiscal Year 2007 Peak Season (Christmas 2006) Fuel* (Report Number FT-AR-08-003, dated December 14, 2007).

## New York International Service Center – Inbound International Mail

Volume data used to bill FPAs for inbound air Parcel Post mail at the New York ISC was accurate. However, volume data used to bill FPAs for inbound Express Mail and letter class service was not always accurate.[43] As a result, we calculated that the Postal Service underbilled foreign countries $3,425,151. In addition, if this issue had gone undetected, we project that underbillings would have been $10,275,453 over a 2-year period. Management agreed with all of our recommendations and plans to implement or enhance several controls to ensure volume data used to bill FPAs for inbound Express Mail and letter class service mail is accurate. These controls include establishing policies and procedures for processing and billing inbound international mail and modifying the system used to prepare inbound Express Mail data for billing.

[43] *New York International Service Center – Inbound International Mail* (Report Number FT-AR-08-005, dated January 24, 2008).

## APPENDIX L. MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

UNITED STATES
POSTAL SERVICE

March 28, 2008

Johnson John (Acting)
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Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Fiscal Year 2007 Postal Service Financial Statements Audit St Louis Information Technology and Accounting Service Center (Report Number FT-AR-08-DRAFT)

This provides Postal management's response to the subject audit report. We appreciate the opportunity to review and provide comments.

The following addresses the specific recommendations to the Controller:

Recommendation #1
Direct the Manager, International Accounting Branch, to implement and communicate complete written policies and procedures to require employees to enter and update rates timely, to obtain support for rates as necessary, and periodically verify international rates.

Management Response
Management agrees with this recommendation. The Manager, International Accounting Branch (IAB) has implemented the following controls. The International Accounting Branch maintains a log to ensure all sequentially numbered Universal Postal Union (UPU) Circulars, including those with rate changes are received and acted upon. The Control Group logs the circular and passes it to the applicable group (i.e., Parcel Post, Terminal Dues, or Settlement) leader.

In the case of bilateral agreements, however, the IAB is dependent upon receiving the negotiated rates from International Postal Affairs (IPA) at United States Postal Service Headquarters (HQ). There is no uniform frequency of rate changes that can be used as a preventative control to ensure all rate changes are received. However, there is a detective control. Rate discrepancies discovered during the billing and settlement processes trigger inquiries to IPA, which responds with updated rate information, when applicable.

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All rate changes regardless of source are entered by the Control Group into a log. Detailed desk procedures have been developed and implemented that outline the steps required for entering and verifying entry of the new rates. The employee entering the new rates will be required to date and initial the log. The verification process requires review and comparison of the entered date to the source documentation and log entries (date and initials) by the group leader, supervisor, and systems accountant. In addition to verification of rates after entry, another review (annual, parcel post quarterly, periodic) is also conducted and recorded in the log.

Recommendation #4
Reiterate to the Manager, General Accounting Branch, and applicable personnel the requirement to remove only the partial land cost from inventory upon closing partial sales.

Management Response
Refer to response for recommendation #5, the responses are linked.

Recommendation #5
Implement a procedure requiring periodic reviews to ensure proper processing of routine property sales.

Response
Management agrees with this recommendation. As noted in the audit report, the entire value of the land, rather than only the portion applicable to the partial land sale, was removed inadvertently through human error. The Manager, General Accounting Branch (GAB) has instituted procedures requiring the employee entering the real estate transactions to clear all entries with the systems accountant prior to entry. In addition, communication between HQ Facilities, HQ Accounting Policy, and the Accounting Service Center (ASC) has improved, resulting in more detailed information flowing to the ASC (i.e. contracts, other supporting documentation, etc.) to facilitate proper accounting. The accounting for more complex, non-standard real estate transactions is discussed by the systems accountant with HQ Accounting Policy prior to any entries to the general ledger.

The monthly review process has also been enhanced. Improvements have been made to a monthly report prepared by the systems accountant and provided to HQ Accounting Policy. It accounts for all real estate transactions. It shows the reconciliation of the accounts into which sales proceeds are deposited (escrowed) as well as the gain and/or loss on sales account.

Recommendation #6
We recommend the Manager, St. Louis Accounting Service Center direct the branch managers to reiterate year-end closing instruction requirements and verify all items are completed timely.

Response
Management agrees with the recommendation, and in part, with the audit comment as written. Due to the inability to identify the entire amount of the Project Financial System (PFS) unrecorded liability by the date of the preliminary (soft) closing date, our practice at fiscal year-end is to record a limited accrual by that date. We then track additional payments in October that apply to September services, so that an additional accrual may be recorded before the final (hard) closing date. This dual close is now applicable to the quarter closings in fiscal year 2008. However, the preliminary accrual is of no consequence to the final financial statements, the final accrual is. Furthermore, the additional accrual is typically the greater portion of a dual accrual. For example, of the $18.9M December 2008 accrual, $6.3M was the preliminary amount recorded. Although management believes the audit report recommendation for adherence to closing instructions is valid, the amount of the unrecorded liability, $26.7M, which represents the final accrual, is much greater than the preliminary would have been. Based on the available data at the time, that accrual would have been closer to $8M.

Branch managers have been instructed to adhere to closing schedules and instructions. To ensure all required information is entered into the accounting records in a timely manner, the branches recently developed more detailed closing checklists tailored to their accounting operations. Specifically, with regard to the PFS accrual, the Manager, General Accounting Branch will ensure that the preliminary amount is recorded per the closing schedule.

This report contains no FOIA exempt information.

Lynn Malcolm

Lynn Malcolm

cc: Katherine S. Banks
Jo Ann Mitchell
Edward L. Brown
Stephen J. Nickerson

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

UNITED STATES POSTAL SERVICE

March 28, 2008

JOHN E. CIHOTA

SUBJECT: Draft Audit Report – Fiscal Year 2007 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center (Report Number FT-AR-08-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. This memorandum is in response to recommendations 2 and 3 of the subject draft report that were directed to Supply Management.

Recommendation 2: Direct the Manager, Transportation Portfolio, to modify policies and procedures to include the destination facility validation in the highway extra trips payment process.

Response: We agree with the intent of the recommendation to strengthen our existing policies and procedures for the highway extra trips payment process. However, even though the destination facility does not verify Form 5429 used for certification and payment, we want to point out that the controls currently in place include the requirement of the destination facility to complete their portion of Form 5397 which is used by the originating facility or administrative official in preparing Form 5429. Supply Management will be involved in the Postal Service's efforts to comply with the Sarbanes-Oxley Act and, as a result, this payment process will be reviewed to ensure that sufficient control mechanisms for accountability are in place. We anticipate that related actions will be completed during fiscal year 2009.

Recommendation 3:

Establish written policies and procedures to ensure timely notification to the Denver Category Management Center (CMC) of converted Contract Postal Unit (CPU) contracts.

Response:

We agree that the $6,644 duplicate payment finding to be reported in the *Semiannual Report to Congress* is accurate and, as stated in the report, have initiated action to collect the duplicate payment. The Denver CMC is aware and has identified situations when a duplicate payment could arise within the Contract Postal Unit Technology (CPUT) system. Written policies and a manual process are currently in place that, in almost all situations, detects duplicate payments within a 2-month period. In order to augment this process, we will request to have a report created in the CPUT system that will list any CPU that has two invoices generated in the same month for the same contract number. This report will be reviewed monthly by the Denver CMC to verify that the invoices are legitimate. If the invoice is a duplicate, the Area Retail Manager will be notified and a negative adjustment completed. Target completion to establish this report is 90 days from the OIG's final report issuance.

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We are also in agreement to establish additional written policies and procedures to ensure timely notification of converted CPU contracts. After reviewing the current policies and procedures, we will initiate and communicate the following enhancements:

1. The Contracting Officer Representative Letter will be updated to include that the Denver CMC must be notified of the operational start date of the CPU. Target completion is 60 days from the final report issuance.

2. Currently, the district Retail Specialist sends out a CPU Opening Announcement Letter to seven Postal Service entities when a CPU is about to become operational. We will request to be added to this distribution list. Target completion is 60 days from the final report issuance.

This portion of the report does not contain any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

Susan M. Brownell

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UNITED STATES
POSTAL SERVICE

March 19, 2008

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SUBJECT: Draft Audit Report – Fiscal Year 2007 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center (Report Number FT-AR-08-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Recommendation 7 : Develop and communicate policies to require appropriate personnel review and clear the Leasehold Amortization Calculation Exception Lists report.

Management Response. Management agrees in part to develop and communicate policies in regards to the review and resolution of any issues on the Leasehold Amortization Calculation Exception List Report that are our responsibility. The appropriate personnel at Facilities Headquarters will review the report monthly and clear any outstanding issues that are relevant to Facilities. Facilities Headquarters is working with the St. Louis ASC to clarify the meaning for each of the six (6) exception messages. It appears that Facilities Headquarters and St. Louis Accounting Service Center each have responsibility for three (3) exception messages. We will continue to work with St. Louis ASC and the OIG to ensure that those items listed on the report are resolved to ensure that the leasehold improvements are capitalized in a timely manner.

We plan to meet with St. Louis ASC in the next few weeks to better define and review roles and responsibilities for each department.

Recommendation 8: Train responsible personnel on resolving leasehold amortization exceptions.

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Management Response. Management agrees in part to train Headquarters personnel on resolving the leasehold amortization exceptions. There are currently sixty-one (61) facilities with errors on the January 2008 report. Facilities Headquarters is responsible for thirty-two (32) and the St. Louis ASC is responsible for twenty-nine (29). Due to the relatively small number of problems, this training will be limited to Headquarters Facilities personnel.

We plan to develop a training document after our meeting with the St. Louis ASC in the next few weeks.

We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act.

Tom A. Samra