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OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Fiscal Year 2014 Postal Service Selected Financial Activities and Accounting Records

Audit Report

Report Number
FT-AR-15-006

April 20, 2015

Print

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

We also determined whether the Postal Service properly tested, documented, and reported its examination of key financial reporting controls related to Postal Service Headquarters and Accounting Services.

Background

The U.S. Postal Service Headquarters Finance group establishes accounting policies and guidelines for recording and reporting financial transactions. The three Accounting Services (Eagan, MN; San Mateo, CA; and St. Louis; MO) are responsible for functions related to accounts payable, capital property, vehicles, transportation, money orders, international mail, and payroll. Further, the Headquarters / Accounting Service Center Testing Team drafts, implements, and employs a testing methodology for identifying, assessing, and reporting on internal controls over financial reporting.

The Postal Service Board of Governors contracted with an independent public accounting firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The firm maintains overall responsibility for testing and reviewing significant accounts and processes. The U.S. Postal Service Office of Inspector General coordinates audit work with the firm to ensure adequate coverage.

Our objectives were to determine whether:

- Accounting transactions were fairly stated, and selected controls were designed and operating effectively.
- Account balances followed the Postal Service's general classification of accounts consistent with the previous year.
- The Postal Service complied with laws and regulations having a direct and material effect on the financial statements taken as a whole.

We also determined whether the Postal Service properly tested, documented, and reported its examination of key financial reporting controls related to Postal Service Headquarters and Accounting Services.

What The OIG Found

The Postal Service's accounting transactions were fairly stated and account balances conformed to the general classification of accounts. Also, the Postal Service complied with all material laws and regulations tested.

We did not propose any financial statement adjustments or identify any issues material to the financial statements or that would affect the overall adequacy of internal controls. However, controls over eTravel reimbursement claims, high dollar manual invoices, rejected invoice batches, and capital property disposals were not always designed or operating effectively.

Also, management did not always properly test or document their key control examinations of high dollar invoices and rejected invoice batches. As a result, there is an increased risk that control failures are not detected and reported.

The Postal Service could have potentially recorded $54.9 million in rejected invoice batches in an improper accounting period for fiscal year 2014.

What The OIG Recommended

We recommended management reinforce to all reimbursement claim approvers the requirement to include canceled checks or rental receipts for lease expense reimbursement claims. We also recommended management establish procedures to review rejected invoices for Prompt Payment Act interest payment consideration.

Further, we recommended management revise key control language and test procedures over capital property disposals and rejected invoice batches to ensure they reflect the intent of the control and contain sufficient detail to determine whether the control is functioning efficiently. Finally, we recommended management reinforce to testers to document control test results based only on test procedure requirements.

POSTAL SERVICE GROUP	FUNCTION RESPONSIBILITIES
Headquarters Finance	
Eagan, MN Accounting Services	
San Mateo, CA Accounting Services	Click Categories
St. Louis, MO Accounting Services	
Headquarters Accounting Service Center Testing Team	

Transmittal Letter

Office of Inspector General
United States Postal Service

April 20, 2015

MEMORANDUM FOR: MAURA A. McNERNEY
VICE PRESIDENT, CONTROLLER

SUSAN BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

John E. Cihota

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Audit Report – Fiscal Year 2014 Postal Service Selected Financial Activities and Accounting Records (Report Number FT-AR-15-006)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Washington, D.C. Headquarters and the Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2014 (Project Numbers 14BM001FT001, 14BM001FT002, 14BM001FT003, and 14BM001FT004, respectively).

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

Attachment

cc: Corporate Audit and Response Management
Julie S. Moore

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Findings

Introduction

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Washington, D.C. Headquarters (HQ) and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year (FY) ended September 30, 2014 (Project Numbers 14BM001FT001, 14BM001FT002, 14BM001FT003, and 14BM001FT004, respectively).

The objectives of the audit were to determine whether the Postal Service:

- Accounting transactions were fairly stated in the general ledger, and selected key controls[1] surrounding those transactions were designed and operating effectively.
- General ledger account balances conformed to the general classification of accounts on a basis consistent with the previous year.
- Complied with laws and regulations that have a direct and material effect on the financial statements taken as a whole.

In addition, we determined whether the HQ/Accounting Service Center (ASC) Testing Team properly tested, documented, and reported its examination of key financial reporting controls.

The Postal Reorganization Act of 1970,[2] as amended, requires annual audits of the Postal Service's financial statements. In addition, the Sarbanes-Oxley (SOX) Act[3] was enacted to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to state responsibility for establishing and maintaining adequate internal controls over financial reporting. The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006)[4] requires the Postal Service to comply with Section 404 of SOX.

The Postal Service Board of Governors (Board) contracted with an independent public accounting (IPA) firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts and processes. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work with the IPA firm to ensure adequate coverage. See Appendix A for additional information about this audit.

1 A key control is designed to prevent or detect financial statement misstatements.
2 Public Law 91-375, enacted August 12, 1970.
3 Public Law 107-204, enacted July 30, 2002.
4 Public Law 109-435, enacted December 20, 2006.

Conclusion

During our audit of selected financial activities and accounting records at HQ and three Accounting Services, we noted:

- Accounting transactions were fairly stated in the general ledger.
- General ledger account balances conformed with the general classification of accounts on a basis consistent with the previous year.
- The Postal Service complied with laws and regulations that have a direct and material effect on the financial statements taken as a whole.[5]

We did not propose any adjustments or identify any issues or control deficiencies[6] that were material to the financial statements or that would affect the overall adequacy of internal controls.[7] However, key controls surrounding the accounting transactions over eTravel reimbursement claims, high dollar manual invoices, rejected invoice batches, and capital property disposals were not always designed or operating effectively. Specifically:

- Personnel approved five eTravel reimbursement claims with lease expenses that did not have the proper supporting documentation.
- Personnel did not provide accurate evidence of their secondary review of one high dollar invoice report.
- Personnel did not record invoices totaling $3,663, initially rejected for payment, in the correct accounting period and did not use the correct invoice received date for Prompt Payment Act (PPA)[8] purposes.
- Key control language and corresponding test procedures for rejected invoice batches and capital property disposals were not designed effectively.

Finally, management did not always properly test or document their key control examinations of high dollar invoices and rejected invoice batches. As a result, there is an increased risk that control failures are not detected and reported.

Further, the Postal Service could have potentially recorded $54.9 million in rejected invoice batches in the wrong accounting period for FY 2014.

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5 The IPA firm noted one instance of non-compliance with laws and regulations that had a material and direct effect on the financial statements regarding the required prefunding payments to the Postal Service's Retiree Health Benefit Fund. This was not in the scope of our audit and is not reported here.
6 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 timely.
7 The IPA firm identified control deficiencies affecting the Postal Service that were not in the scope of our audit and are not contained in this report.
8 31 U.S.C. 3902.

eTravel Reimbursement Claims

We judgmentally selected 40[9] travel expense reimbursement requests to determine whether St. Louis Accounting Services (SLAS) properly approved them[10] and whether the claims included proper supporting documentation. We found one instance where the initial authorizing official and SLAS personnel approved a travel reimbursement claim that included lease expenses without the required canceled checks or rental receipts.[11]

We expanded our scope and reviewed subsequent travel reimbursement claims for the same employee. Although these claims were not selected for SLAS secondary review, we found the initial authorizing official approved four additional lease expense claims without the required documentation. Further, as the secondary reviewer for three of these four lease expense claims, Corporate Accounting also approved the claims without the proper documents.[12] This occurred due to oversight. Without proper supporting documentation, there is greater risk that employees are reimbursed for unauthorized travel expenses.

High Dollar Manual Invoices

San Mateo Accounting Services (SMAS) personnel did not always provide accurate evidence of their secondary review of high dollar invoices. We reviewed three adjusted manual invoices[13] from the *USPS APEX Invoices Over 1 Million Dollar Report* for the period of July 2, 2014, through August 20, 2014,[14] and found personnel signed and dated one report as reviewed on July 10, 2014. However, secondary review documents showed personnel did not actually complete their review for one of the 12 manual invoices on the report until July 11, 2014. Management agreed the reviewer should have clearly indicated the review was not completed until July 11, 2014.

The control[15] requires secondary review of all invoices on the report, and then personnel must sign and date the report as evidence they completed the review. One report was prematurely signed because procedures for reviewing high dollar invoices did not clearly define what constitutes full execution of the review. When personnel sign the report as reviewed prior to completion, the risk of improper payments increases.

As a result of OIG's review, management verbally instructed personnel to sign and date the report only after all reviews were completed. Management also updated standard operating procedures for reviewing high dollar manual invoices in September 2014.[16] Accordingly, we are not making a recommendation but will continue to monitor this area as part of our ongoing financial statement work.

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9 We judgmentally selected the five highest dollar travel reimbursement requests and randomly selected 20 additional requests reviewed by SLAS. Based on the results of our review, we expanded our sample and randomly selected an additional 15.
10 SLAS is the secondary reviewer for a random 1 percent selection of all travel reimbursement claims and claims greater than $15,000, except for Postal Service officers' travel claims. Corporate Accounting is the secondary reviewer for officers' travel claims.
11 Handbook F-15, *Travel and Relocation*, 8-2.2.2.2.b Leased Lodging.
12 As a participant of the MIT Sloan Fellows Program, Postal Service coded this employee as an officer in eTravel for three of the four claims, which requires Corporate Accounting's secondary review. OIG discussed the program in our audit report, *Officer's Travel and Representation Expenses for Fiscal Year 2014* (Report Number FT-AR-15-003, dated February 11, 2015).
13 Adjusted invoices are those that have undergone change, were corrected, or reprocessed for payment.
14 Prior to July 2, 2014, personnel did not review adjusted manual invoices. However, as a result of management's key control testing, SMAS personnel began reviewing these invoices.
15 Key control 201.CA023.
16 Standard Operating Procedures, *USPS APEX Invoices Over 1 Million Dollars Report,* September 22, 2014.

Rejected Invoice Batches

The Postal Service did not properly process invoices initially rejected for payment. Specifically, the Postal Service did not record[17] them in the correct accounting period[18] and did not record a correct invoice received date for PPA purposes.

The Postal Service received an Electronic Facilities Management System (eFMS) invoice batch containing four invoices totaling $3,663 on November 14, 2013. The invoices in the batch were valid, but the Oracle Accounts Payable (OAP) system repeatedly rejected the batch due to interface problems with eFMS. Personnel canceled the pending batch and the same invoices were submitted as a new batch on January 2, 2014. When the OAP system accepted the second invoice batch, it recorded the new eFMS invoices with January 2014 invoice dates, invoice received dates, and goods received dates, instead of using the original submission date. The OAP system computes the invoice payment due date based on the later of the invoice, invoice received, and goods received dates. Although not material to the financial statements, the four invoices were recorded in Quarter (Q) 2 instead of Q1 when the Postal Service incurred the expense.

The accrual basis of accounting requires the Postal Service to report invoice amounts when it receives the products or services. Also, the Postal Service must pay PPA interest penalties if it pays invoices after the due date.[19] These reporting issues occurred because formal procedures did not exist to review rejected invoices to ensure they are recorded in the same period the products or services are received. Additionally, there were no procedures requiring personnel to review previously rejected valid electronic invoices that were canceled and subsequently resubmitted as new invoices for PPA interest payment consideration. Procedures only instructed personnel to follow-up with the accounting sections responsible for the rejected invoice batches until resolved in a reasonable time.[20] Because procedures did not address these issues, the corresponding control language and test procedures were not adequate and the Postal Service could have potentially recorded $54,869,357 in rejected invoice batches in an improper accounting period for FY 2014.

Based on the January 2014 invoice resubmission, the Postal Service paid the eFMS invoices, totaling $3,663, on February 3, 2014, without PPA interest penalties. The Postal Service paid the invoices 56 days late, and should have paid $11.28 in PPA interest penalties. This penalty amount is not material to the financial statements.

As a result of our review, management reviewed the pending rejected invoices at yearend and determined none of them warranted accruals. Also, in December 2014, management included in their FY 2015 quarterly financial closing instructions a requirement to review and resolve all rejected invoices pending in the OAP system. In addition, if personnel cannot resolve an invoice or an accumulation of invoices totaling at least $1 million, they will notify a unit supervisor or manager at the SMAS to manually accrue that invoice. Accordingly, we will not make a recommendation regarding recording invoices in the proper accounting period at this time. However, we will continue to monitor rejected invoice batches as part of our ongoing financial statement work.

Capital Property Disposals

The key control language and corresponding test procedures over capital property disposals[21] were not designed effectively. They require field office personnel (financial manager or designated material accountability officer (MAO) and installation head

17 Accounting transactions are recorded through journal entries that show account names, amounts, and whether those accounts are recorded in debit or credit side of accounts.
18 The period for which the financial statements are prepared. It is generally a quarter or a year and reflects all of the financial activity that occurred during that time.
19 *Compliance With the Prompt Payment Act*, Management Instruction FM-610-2013-4, August 30, 2013.
20 Standard Operating Procedures, *Rejected Invoice Batches Invoice Gateway Report*, March 15, 2011.
21 Key Control 308.CA014.

or department head) to complete Form 969, *Material Recycling and Disposal*; review it; and sign it for approval. The installation head and MAO also complete, review, and approve Form 2880, *Physical Inventory Certification/Adjustments,* for missing items from physical inventory. However, they do not address disposing assets identified on the *Semi-Annual Capital Property Certification Report* (SACPCR). Additionally, the control language and test procedures did not discuss the required field Asset Accountability Service Center (AASC) or SMAS actions and responsibilities to dispose assets[22] in PEAS.[23] These design issues occurred because standard operating procedures did not address them.

A control should clearly document the control performer's requirements to ensure consistent performance and monitoring of the control.[24] When control language is not clear and complete, the risk of improperly disposing of assets in PEAS increases. Also, since management uses test procedures to assess whether controls are in place and functioning effectively,[25] inaccurate test procedures increase the risk that control issues are not properly identified.

As a result of our review, SMAS management updated the procedures[26] to include SACPCRs. Management's actions adequately addressed the operating procedures issue so we will not make a recommendation regarding it at this time. However, we will continue to monitor capital property disposals as part of our ongoing financial statement work.

Management Testing and Documentation

The HQ/ASC Testing Team did not always properly test or document its key control examinations of rejected invoice batches and high dollar invoices. Management tests controls to determine whether personnel properly performed them.[27] Although these issues were not material to the overall financial statements, if the HQ/ASC Testing Team does not properly test or document key financial reporting controls, there is an increased risk that control failures are not detected and reported.

Testing

We re-performed the review of rejected invoice batches and determined the HQ/ASC Testing Team did not properly test six of them. The team properly noted that two of the six batches were unresolved as of the test period end date, June 30, 2014. However, on July 10, 2014, the tester signed the test results as completed, without follow-up to verify whether the two outstanding rejected invoice batches were resolved. We determined SMAS personnel resolved these two batches on July 14, 2014.

Also, the team did not use the correct invoice rejection date when determining timely resolution for the six batches. Specifically, it used the date of the sampled *USPS Rejected Invoice Batches in Invoice Gateway* report instead of considering the date the invoices were originally submitted and rejected. Our retest of rejected invoice batches determined that three had original rejection dates 4 to 8 weeks prior to the report dates the testers used to determine timely resolution.

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22 Field personnel complete, sign, and forward these forms to the AASC for review. AASC personnel review the disposal forms for the required signatures and forward them to the SMAS for processing. Prior to recording assets as disposals in the Property and Equipment Accounting System (PEAS), the SMAS also reviews the forms for required signatures.
23 PEAS records capital property transactions, including asset additions, adjustments to existing assets, disposals or retirements, and asset transfers between Postal Service locations.
24 Committee of Sponsoring Organization of the Treadway Commission (COSO), *Internal Control-Integrated Framework,* 4. Additional Considerations, Documentation, May 2013.
25 COSO, *Internal Control-Integrated Framework,* 9. Monitoring Activities, May 2013.
26 Standard Operating Procedure, Desk and Internal Control Procedure for Postal Service Form 2880, *Physical Inventory*, October 2014.
27 COSO, *Internal Control-Integrated Framework,* 9. Monitoring Activities, May 2013.

This occurred because test procedures did not address the actions required for unresolved invoices, so the testing team believed continual follow-up efforts with the responsible SMAS accounting sections were sufficient to meet the timely resolution requirement. Also, test procedures only instructed testers to determine whether the invoice batches on the sampled report were resolved by the following week's report. The instructions did not consider when the batches were originally rejected.

Since invoice batches remain on the weekly rejection report until cleared for payment or canceled, sampled reports can contain rejected batches with original rejection dates long before the date of the following week's report. The team did not document any exceptions as a result of its review of the timeliness of resolution for six rejected invoice batches, even though personnel did not resolve them within 1 week as required by management's test procedures.

Documentation

We re-performed the review of high dollar manual invoices and determined the HQ/ASC Testing Team did not properly document its examination results. Specifically, the team found personnel did not review adjusted invoices and properly reported this exception to management. But, the team tested two adjusted invoices as part of its original sample of high dollar manual invoices and documented no exceptions. Since personnel did not review adjusted invoices, team members should have documented an exception for those two adjusted invoices. Also, that result conflicted with the overall exception that personnel did not review adjusted invoices.

Recommendations

We recommend the vice president, Controller:

1. Reinforce to all reimbursement claim approvers the requirement to include canceled checks or rental receipts for lease expense reimbursement claims.

2. Establish procedures to review invoices previously rejected for payment for Prompt Payment Act interest payment consideration.

3. Revise key control language and test procedures over rejected invoice batches to include actions required for invoices not resolved timely and to consider the date the invoice was initially submitted and rejected when determining timely resolution.

4. Reinforce to Postal Service Headquarters/Accounting Service Center Testing Team to document control test results based only on whether Postal Service personnel properly performed the controls based on the test procedure requirements.

We recommend the vice president, Controller, in coordination with the vice president, Supply Management:

5. Revise key control language and test procedures over capital property disposals to include updates to procedures regarding 1) disposal of assets on the *Semi-Annual Capital Property Certification Report,* and 2) responsibilities to dispose assets in the Property and Equipment Accounting System.

Management's Comments

Management agreed with recommendations 1, 4, and 5, and disagreed with recommendations 2 and 3. Also, they strongly disagreed with the risk of recording $54.9 million[28] in rejected invoice batches in the improper accounting period for FY 2014 because their research showed that nearly all the rejected invoices were corrected within the same period.

For recommendation 1, management reminded all officers to include a check or rental receipt when travelers claim lease expenses.

For recommendation 4, management will continue to remind testers of the importance in documenting control test results based on test procedures. They will also ensure that test steps provide clear and concise guidance for testers and that they address the activity described in the control description. Management plans to complete this action by June 30, 2015.

For recommendation 5, management is revising the procedures over capital property disposals and will evaluate and develop appropriate control language and test procedures. Management plans to complete this action by September 30, 2015.

For recommendation 2, management stated the San Mateo ASC already works with the system's business owners to resolve rejected invoices and batches. In addition, over 99 percent of the rejected invoices for FY 2014 were properly corrected and resubmitted timely or properly deleted. Management's analysis, subsequent to our fieldwork, confirmed $3,663 of the rejected invoices were reprocessed in different periods. Further, because management believes the process is effective, they will not revise key control language and test procedures over rejected invoice batches (recommendation 3). See Appendix B for management's comments, in their entirety.

28 Management incorrectly cited this amount as $56.9 million in monetary impact in their response. However, we classified $54.9 million as other impact in our report.

Evaluation of Management's Comments

The OIG considers management's comments partially responsive to the recommendations in the report and management's corrective actions for recommendations 1, 4, and 5 should resolve the issues identified in the report.

For recommendation 2, we acknowledge the resolution of the FY 2014 rejected invoices and batches. However, management's actions to evaluate the rejected invoices as a result of our audit do not ensure PPA compliance for rejected valid electronic invoices that are later resubmitted for payment and recorded in OAP with the later resubmission dates.

For recommendation 3, as stated previously in the report, to address the improper invoice recording issue, management implemented new resolution and accrual procedures for rejected invoices during each quarterly financial closing period. Management also resolved the majority of the rejected invoices for FY 2014. However, those actions do not address associated control language and test procedures for rejected invoice batches.

The IPA firm agreed with our findings regarding proper recording and PPA compliance for the valid rejected invoice batches. However, as stated in the report, these issues were not material to the financial statements and did not affect the overall adequacy of internal controls. As such, we will not pursue these issues through the formal resolution process. We will continue to monitor as part of our ongoing oversight responsibilities.

Regarding impact, we reported $54.9 million as the total potential exposure because policies and procedures were not in place to ensure that rejected invoices are recorded in the same accounting period that the products or services were received. We applaud management's efforts, subsequent to our audit, to research and confirm that all rejected invoices in FY 2014, with the exception of the $3,663 reported, were recorded in the proper accounting period. However, since the Postal Service did not have procedures to evaluate rejected invoices at the time of our audit, the potential risk that $54.9 million in rejected invoices were recorded in the wrong period is appropriate.

Appendices

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Appendix A: Additional Information

As part of our audit, we assessed internal controls, tested transactions, and verified account balances.

Background

The Postal Service HQ Finance establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. The three Accounting Services function as large, centralized accounting centers. The Eagan Accounting Services processes payroll and disbursements, maintains the general ledger, reconciles sales and banking data, and maintains cash and receivable accounts. The SMAS is responsible for accounts payable,[29] centralized postage payments,[30] capital property, motor vehicles, and supply inventory. The SLAS is responsible for money orders, real property, transportation, international mail, field sales, and accounts payable.[31] The Postal Service's HQ/ASC Testing Team drafts, implements, and employs a testing methodology for identifying, assessing, and reporting on internal controls over financial reporting.

In addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA firm 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.[32] The OIG will issue a separate report for the audit of FY 2014 information system controls at the Eagan, San Mateo, and St. Louis information technology and accounting service centers and the Raleigh ITSC.[33]

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether Postal Service:[34]

- Accounting transactions were fairly stated in the general ledger, and selected key controls surrounding those transactions were designed and operating effectively.
- General ledger account balances conformed to the general classification of accounts on a basis consistent with that of the previous year.
- Complied with laws and regulations that have a direct and material effect on the financial statements taken as a whole.

In addition, we determined whether the HQ/ASC Testing Team properly tested, documented, and reported its examination of key financial reporting controls.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. The OIG originated independent audit tests and re-performed key control tests originally completed by the Postal Service. We issued separate reports for audits of FY 2014 Board travel and miscellaneous expenses[35] and officers' travel and representation expenses.[36]

29 Includes accounting for miscellaneous disbursements, commercial credit cards, relocation, and HQ and field office payables.
30 The Centralized Account Processing System is an electronic postage payment system that gives business mailers a way to pay postage at multiple post offices through a centralized account.
31 Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and travel (eTravel).
32 In addition to the IPA firm's work, these reports encompass work the OIG performed at HQ, the three solutions development and support field sites, and the Raleigh, NC, Information Technology Service Center (ITSC).
33 *Fiscal Year 2014 Information Technology Internal Controls* (Report Number IT-AR-15-005, dated March 30, 2015).
34 The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts and processes. The OIG coordinated audit work with the IPA firm to ensure adequate coverage.
35 *Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2014* (Report Number FT-AR-15-001, dated December 5, 2014).
36 *Officer's Travel and Representation Expenses for Fiscal Year 2014* (Report Number FT-AR-15-003, dated February 11, 2015).

We conducted this audit from November 2013 through April 2015[37] in accordance with the standards of the 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 we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our 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 audit objectives. 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. The evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We conducted this audit from November 2013 through April 2015 in accordance with the standards of the PCAOB and the standards applicable to financial audits contained in the Government Auditing Standards issued by the comptroller general of the U.S.

We supported the IPA firm 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 on March 16, 2015, and included its comments where appropriate.

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

- Accounting Enterprise Data Warehouse Reporting.
- Centralized Account Processing System.
- eFMS.
- Enterprise Imaging and Workflow System.
- eTravel.
- Foreign Post Settlement System.
- Money Order System.
- National Accounting Oracle Financial Application – OAP System.
- Payroll Systems.
- PEAS.
- Workers' Compensation Master File.

37 The scope of our audit was October 1, 2013, through September 30, 2014.

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 example, we traced eTravel reimbursement payments to the supporting documentation. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

<table>
<tr><th>Report Title</th><th>Report Number</th><th>Final Report Date</th><th>Monetary Impact (in millions)</th></tr>
<tr><td>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – San Mateo Accounting Services</td><td>FT-AR-14-010
FT-AR-13-006</td><td>5/28/2014
12/20/2012</td><td>None
None</td></tr>
<tr><td colspan="4">Report Results: FY 2013 – We did not propose any adjustments; however, we identified issues related to inaccurate contract labor rates in two of 25 invoices we reviewed and inaccurate capital property reviews. These issues resulted in more than $9,000 in contract overpayments, misclassification of nearly 8,000 potentially obsolete assets, and about $3 million in data integrity issues for FY 2013. Management agreed with our recommendations to implement a control to verify and collect correct contract data entered into the contract labor system prior to payment and to revise testing and reinforce procedures for the semi-annual capital property reviews. They also agreed to modify the report and instructions to include additional data for the review, and remove obsolete assets from inventory.</td></tr>
<tr><td colspan="4">FY 2012 – We did not propose any adjustments or identify issues that were material to the financial statements or that would affect the overall adequacy of internal controls. We did not propose any recommendations.</td></tr>
<tr><td>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – St. Louis Accounting Services</td><td>FT-AR-14-009
FT-AR-13-005</td><td>3/20/2014
12/17/2012</td><td>None
None</td></tr>
<tr><td colspan="4">Report Results: FY 2013 – We did not propose any adjustments; however, we found the automated travel system was not designed to automatically return travel expense reports to SLAS personnel for follow up to ensure travelers addressed initial concerns. In addition, we found the Postal Service could reduce costs associated with foreign currency conversion for international travel. Management agreed with our recommendations to modify the travel system to return resubmitted expense reports for review and revise official travel policy to direct employees to decline merchants' offers of foreign currency conversion.</td></tr>
<tr><td colspan="4">FY 2012 – We did not propose any adjustments; however, we identified control issues regarding domestic air mail irregularities, travel expense reimbursements and travel card use, and international mail. We communicated these issues to management through interim reports and did not propose any recommendations.</td></tr>
<tr><td>Fiscal Years 2012-2013 Postal Service Financial Statements Audit – Eagan Accounting Services</td><td>FT-AR-14-006
FT-AR-13-009</td><td>2/24/2014
2/5/2013</td><td>None
None</td></tr>
<tr><td colspan="4">Report Results: FY 2013 – We did not propose any adjustments; however, we found that due to insufficient guidance from the Office of Personnel Management, the Postal Service misreported $455,493 in retirement contributions for newly hired law enforcement personnel. Management took corrective action and we did not make any recommendations.</td></tr>
<tr><td colspan="4">FY 2012 – We did not propose any adjustments. However, we determined the Postal Service did not comply with federal regulations regarding records retention for the Combined Federal Campaign program. Management agreed with our recommendation to revise their records retention policy for the Combined Federal Campaign to comply with federal regulations.</td></tr>
</table>

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Fiscal Years 2012-2013 Postal Service Financial Statements Audit – Washington, D.C. Headquarters	FT-AR-14-007 FT-AR-13-007	2/21/2014 1/4/2013	None None

Report Results: FY 2013 – We did not propose any adjustments and did not make any recommendations. However, we reported that the Postal Service defaulted on the required $5.6 billion prefunding payment to the Retiree Health Benefit Fund and continued to suffer from a severe lack of liquidity in FY 2013. We also reported that management reported a significant deficiency related to the revenue, pieces, and weight process in FY 2012, and remediated the issue as of September 30, 2013.

FY 2012 – We did not propose any adjustments and did not make any recommendations. However, we reported two instances of noncompliance. One related to the suspension of the Postal Service's obligation to the Federal Employee Retirement System (FERS) and the other to a default on two required prefunding payments to the Postal Service's Retiree Health Benefit Fund. The Postal Service resumed the FERS obligation and repaid amounts previously suspended.

Appendix B: Management's Comments

MAURA A. MCNERNEY
VICE PRESIDENT, CONTROLLER

UNITED STATES
POSTAL SERVICE

April 2, 2015

To: LORI LAU DILLARD

SUBJECT: Draft Audit Report – Fiscal Year 2014 Postal Service Selected Financial Activities and Accounting Records (Report Number FT-AR-15-Draft)

This is in response to the subject draft audit report and recommendations by the Office of the Inspector General (OIG). The recommendations and our responses are listed below.

Management strongly disagrees with the monetary impact of $56.9 million in the report, given that nearly all the amount of rejected invoices, that were used as a basis for this impact, were either duplicates (therefore requiring rejection) or had invalid information, and were corrected in the same period as they occurred. Management presented data to the OIG, which showed that only $3,663 of the rejected invoices was reprocessed in different reporting periods.

Recommendation:

1. We recommend the Vice President, Controller:

Reinforce to all reimbursement claim approvers the requirement to include canceled checks or rental receipts for lease expense reimbursement claims.

Management Response/Action Plan:

Management agrees with recommendation to and has sent an email on April 2, 2015 to all Officers reminding them to include either a check or rental receipt when travelers are claiming lease expenses on their travel vouchers.

Target Implementation Date:

Completed

Responsible Official:

The Controller's Office

Recommendation:

2. We recommend the Vice President, Controller:

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Washington, DC 20260-5200
WWW.USPS.COM

Establish procedures to review invoices previously rejected for payment for Prompt Payment Act interest payment consideration.

Management Response/Action Plan:

Management disagrees with recommendation given that the San Mateo Accounting Service Center (ASC) already works with the feeder owners to resolve rejected invoices and batches. Over 99 percent of the rejected invoices in the invoice gateway process for FY 2014 were properly corrected and submitted timely by both San Mateo ASC employees and Feeder Systems (See Attachment). Both the rejected Invoices that were either duplicate submissions or had other error types were properly researched and resolved timely. Furthermore, all invoice batches that were erroneously submitted into the Invoice Gateway process were properly researched and deleted timely as to not cross reporting periods.

Recommendation:

3. We recommend the Vice President, Controller:

Revise key control language and test procedures over rejected invoice batches to include actions required for invoices not resolved timely and to consider the date the invoice was initially submitted and rejected when determining timely resolution.

Management Response/Action Plan:

Management disagrees with recommendation given that the process San Mateo ASC uses to resolve rejected invoices and batches is effective as noted in our response above.

Recommendation:

4. We recommend the Vice President, Controller:

Reinforce to Postal Service Headquarters/Accounting Service Center Testing Team to document control test results based only on whether Postal Service personnel properly performed the controls based on the test procedure requirements.

Management Response/Action Plan:

Management agrees with this recommendation.

Although these were isolated occurrences, the SOX HQ/ASC Testing Team will continue to remind all testers of the importance in documenting control test results based on testing procedures. We will also work with the cycle team to ensure that the test steps provide clear and precise guidance for the tester and that they also address the activity described in the control description.

Target Implementation Date:

June 2015

Responsible Official:

Manager, SOX Management Controls and Integration

Recommendation:

5. We recommend the vice president, Controller, in coordination with the vice president, Supply Management:

Revise key control language and test procedures over capital property disposals to include updates to procedures regarding 1) disposal of assets on the *Semi-Annual Capital Property Certification Report*, and 2) responsibilities to dispose assets in the Property and Equipment Accounting System.

Management Response/Action Plan:

Management agrees with this recommendation. Management is currently in the process of revising the procedures for both activities listed and will evaluate and develop appropriate control language and test procedures as part of this process.

Target Implementation Date:

September 2015

Responsible Official:

The Controller's Office

Maura A. McNerney

Attachment

cc: Julie Moore
Corporate Audit Response Management

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

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