



February 8, 2008

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Fiscal Year 2007 Postal Service Financial Statement Audits –
Control Issues (Report Number FT-WP-08-001)

The purpose of this letter is to present control issues identified during our fiscal year (FY) 2007 financial statement audit work that were not material in relation to the financial statements (Project Number 07BM003FT001). Although we did not include these issues in our overall financial statement audit reports, we are presenting them to management to enhance further the Postal Service's ongoing Sarbanes–Oxley Act (SOX) compliance efforts.¹

Specifically, we identified the following:

- **One-time Delegation of Contracting Authority Letter Not Available.** Personnel at Headquarters Facilities and the Great Lakes Facilities Service Office (FSO) were unable to locate a one-time delegation of authority letter for a contracting officer (CO) to administer a lease above his contracting authority level. On April 13, 1999, the CO signed the lease agreement for the Chicago J.T. Weeker International Service Center for a 10-year period, beginning January 21, 2000, and ending January 20, 2010. The lease has graduated rentals (annual rent over \$2 million) totaling \$22,929,759. The CO had a Level III Contracting Authority² limit at the time the contract was signed, so the annual rent and total cost over the base term of this lease exceeded the CO's authority. This was the only exception from our sample of 132 leases reviewed.
- **FSOs Did Not Always Have Segregation of Duties for Project Payments.** We found 12 project payments over \$100,000 made before the implementation of e-Facilities Management System (eFMS)³ where the creator and approver of the payment were the same individual. FSO personnel stated that it was not until implementation of eFMS that they became aware that the same individual inputting

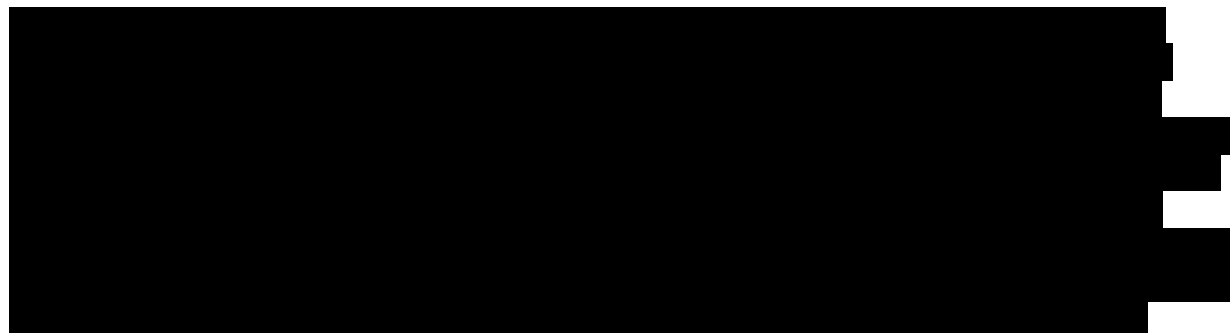
¹ SOX was enacted in calendar year 2002 and is administered by the Securities and Exchange Commission to improve confidence in financial reporting through increased corporate governance and reduce fraudulent practices and accounting inconsistencies. The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with section 404 of SOX. Specifically, management must state its responsibility for establishing and maintaining an adequate internal control structure and make an assertion on the effectiveness of the internal control structure.

² Contracting for real estate leasing at Level III allows the CO to administer real estate contracts up to \$500,000 per year, but not to exceed \$5,000,000 over the base term.

³ eFMS is a web-based electronic system used for processing information on real and leasehold property.

and approving payments over \$100,000 violated Postal Service policy. With the implementation of eFMS, edit checks were put in place that do not allow the same individual to create and approve payments over \$100,000. We did not find any exceptions after eFMS implementation.

- **FSO Disposal Memorandum Not Always Timely.** For eight of 18 disposal transactions we reviewed, more than 1 month elapsed from the date the Postal Service received the check or wire transfer from the purchaser of the property to the date the FSO sent the disposal memorandum to the St. Louis Information Technology and Accounting Service Center (IT/ASC) for processing. Property may be overstated in the accounting records when disposals are not timely processed.
- **Payroll Calculation Review not Completely Documented.** The payroll calculation review team⁴ at the Eagan Accounting Service Center (ASC) did not completely document its tests of individual employee payroll calculations to provide adequate assurance of payroll processing reliability. Specifically, we did not find any evidence of review of payroll calculation groups 80 and 81 (rural employees), the last groups to be processed, for payroll period 06, calendar year 2007.⁵ When payroll calculation testing is not adequate, payroll errors could go undetected. Eagan ASC payroll management issued additional guidance to the payroll calculation review team in March. Documentation of payroll calculation testing was adequate in all the subsequent payroll periods we reviewed.
- **Cash Not Immediately Recorded.** Employees at the Eagan ASC Disbursing Branch did not always immediately record cash received, as required by procedures. We found a minimal⁶ amount of cash secured in the disbursing branch's vault that was not recorded on Postal Service Form 3544, USPS Receipt for Money or Services Received. Disbursing Branch management attributed the oversight to staffing issues, and employees felt it was not necessary to record cash immediately when amounts are small. We did not identify any issues during subsequent reviews.



⁴ The payroll calculation review team performs analysis and payroll recalculations to determine reliability of payroll.

⁵ Pay period 06, calendar 2007, covered March 3-16, 2007.

⁶ U.S. Postal Service Office of Inspector General auditors did not count cash stored in the vault. However, we observed loose change.

[REDACTED]

As stated previously, we are providing this information to help in the Postal Service's efforts to comply with certain provisions of SOX. Consequently, we are not making any recommendations at this time.

We discussed our observations with management officials on January 24, 2008, and included their comments where appropriate. This report does not contain recommendations and as such, management chose not to provide a written response to our report.

If you have questions or need additional information, please contact Lorie Nelson, Director, Financial Reporting, or me at (703) 248-2100.



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