



January 20, 2009

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Management Advisory – Fiscal Year 2008 Postal Service Financial Statement Audits – Control Issues (Report Number FT-MA-09-002)

The purpose of this report is to present control issues identified during our fiscal year (FY) 2008 financial statement audit work that were not material in relation to the financial statements (Project Number 08BM001FT004). Although we did not include these issues in our overall financial statement audit reports, we are presenting them to management to further enhance the Postal Service's control environment and ongoing Sarbanes-Oxley Act (SOX) compliance efforts.¹

Specifically, we identified the following.

- **Service Level Agreement (SLA).** Accounting Services did not post the FY 2008 SLA and accompanying performance metrics in a timely manner and did not incorporate important performance measures included in the FY 2007 SLA. Specifically, the FY 2008 SLA and metrics were posted in the second quarter² and did not cover stamp stock accountability and Accounting Help Desk call answer time. Measures such as these support the annual performance plan by linking them with ongoing operations. Postal Service procedures require timely update and posting of the current fiscal year SLA and metrics to ensure critical performance measurements are understood and visible at the local level.³ Without timely communication of performance measures and weekly metrics for key activities, Accounting Services could not fully determine the effectiveness of its internal customer service.
- **Contracting Officer Delegation of Authority.** Personnel at Facilities Headquarters and at the Eastern and Western Facilities Service Offices (FSO) were unable to locate delegation of authority letters for two contracting officers who approved and

¹ The U.S. Congress enacted SOX legislation in calendar year 2002 to strengthen public confidence in the accuracy and reliability of financial reporting. The Postal Accountability and Enhancement Act of 2006 mandates the Postal Service comply with Section 404 of SOX, which requires management to state its responsibility for establishing and maintaining an adequate internal control structure and make an assertion on the effectiveness of the internal control structure over financial reporting.

² We reported this same issue for FYs 2005 and 2006 in our audit report *Service Level Agreements* (Report Number FT-AR-07-001, dated November 2, 2006).

³ *Accounting Services and Area Accounting Manager Process for Service Level Agreements* document prepared by Accounting Center Support, dated October 3, 2006.

administered leases. Postal Service policy⁴ permits the Vice President, Facilities, to delegate, in writing, all authorities. Under this process, the individual receives a written letter of delegation with a Contracting Officer Certificate of Appointment signed by the Vice President. Management at these offices was unable to locate the delegation of authority letters or other supporting documentation. As a result, the leases these individuals signed could be invalid. These were the only two exceptions from our sample of 75 leases reviewed. Management advised they reviewed their files and all real estate specialists now have written letters of delegation on file.⁵

- **Project Financial System (PFS) Segregation of Duties.** In March 2008, a contracting officer in the Southeast FSO created and later approved the same PFS project payment for \$244,046. This occurred because an automated application control in the PFS was not designed correctly and, contrary to Postal Service policy,⁶ allowed the same person to both create and approve a payment. When proper segregation of duties does not exist, the Postal Service increases its risk of unauthorized or fraudulent payments. As a result of our audit, management corrected the programming error in July 2008. We will report \$244,046 of monetary impact, unrecoverable unsupported questioned costs,⁷ in our *Semiannual Report to Congress*.
- **FY 2005 [REDACTED] Terminal Dues Account.** The Postal Service did not correctly bill [REDACTED] for FY 2005 terminal dues.⁸ This occurred because an International Accounting Branch clerk made several incorrect entries in the Settlement Management System (SMS). As a result, [REDACTED] underpaid the Postal Service by \$53,475 for the period. When brought to the clerk's attention, she immediately took action to verify the amounts and then added the unbilled amount back into SMS for inclusion in the next billing statement. We will report \$53,475 of monetary impact, recoverable revenue loss,⁹ in our *Semiannual Report to Congress*.
- **Miscellaneous Receipt Procedures.** Some [REDACTED] Accounting Service Center (ASC) personnel who were assigned mailroom responsibilities mailed checks to the Eagan ASC without using Postal Service Form 1904, Batch Ticket for Remittance Received, or did not use a check receipt log as required by ASC accounting

⁴ *Implementing RE-1 in Postal Real Estate Actions*, Chapter 2 - Contracting Authority, dated June 2008, with revisions through November 2008.

⁵ These two contracting officers no longer work for the Postal Service, so delegation of authority letters were not created for them.

⁶ A letter to Facilities managers, dated May 31, 2005, from the Vice President, Facilities, requires all contract transactions in excess of \$100,000 to be prepared by a person other than the contracting officer who will be executing the contract transaction. Contract transactions include contracts, modifications, work orders, and terminations.

⁷ An unsupported questioned cost is an unrecoverable cost that is unnecessary, unreasonable, or an alleged violation of law, regulation, etcetera. This cost is also not supported by adequate documentation.

⁸ Terminal dues refers to the fee the destination Foreign Postal Administration (FPA) charges the originating FPA for delivery from the destination FPA's terminal to the addressee.

⁹ Recoverable revenue loss is revenue that can be collected for goods delivered or services rendered.

guidelines and local written procedures. In addition, written procedures for a portion of the mailroom operation regarding cash receipt reconciliations did not exist. While ASC¹⁰ guidelines and best practices¹¹ emphasize the importance of performing reconciliations and documenting reconciliation procedures, ASC personnel did not understand the underlying reason for the procedures or the importance of reconciliation practices. When ASC employees do not follow procedures, including performing frequent reconciliations of cash receipts, the Postal Service's risk of theft or misuse of resources increases. Also, evidence of reconciliation is critical to providing reasonable assurance that adequate funds are available to meet payment obligations and excess funds are properly invested. Our subsequent follow-up with ASC personnel showed that the cash receipts log is being maintained and reconciliations are performed. Additionally, at the time of this report, St. Louis ASC personnel were in the process of developing desk procedures for those areas of the ASC mailroom that did not previously have them.

- **Field Payroll Adjustment Documentation.** Management at an Oakland, CA, facility could not provide supporting documentation for a payroll adjustment processed for pay period 2 in FY 2008, as required by Postal Service procedures.¹² The field supervisor could not explain why he did not retain the supporting documentation. Properly documenting and retaining payroll adjusting activity helps management achieve an internal control structure that serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. As a result of our inquiries, management provided a copy of the corresponding AdjustPay system screen print and certified in writing that it was accurate.

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

Management's Comments

Management agreed with five of the six issues and implemented actions or processes to address them. They did not agree that this report should address SLAs, as they believe they are performance measures, not controls. They added that it was far more important to agree with their customers on how to measure service performance rather than to have the SLA in place on the first day of FY 2008. Management did not have any issue with the monetary impact. See the [appendix](#) for management's comments, in their entirety.

¹⁰ Handbook F-20A, *Accounting Service Center Accounting Guidelines*, dated May 1999, with updates through October 10, 2001.

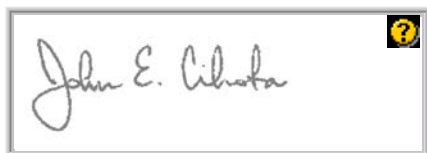
¹¹ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1, dated November 1999.

¹² *AdjustPay Requirements Document*, page 2, revised May 1, 2008.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the issues presented in the report. We will report \$297,521 of monetary impact in our *Semiannual Report to Congress*. While we agree the SLAs are performance measures, we continue to believe they serve as controls at an entity level to ensure Accounting Services provides an effective level of service to its customers. However, we do not plan to elevate the issue, but will continue to monitor this as part of our ongoing financial statement audits.

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 square icon with a question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachment

cc: H. Glen Walker
Vincent H. DeVito, Jr.
Jo Ann E. Mitchell
Stephen J. Nickerson
Edward L. Brown
Katherine S. Banks

APPENDIX: MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER



January 9, 2009

LUCINE M. WILLIS

SUBJECT: Transmittal of Draft Management Advisory – Fiscal Year 2008 Postal Service
Financial Statements Audit – Control Issues (Report Number FT-MA-09- DRAFT)

This provides Postal management's response to the subject audit report. We appreciate the opportunity to review and provide comments. We have no issue with either the monetary impact or the Freedom of Information Act disclosure.

Service Level Agreement

We do not agree that the Service Level Agreement (SLA) should be addressed in a control issues audit, it is a performance measurement, not a control. Having said that, the Accounting Services SLA is an agreement between Accounting Services and its internal customers. As business conditions change, we utilize the opportunity to renegotiate the SLA within a given fiscal year. During negotiations with our customers, we learned that a number of the performance metrics contained in our fiscal year (FY) 2007 SLA were not important to our customers' core business. We agreed to remove those metrics in FY2008. Additionally, some performance measures that were consistently at or near 100 percent of target were removed because they did not provide meaningful information. Posting of the SLA was delayed due to extended negotiations between Accounting Services management and its customers. We made the decision that it was far more important to achieve agreement with our customers on how to measure the performance on the services we provide them, rather than have the SLA in place on the first day of FY2008.

Since we continue to internally track performance over and above what we report externally, we disagree that Accounting Services could not determine the effectiveness of its customer service.

Contracting Officer Delegation of Authority

From Facilities: The individuals that were reported in the audit are no longer United States Postal Service employees. In both cases, these delegations were issued more than 10 years ago. The current policy is to keep a copy in headquarters of all delegation letters and send one copy to the individual for which the delegation is issued and another to the Facilities Service Office (FSO) Manager for filing within that office. A listing of all current Real Estate Contracting Officers, by office, is maintained in headquarters. This list has been checked against all letters on file to ensure there is a matching letter for each individual listed. Also, this list will be sent to each FSO twice a year to verify accuracy. Once verified, the list will be again checked against letters on file to ensure they are consistent. We feel this process will provide the oversight necessary to ensure there are no future discrepancies.

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- 2 -

Project Financial System Segregation of Duties

From Facilities: The policy restricting the same person from both creating and approving the same financial commitment or payment greater than \$100,000 has been in effect for several years. However, until several months ago, there were no edit checks within the eFMS application to ensure adherence to this policy. This has been resolved. An enhancement to the eFMS program was implemented in production in July 2008, which no longer allows the same user to both create and approve a commitment or payment financial transaction over \$100,000. This now provides additional checks and balances within the application to ensure compliance with the existing policy.

FY2005 [REDACTED] Terminal Dues Account

When this issue was discovered, new procedures were put in place. A service talk was held with all employees to emphasize the need for thorough verification. In addition, the group leader now verifies all accounts and initials as evidence of the review. The supervisor also reviews and initials as documentation.

Miscellaneous Receipt Procedures

To address this issue, procedures were developed in August and shared with all mailroom and accounting and control specialist employees. All employees were briefed on the updated desk procedures which include the information necessary on the log, proper use of the Form 1904, and reconciliation of the form. The procedures are followed by all employees who handle checks in all branches.

Field Payroll Adjustment Documentation

We had already reminded the Time and Attendance Collection System managers of the documentation and retention policy in an email dated October 27, 2008, titled Payroll Related Document Retention.


Lynn Malcolm

cc: Katherine S. Banks
Stephen J. Nickerson
Vincent H. DeVito, Jr.
Jo Ann Mitchell