



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

**Fiscal Year 2012 Postal Service
Financial Statements Audit –
St. Louis Accounting Services**

Audit Report

December 17, 2012

Report Number FT-AR-13-005

December 17, 2012



OFFICE OF
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UNITED STATES POSTAL SERVICE

HIGHLIGHTS

**Fiscal Year 2012 Postal Service
Financial Statements Audit –
St. Louis Accounting Services**

Report Number FT-AR-13-005

BACKGROUND:

The U.S. Postal Service St. Louis Accounting Services is responsible for accounting functions related to money orders, real property, international mail, transportation, and accounts payable.

We conducted this audit in support of the independent public accounting firm's overall opinions on the Postal Service's financial statements and internal controls over financial reporting.

Our objectives were to determine whether:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles.
- Accounting transactions are fairly stated.
- General ledger account balances conform to the general classification of accounts.
- The Postal Service complies with laws and regulations that have a direct and material effect on the financial statements.

WHAT THE OIG FOUND:

Financial accounting policies and procedures provided for an adequate internal control structure and complied with accounting principles. In addition,

accounting transactions were fairly stated, and general ledger account balances conformed to the general classification of accounts. Finally, the Postal Service complied with laws and regulations having a direct and material effect on the financial statements.

We did not propose any adjustments. However, throughout the year, we reviewed internal controls over financial reporting and identified control deficiencies in three interim reports.

- New Jersey international records unit personnel did not always correct records that failed validation checks or properly document weekly audits of verification notes (messages between postal administrations regarding exchange of mail).
- Personnel did not always record instances where domestic air carrier personnel failed to protect or safeguard the mail, accurately assess penalties, and provide adequate oversight.
- Personnel did not always properly claim expenses on travel vouchers or use their travel card appropriately.

WHAT THE OIG RECOMMENDED:

We communicated the noted issues to management through interim reports. Accordingly, we did not propose recommendations in this report.

[Link to review the entire report](#)



December 17, 2012

MEMORANDUM FOR: TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". There is a small black dot in the upper right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial and Systems Accountability

SUBJECT: Audit Report – Fiscal Year 2012 Postal Service Financial
Statements Audit – St. Louis Accounting Services
(Report Number FT-AR-13-005)

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service Accounting Services in St. Louis, MO, for the fiscal year ended September 30, 2012 (Project Number 12BM004FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice Millett, director, Finance, or me at 703-248-2100.

Attachments

cc: Joseph Corbett
Julie S. Moore
Jean D. Parris
Robin M. Stewart
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the selected financial activities and accounting records at the U.S. Postal Service Accounting Services in St. Louis, MO, for the fiscal year (FY) ended September 30, 2012 (Project Number 12BM004FT000). We conducted this audit in support of the independent public accounting firm's (IPA) overall opinions on the Postal Service's financial statements and internal controls over financial reporting.¹ This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. Also, the U.S. Congress passed Sarbanes-Oxley (SOX) legislation in calendar year 2002 to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX 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. The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of SOX. The Board of Governors (Board) contracted with the IPA to express opinions on the Postal Service's financial statements and internal controls over financial reporting.

Conclusion

During our audit of St. Louis Accounting Services, we noted:

- Financial accounting policies and procedures of the Postal Service provided for an adequate internal control structure² and complied with accounting principles generally accepted in the U.S.
- Accounting transactions at the St. Louis Accounting Services impacting the general ledger account balances for assets, liabilities, equity, income, and expenses of the Postal Service were fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conformed with the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

¹ The IPA maintains overall responsibility for testing and reviewing significant St. Louis Accounting Services accounts and processes. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work with the IPA to ensure adequate coverage.

² To ensure key controls are properly designed and operationally effective.

- The Postal Service complied with laws and regulations relating to the St. Louis Accounting Services having a direct and material effect on the financial statements as a whole.

We did not propose any adjustments. However, throughout the year, we reviewed internal controls over financial reporting and identified control deficiencies.³ Specifically,

- New Jersey international air mail records unit personnel did not always correct failed records⁴ in accordance with Postal Service procedures. Further, the records unit supervisor did not properly document weekly verification note⁵ audits, and Headquarters International Accounting did not properly document oversight of these audits.⁶
- Domestic air mail irregularities⁷ processing related to safeguarding mail was not effective.⁸ Postal Service personnel did not always record domestic air mail irregularities for adjudication and assess applicable penalties when they occurred. Further, management did not accurately calculate domestic air mail irregularity penalty amounts. Finally, management did not monitor whether recording problems existed or whether claim deductions were calculated accurately for domestic air mail irregularities.
- Postal Service personnel did not always properly claim expenses on their travel reimbursements. Also, some individuals did not use their travel card appropriately.⁹

In addition, the IPA identified other control deficiencies affecting St. Louis Accounting Services that were not in the scope of our audit and are not reported here.¹⁰ The IPA informed management of these issues on October 31, 2012.

³ A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁴ Records that failed validation checks and must be corrected by the records unit so the St. Louis International Accounting Branch can bill foreign postal administrations accurately.

⁵ These notes are formal messages between postal administrations that relay information regarding the exchange of mail, in particular irregularities in the preparation, dispatch, and receipt of mail.

⁶ *New Jersey Network Distribution Center – International Air Mail Records Unit* (Report Number [FT-AR-12-011](#), dated August 10, 2012).

⁷ Irregularities occur when air carrier personnel fail to protect or safeguard the mail from, for example, inclement weather, loss, destruction, or other hazards while in the control or custody of air carriers. Postal Service personnel at commercial air stops record irregularities when they occur, and transportation personnel adjudicate the irregularities or approve them for further processing. If approved, a penalty is assessed, and the amount paid to the air carrier for transporting mail is reduced.

⁸ *Domestic Air Mail Irregularities* (Report Number [FT-AR-12-015](#), dated September 28, 2012).

⁹ *Travel Expense Reimbursements and Travel Card Usage* (Report Number [FT-AR-12-014](#), dated September 27, 2012).

¹⁰ For example, the IPA identified an ongoing issue pertaining to recording a depreciation expense for fully depreciated assets such as buildings. The IPA performed analysis at year-end and determined the potential overstatement of depreciation expense on additions is estimated at \$28 million.

Progress of Prior Year Recommendation

We followed up on our recommendation from FY 2011¹¹ for developing and implementing an automated control within the electronic Facilities Management System (eFMS) to ensure lease appraisal and lease capitalization checklists are completed. In March 2012, management implemented new automated controls within eFMS to ensure all checklist items are completed and appropriate action is taken within the electronic system. As a result, we will close this recommendation.

Recommendation

We communicated issues related to inbound international mail, domestic air mail, and travel expenses to management through interim reports. Accordingly, we did not propose any further recommendations in this report. Because we made no recommendations, management chose not to respond formally to this report.

¹¹ *Fiscal Year 2011 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center* (Report Number [FT-AR-12-010](#), dated January 18, 2012).

Appendix A: Additional Information

Background

The St. Louis Accounting Services is one of three Accounting Services.¹² Its employees are responsible for accounting functions related to money orders, real property, transportation, international mail, and accounts payable.¹³ Employees at this facility are also responsible for processing financial and accountability data from field units.

We will issue a separate financial statements audit report for headquarters, Eagan, and San Mateo Accounting Services. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA issued a separate report on its consideration of the Postal Service's internal controls and its test of compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report was to describe the scope of testing of internal controls over financial reporting and compliance and the results of that testing, not to provide an opinion on internal controls over financial reporting or on compliance.¹⁴ The OIG will also issue a separate report for the audit of the FY 2012 Information System Controls at the Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers; and the Raleigh Information Technology Service Center.

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:¹⁵

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure¹⁶ and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at St. Louis Accounting Services 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.

¹² Other Accounting Services are located in Eagan, MN, and San Mateo, CA.

¹³ Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and electronic Travel (eTravel).

¹⁴ In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, and the three Solutions Development and Support field sites, and the Raleigh, NC, Information Technology Service Center.

¹⁵ The IPA maintains overall responsibility for testing and reviewing significant St. Louis Accounting Services accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.

¹⁶ To ensure key controls are properly designed and operationally effective.

- The Postal Service complies with laws and regulations that have a direct and material effect on the financial statements taken as a whole.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. Our audit included tests originated by the OIG and reperformance of management testing. We conducted this audit from November 2011 through December 2012¹⁷ in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the comptroller general of the U.S. 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 judgment, appropriate for supporting the overall audit opinion on 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 requires a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of audit procedures to be performed. We believe the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA in obtaining reasonable assurance about whether the financial statements were free of material misstatements (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 the PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, 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 throughout the year, and included their comments where appropriate.

We relied on computer-generated data from a number of Postal Service financial systems, including:

- Accounting Data Mart (ADM).¹⁸
- eTravel.¹⁹
- Surface Air Support System (SASS) Mobile.²⁰
- Foreign Post Settlement (FPS).²¹

To assess the reliability of these systems' data, we performed specific internal control and transaction tests, including tracing selected financial information to supporting source records, for testing originated by the OIG. For example, we traced general

¹⁷ The scope of our audit was from October 1, 2011, through September 30, 2012.

¹⁸ The repository for accounting and finance-related data for the Postal Service and part of the Enterprise Data Warehouse.

¹⁹ A web-based system to electronically create, submit, and review travel expense reports.

²⁰ An online application for recording and adjudicating air carrier irregularity events.

²¹ The primary system that supports the processing of international accounts. The volume data used in FPS come from the Global Business System, which is designed to assist in streamlining the processing of international mail.

ledger transactions from ADM to supporting documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Domestic Air Mail Irregularities</i>	FT-AR-12-015	9/28/2012	None
<p>Report Results: Domestic air mail irregularities processing was not effective. Specifically, management did not monitor whether recording problems existed or whether claim deductions were calculated accurately. In addition, when irregularities occurred, Postal Service personnel did not always record them in SASS Mobile for adjudication and assess applicable penalties, as required. Finally, management did not accurately calculate domestic air mail irregularity penalty amounts. Management generally agreed with all four recommendations, none of which were considered significant.</p>			
<i>Travel Expense Reimbursements and Travel Card Usage</i>	FT-AR-12-014	9/27/2012	None
<p>Report Results: Postal Service employees improperly claimed expenses on their travel reimbursements and inappropriately used their travel card. We found six cases in which employees canceled a higher-priced airfare, traveled on a lower-priced one, but claimed the higher-priced fare on the travel reimbursement request. We also found 39 cases in which employees claimed a canceled fare but did not reimburse the Postal Service. In addition, eTravel allows employees to have their per diem reimbursements paid to the travel card rather than directly to their personal bank account, which can result in a credit balance and encourage employees to use it for personal purposes, which is prohibited. Management agreed, in principle, with all four recommendations. There were no significant recommendations.</p>			
<i>New Jersey Network Distribution Center – International Air Mail Records Unit</i>	FT-AR-12-011	8/10/2012	None
<p>Report Results: New Jersey records unit personnel did not always resolve failed records in</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<p>accordance with Postal Service procedures. Specifically, records unit clerks did not always nil²² duplicate dispatch records and did not always issue verification notes. Further, the New Jersey records unit supervisor did not properly document weekly verification note audits, and International Accounting did not properly document oversight of these audits. When personnel do not follow established procedures, revenue could be inaccurately recorded and foreign postal administrations could delay acceptance of the billing and, therefore, delay cash collection. Management took corrective action during the audit to address the issues identified in this report. Therefore, we made no recommendations.</p>			
<p><i>Fiscal Year 2011 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center</i></p>	<p>FT-AR-12-010</p>	<p>1/18/2012</p>	<p>\$861,075</p>
<p>Report Results: We did not propose any adjustments; however, throughout the year, we reviewed internal controls over financial reporting and identified control deficiencies²³ regarding inbound international mail, money order adjustments, lease appraisals, and lease checklists. In addition, we found that Financial Control and Support (FCS)²⁴ personnel did not provide sufficient working paper evidence for the OIG to determine whether our results were consistent for establishing accountability for highway contract modifications and adjustments. Because these controls are considered key,²⁵ any error could impact the IPA’s opinion on internal controls over financial reporting. Management agreed in part with our only recommendation pertaining to lease appraisals and lease checklists, which was not a significant recommendation.</p>			
<p><i>New York International Service Center – International Air Mail Records Unit</i></p>	<p>FT-AR-12-006</p>	<p>12/19/2011</p>	<p>None</p>
<p>Report Results: The New York records unit processed international mail transactions to ensure the St. Louis International Accounting Branch (accounting branch) billed foreign postal</p>			

²² The Postal Service does not delete records but, instead, renders them non-existent and retains them for informational purposes.

²³ A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis.

²⁴ FCS management review specialist.

²⁵ A key control is a control that, if it fails, there is at least a reasonable likelihood that a material error in the financial statements would not be prevented or detected on a timely basis.

Report Title	Report Number	Final Report Date	Monetary Impact
<p>administrations timely. However, management did not always completely review System for International Revenue and Volume Inbound (SIRVI)²⁶ test data. Also, personnel did not configure the Global Business System (GBS) to log a user off the network after a predetermined period of inactivity. In addition, the GBS did not reject manual entry of the same receptacle multiple times. Management agreed with both recommendations. One recommendation was significant; it was closed during FY 2012.</p>			
<p><i>J.T. Weeker (Chicago) International Service Center – International Airmail Records Unit</i></p>	<p>FT-AR-12-002</p>	<p>10/31/2011</p>	<p>None</p>
<p>Report Results: The J.T. Weeker (Chicago) records unit generally processed international mail transactions timely and accurately to ensure that the St. Louis accounting branch correctly and timely billed the foreign postal administrations. However, Chicago records unit personnel’s advanced computing environment (ACE) (logon) identifications (IDs) and passwords were not always properly controlled. When logon IDs and passwords are not controlled, unauthorized persons may gain access to the financial transaction processing functions of application programs or resultant data records, enabling them to read, alter, add, or delete information in data files or to enter unauthorized financial transactions for processing. In addition, records unit personnel did not always perform a complete weekly audit of verification notes and submit verification notes in accordance with Postal Service procedures. Also, we found a records unit clerk did not modify a letter post dispatch record when the unit later received supporting documentation from the San Francisco International Service Center (ISC) to support a greater weight for the dispatch. When personnel do not follow established procedures, revenue could be inaccurately recorded, and foreign postal administrations could delay acceptance of the billing and, therefore, delay cash collection. Management agreed with all five recommendations; none were significant.</p>			
<p><i>Los Angeles International Service Center – International Air Mail Records Unit</i></p>	<p>FT-AR-12-001</p>	<p>10/26/2011</p>	<p>None</p>
<p>Report Results: The Los Angeles records unit generally processed international mail transactions timely to ensure the St. Louis accounting branch timely billed foreign postal</p>			

²⁶ SIRVI is one of the data collection systems for international mail that captures pieces and weights from foreign origin mail entering the U.S..

Report Title	Report Number	Final Report Date	Monetary Impact
<p>administrations. However, the records unit did not maintain supporting documentation, such as manifests or verification notes, to help ensure the accounting branch accurately billed foreign postal administrations. Also, the records unit did not always perform a complete weekly audit of verification notes, and management did not always perform a complete review of SIRVI test data or review and approve SIRVI tests daily. Such reviews and approvals are necessary to ensure that country-specific volume estimates used to determine the terminal dues paid to the Postal Service for the delivery of foreign country incoming mail are correct. Management agreed with all five recommendations. One recommendation was significant and closed out with the issuance of this report.</p>			
<p><i>Fiscal Year 2010 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center</i></p>	<p>FT-AR-11-009</p>	<p>3/31/2011</p>	<p>\$ 73,443,545</p>
<p>Report Results: We did not propose any adjustments; however, throughout the year, we reviewed internal controls over financial reporting and identified control deficiencies regarding international mail, money orders, transportation, eTravel, leases, journal voucher entries, and account reconciliations. As a result of our audit, management took corrective action; therefore, we did not make any recommendations.</p>			