OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Fiscal Year 2011 Postal Service Financial Statements Audit – Washington, D.C., Headquarters

Audit Report

December 12, 2011

Report Number FT-AR-12-005

December 12, 2011

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

Fiscal Year 2011 Postal Service Financial Statements Audit – Washington, D.C., Headquarters

Report Number FT-AR-12-005

IMPACT ON:
Overall audit opinions on the U.S. Postal Service's financial statements and internal controls over financial reporting.

WHY THE OIG DID THE AUDIT:
Our objectives were to determine whether:

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at headquarters that impact 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 direct and material effect on the statements taken as a whole.

WHAT THE OIG FOUND:
Financial accounting policies and procedures provide for an adequate internal control structure; accounting transactions at headquarters impacting the general ledger account balances are fairly stated in accordance with accounting principles generally accepted in the U.S.; general ledger account balances conform with the general classification of accounts of the Postal Service on a basis consistent with that of the previous year; the Postal Service had one instance of noncompliance related to the suspension of the employer Federal Employees Retirement System obligation. We did not propose any adjustments; however, we identified a control deficiency regarding manual journal voucher (JV) processing. This item was not material to the financial statements and did not affect the overall adequacy of internal controls.

WHAT THE OIG RECOMMENDED:
We are not making any recommendations because management agreed to provide appropriate oversight to ensure the JV issues identified do not occur in the future.

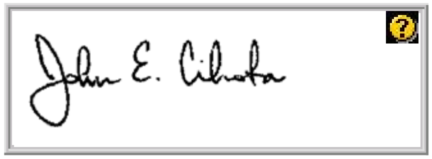
WHAT MANAGEMENT SAID:
We provided a draft copy of this report to management on November 17, 2011, and, because we made no recommendations, management chose not to respond formally to this report.

Link to review the entire report

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 12, 2011

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



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

SUBJECT: Audit Report – Fiscal Year 2011 Postal Service Financial Statements Audit – Washington, D.C., Headquarters (Report Number FT-AR-12-005)

This report presents the results of our audit of the selected financial activities and accounting records at Washington, D.C., Headquarters for the fiscal year ended September 30, 2011 (Project Number 11BM004FT000).

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.

Attachments

cc: Joseph Corbett
Julie S. Moore
Jack L. Meyer
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 Washington, D.C., Headquarters for the fiscal year (FY) ended September 30, 2011(Project Number 11BM004FT000). We conducted this audit in support of the independent public accounting firm's (IPA) overall audit opinions on the U.S. 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 enacted 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 at the Washington, D.C., Headquarters, we noted:

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure[2] and comply with accounting principles generally accepted in the U.S.

- Accounting transactions at headquarters 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 with the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

- The Postal Service had one instance of noncompliance related to the suspension of the employer Federal Employees Retirement System (FERS) obligation. Based on advice received from the Office of Legal Counsel at the U.S. Department of Justice, in Quarter I, 2012, the Postal Service is expected to resume the regular biweekly

[1] The IPA maintains overall responsibility for testing and review of significant headquarters 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.

payments for its FERS employer's contributions as well as remit all previously withheld payments, including the $911 million accrued at September 30, 2011.

We did not propose any adjustments; however, throughout the year, we reviewed internal controls over financial reporting and identified a control deficiency[3] regarding manual journal voucher (JV) processing. This item was not material to the financial statements and did not affect the overall adequacy of internal controls.

Manual JV Entry Processing

Our review of the JVs for FY 2011 has shown continued improvement to the process, and we did not identify the same issue reported in the prior fiscal year. However, as shown in the following table, of the 632 manual JVs reviewed, we found two instances where a required supplemental control[4] was not exercised. In one instance, no evidence existed on a JV form showing that data entry was reviewed and approved.[5] We discussed this with management, and they provided alternate evidence the data entry had been reviewed by an individual other than the one who did the data entry. Nevertheless, they agreed the reviewer should have initialed the JV form. Another JV did not indicate the lead accountant performed an overall final review and moved the JV entry for posting into the general ledger.[6] We discussed this with management who indicated it was an oversight, but the JV entry was moved for posting into the general ledger. They stated if it had not been moved for posting, Eagan Information Technology and Accounting Service Center (IT/ASC) personnel would have notified the lead accountant that an outstanding JV entry needed to be moved for posting.

JV Review Results

Timeframe of JV (Quarter)					Internal Control Issue	FY 2010 Instances
1	**2**	**3**	**4**	**Total**		
-	--	--	--	0	Some or all support missing	1
--	--	1	1	2	No evidence of final approval, input into the JEV, or recorded.	0

Source: JEV forms on file at Corporate Financial Reporting.

[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] Any control created by Corporate Financial Reporting (CFR) supplementing Handbook F-1, *Accounting and Reporting Policy,* and Handbook F-20, *General Ledger Accounting and Financial Reporting System*, chapters 2 and 5.
[5] CFR supplemental procedure Number 4 requires an individual other than the one entering the JV into Journal Entry Vehicle (JEV) reviews and approves the data entry and initials the JV form as evidence of his review.
[6] CFR supplemental procedure Number 6 requires the lead accountant to perform an overall final review of the JV and its input into the JEV, and to write an 'M' on the JV form to show the JV has been reviewed and moved to the general ledger for posting.

Recommendation

Management agreed to provide appropriate oversight to applicable personnel to ensure these issues do not occur in the future. Therefore, we are not making a recommendation. However, we will continue to review these controls as part of our annual financial statement work.

Appendix A: Additional Information

Background

Postal Service Headquarters Finance establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. Internal control and reporting systems have been created to ensure management and the public receive meaningful financial information in accordance with generally accepted accounting principles.

We will issue separate financial statements audit reports for the Eagan, MN; San Mateo, CA; and St. Louis, MO IT/ASCs. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board 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.[7] The OIG will also issue a separate report for the audit of the FY 2011 information system controls at the Eagan, San Mateo, and St. Louis IT/ASCs; and the Raleigh, NC Information Technology Service Center.

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:[8]

- The financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure[9] and comply with accounting principles generally accepted in the U.S.

- Accounting transactions at headquarters that impact 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 with 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 direct and material effect on the financial statements taken as a whole.

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[7] In addition to work performed by the IPA, these reports encompass work performed by the OIG at headquarters, the three IT/ASCs, field sites, and the Raleigh, NC Information Technology Service Center.
[8] The IPA maintains overall responsibility for testing and review of significant headquarters accounts and processes. The OIG coordinated audit work with the IPA to ensure adequate coverage.
[9] To ensure key controls are properly designed and operationally effective.

As part of our audit, we reviewed internal controls and processes and significant headquarters accounts (for example, cash, investments, and workers' compensation), manual JVs,[10] and laws and regulations. We verified the Board travel and miscellaneous expenses totaling about $163,000 and external professional fees totaling about $1.4 million; and tested officers' travel and representation expenses totaling about $700,000. We issued a separate report for the FY 2011 Board's travel and miscellaneous expenses[11] and will issue a separate report for the FY 2011 officers' travel and representation expenses.

We conducted this audit from January through December 2011 in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financials audits contained in the *Government Auditng Standards* issued by the comptroller general of the U.S. Those standards require 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 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 controls to plan the audit and to 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 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 the PCAOB standards and *Government Auditing Standards* may not detect a material misstatement. However, the IPA and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We provided a draft copy of this report to management on November 17, 2011, and, because we did not make any recommendations, management chose not to respond formally to this report.

We relied on computer-generated data from several Postal Service financial systems, including:

- eTravel.
- Chase Insight.
- Workers' Compensation Master File.
- Accounting Data Mart.

[10] Statement on Auditing Standards (SAS) Number 99, *Consideration of Fraud in a Financial Statement Audit*, as amended by SAS 113, *Omnibus 2006,* requires auditors to perform certain tasks to address the risk of management override of internal control. To address such situations, SAS Number 99 requires auditors to test the appropriateness of journal entries recorded in the general ledger and other adjustments.

[11] *Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2011* (Report Number FT-AR-12-004, dated December 6, 2011).

We assessed the reliability of these systems' data by performing specific internal control and transaction tests, including tracing selected financial information to supporting source records. For example, we traced workers' compensation master file data to a random sample of 60 case files. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Report Results
Fiscal Year 2010 Postal Service Financial Statements Audit – Washington, D.C., Headquarters	FT-AR-11-002	12/6/2010	We did not propose any adjustments; however, we identified a control deficiency regarding manual JV processing. Because management took corrective action, we did not make any recommendations.
Fiscal Year 2009 Postal Service Financial Statements Audit – Washington, D.C., Headquarters	FT-AR-10-005	11/30/2009	We did not propose any adjustments; however, we identified a control deficiency regarding manual JV processing. Because management took corrective action, we did not make any recommendations.
Fiscal Year 2008 Postal Service Financial Statements Audit – Washington, D.C., Headquarters	FT-AR-09-007	1/16/2009	We did not propose any adjustments; however, we identified a control deficiency regarding manual JV processing. This item was not material to the financial statements and did not affect the overall adequacy of internal controls. We recommended management develop formal written procedures for manual JV processing and distribute them to all applicable personnel. Management agreed with the recommendation and developed formal written procedures.