



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

**Fiscal Year 2012 Postal Service
Financial Statements Audit –
Washington, D.C.
Headquarters

Audit Report**

January 4, 2013

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

HIGHLIGHTS

**Fiscal Year 2012 Postal Service
Financial Statements Audit –
Washington, D.C. Headquarters**

Report Number FT-AR-13-007

BACKGROUND:

U.S. 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 conducted this audit in support of the independent public accounting firm's overall audit 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 of the Postal Service provided for an adequate internal control structure and complied with accounting principles generally accepted in the U.S. In addition, accounting transactions were fairly stated in accordance with accounting principles generally accepted in the U.S., and general ledger account balances conformed to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

However, the Postal Service had two instances of noncompliance. One related to the suspension of the Postal Service's obligation to the Federal Employee Retirement System and the other a default on two required prefunding payments to the Postal Service Retiree Health Benefit Fund. The Postal Service resumed the obligation and repaid amounts previously suspended. The Postal Act of 2006 contains no provisions addressing a prefunding payment default. We did not propose any adjustments; however, during the year, we reviewed controls over financial reporting.

WHAT THE OIG RECOMMENDED:

Based on the results of our audit, we did not make any recommendations.

[Link to review the entire report](#)



January 4, 2013

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

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top 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 – Washington, D.C. Headquarters
(Report Number FT-AR-13-007)

This report presents the results of our audit of selected financial activities and accounting records at Washington, D.C. Headquarters for the fiscal year ended September 30, 2012 (Project Number 12BM005FT000).

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
Jack L. Meyer
Corporate Audit and Response Management

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Introduction

This report presents results of our audit of the selected financial activities and accounting records at Washington, D.C., Headquarters for the fiscal year ended September 30, 2012 (Project Number 12BM005FT000). 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 (Postal 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 Washington, D.C. Headquarters, 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 headquarters 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 to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service had two instances of noncompliance. One instance was related to the suspension of the Postal Service's obligation to the Federal Employees Retirement System (FERS). The Postal Service resumed the obligation and repaid the amounts previously suspended, which rectified the noncompliance before

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.

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 Act of 2006, establishing the prefunding payment schedule, contains no provisions addressing a payment default.

We did not propose any adjustments; however, throughout the year, we reviewed internal controls over financial reporting.

Required Federal Employees Retirement System and Retiree Health Benefits Fund Payments

As noted in the IPA'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; and our report on the *Opinion of the Postal Service's Special Purpose Financial Statements*,³ the Postal Service, during FY 2012, did not make legislatively mandated payments to FERS and to the Retiree Health Benefits Fund.

- The Postal Service failed to comply with Title 5, Section 8423, Government Contributions, when it suspended its required biweekly employer contributions into FERS from October to November 2011, payable to the Office of Personnel Management (OPM). The Postal Service suspended the payments to conserve cash and continue fulfilling its primary legal obligation of providing universal service. In December 2011, the Postal Service resumed normal biweekly employer contributions and repaid to OPM the amounts previously suspended.
- The Postal Service failed to comply with the Postal Act of 2006 when it defaulted on two scheduled prefunding payments into the Retirees Health Benefits Fund: \$5.5 billion due by August 1, 2012, and \$5.6 billion due by September 30, 2012. The Postal Service defaulted on the required payments due to insufficient cash resources on hand and to continue fulfilling the primary legal obligation of providing universal service. Management noted they have not suffered any penalties or damages as a result of its inability to make these payments, and hopes that legislation will be enacted to significantly reduce or eliminate the required payments.

Recommendations

Based on the results, we are not making any recommendations in this report. As a result, management chose not to respond formally to this report.

³ Report Number FT-AR-13-003, dated November 16, 2012.

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 Eagan, MN; San Mateo, CA; and St. Louis, MO Accounting Services. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the 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.⁴ 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:⁵

- The financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure⁶ 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 financial statements taken as a whole.

⁴ In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, three Integrated Business Systems Solutions Centers, field sites, and the Raleigh Information Technology Service Center.

⁵ 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.

⁶ 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, workers' compensation and unemployment compensation), manual journal vouchers,⁷ and laws and regulations. We verified the Board travel and miscellaneous expenses totaling about \$216, 000 and external professional fees totaling about \$492,000; and tested about \$153,000 of officers' travel and representation expenses. We will issue separate reports for the audits of the FY 2012 Board travel and miscellaneous expenses and officers travel and representation expenses.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from January 2012 through January 2013⁸ in accordance with the standards of the Public Company Accounting Oversight Board (U.S.) (PCAOB) and the standards applicable to financials 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 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 requires 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 provided a draft copy of this report to management on November 20, 2012, and, because we did not make any recommendations, management chose not to respond formally to this report.

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.

⁷ 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.

⁸ The scope of our audit was October 1, 2011 through September 30, 2012.

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

- eTravel System.⁹
- Workers' Compensation Master File.
- Accounting Data Mart.¹⁰

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	Monetary Impact
<i>Fiscal Year 2011 Postal Service Financial Statements Audit – Washington, D.C. Headquarters</i>	FT-AR-12-005	12/12/2011	None
Report Results: 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.			
Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2010 Postal Service Financial Statements Audit – Washington, D.C. Headquarters</i>	FT-AR-11-002	12/6/2010	None
Report Results: 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.			

⁹ The online application used to create work travel expense reports, electronically submit expense reports to authorized approvers, and track reimbursement status.

¹⁰ The repository for accounting and finance-related data for the Postal Service and part of the Enterprise Data Warehouse.