



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

**Opinion on the Postal Service's
Special-Purpose Financial
Statements**

Audit Report

November 16, 2012

Report Number FT-AR-13-003



November 16, 2012

MEMORANDUM FOR: KARIN DASUKI
DIRECTOR, FINANCIAL AND BUDGET REPORTS
U.S. DEPARTMENT OF THE TREASURY

DAWN SIMPSON
U.S. GOVERNMENT ACCOUNTABILITY OFFICE

REGINA KEARNEY
OFFICE OF MANAGEMENT AND BUDGET

David Williams
FROM: DAVID C. WILLIAMS
INSPECTOR GENERAL

SUBJECT: Audit Report – Opinion on the Postal Service’s
Special-Purpose Financial Statements

Attached is a copy of the report on our audit of the U.S. Postal Service’s special-purpose closing package. The objective of the audit was to express an opinion as to whether the special-purpose financial statements present fairly, in all material respects, the financial position and results of the Postal Service as of and for the fiscal years ending September 30, 2012, and September 30, 2011, and the related reclassified statements of net cost and changes in net position (referred to as special-purpose financial statements).

The special-purpose financial statements and notes were prepared by the Postal Service for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Postal Service’s financial statements. In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Postal Service as of September 30, 2012, and September 30, 2011, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the U.S. and the presentation pursuant to the requirements prescribed in *Treasury Financial Manual*, Chapter 4700.

If you have any questions, please contact Mark W. Duda, assistant inspector general for audit, or me at 703-248-2100.

Enclosures

cc: Joseph Corbett
Julie S. Moore
Timothy F. O'Reilly
Jack L. Meyer
Corporate Audit and Response Management



November 16, 2012

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE
VICE PRESIDENT

David Williams

FROM: DAVID C. WILLIAMS
INSPECTOR GENERAL

SUBJECT: Audit Report – Opinion on the Postal Service’s
Special-Purpose Financial Statements
(Report Number FT-AR-13-003)

We have audited the accompanying reclassified balance sheet as of September 30, 2012, and September 30, 2011, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the Postal Service (Project Number 12BM006FT000). These special-purpose financial statements are the responsibility of Postal Service management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the comptroller general of the U.S.; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

of complying with the requirements of the *U.S. Department of the Treasury's Financial Manual* (TFM) Volume I, Part 2, Chapter 4700, as described in Note X, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Postal Service's financial statements.

In our opinion, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of the Postal Service as of September 30, 2012, and September 30, 2011, and its net costs and changes in net position for the year then ended, in conformity with accounting principles generally accepted in the U.S. and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in the Postal Service's financial statements. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, as amended, another auditor issued reports dated November 15, 2012, and November 15, 2011, on its consideration of the Postal Service's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, as amended, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered the Postal Service's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including the Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination

of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements in relation to the special-purpose financial statements being audited will not be prevented, or detected, and corrected on a timely basis.

As discussed in the Postal Service's independent public accounting firm's *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 15, 2012, the firm identified two deficiencies in internal control over financial reporting, which they considered to be significant and two instances of noncompliance with laws and regulations:

- One deficiency related to the PostalOne! System change management process, which management remediated as of September 30, 2012, and one deficiency related to the revenue, pieces, and weights process, which was not remediated as of September 30, 2012, and is currently undergoing remediation.
- One instance of noncompliance related to the suspension of the Postal Service's obligation to the Federal Employee Retirement System. Postal Service resumed the obligation and repaid the amounts previously suspended, which rectified the noncompliance before September 30, 2012. The other instance involved the default on two required prefunding payments to the Postal Service Retiree Health Benefit fund totaling \$11.1 billion during fiscal year (FY) 2012. The Postal Service defaulted on its payments due to insufficient cash resources and hopes legislation will be enacted to significantly reduce or eliminate the required payments.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements that are required to be reported under U.S. Government Auditing Standards and OMB Bulletin No. 07-04, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

In its unqualified opinion on the FY 2012 financial statements, another auditor included an emphasis of a matter paragraph referring to the liquidity matters discussion in Postal Service's Form 10-K disclosures and the expectation this trend will continue into FY 2013. That view should be read in conjunction with this report.

This report is intended solely for the information and use of the Postal Service, the U.S. Department of the Treasury, the OMB, and the U.S. Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

Enclosures

cc: Julie S. Moore
Timothy F. O'Reilly
Jack L. Meyer
Corporate Audit and Response Management

Notes to the Special-Purpose Financial Statements

Note X - Special-Purpose Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the president and the Congress to comply with the Government Management Reform Act of 1994 (GMRA) (Pub. L. No. 103-356), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the *U.S. Department of the Treasury's Financial Manual* (TFM) Volume I, Part 2, Chapter 4700, to provide agencies with instructions to meet the requirements of GMRA. The TFM, Chapter 4700 requires agencies to:

1. Reclassify all items and amounts on the audited consolidated, department-level balance sheets, statements of net cost, changes in net position/income statement, social insurance and custodial activity, if applicable, to the special-purpose financial statements.
2. Disclose special-purpose financial statement line item amounts identified as Federal by trading partner and amount (amounts should be net of intra-agency and intra-departmental eliminations).
3. Disclose notes required by Balance Sheet line items and other notes required in the *Financial Report of the U.S. Government* (FR).
4. Disclose other data not contained in the primary FR financial statements and notes required to meet generally accepted accounting principle requirements.