



Office of Inspector General | United States Postal Service

Audit Report

Fiscal Year 2018 Selected Financial Activities and Accounting Records

Report Number FT-AR-19-006 | January 30, 2019



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Highlights

Objective

Our audit objectives were to determine whether the U.S. Postal Service:

- Fairly stated accounting transactions in the general ledger and whether selected controls surrounding those transactions were designed and operating effectively.
- Properly tested, documented, and reported its examination of selected key financial reporting controls related to Headquarters and Accounting Services.

The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act. This section requires the Postal Service to report the scope and adequacy of its internal control structure and procedures and assess their effectiveness.

The U.S. Postal Service Board of Governors 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, processes, and internal controls. The U.S. Postal Service Office of Inspector General coordinates audit work with the IPA firm to ensure adequate coverage.

What the OIG Found

The Postal Service fairly stated accounting transactions in the general ledger and selected controls surrounding those transactions were operating effectively. However, the Postal Service did not always properly test, document, and report its key control examinations. Specifically, of the 27 controls we reviewed, the Postal Service:

- Did not properly test one of 15 sampled items for international mail exchange rates.
- Incorrectly documented and reported test results for one of 10 sampled items for real property payment authorizations.

What the OIG Recommended

We recommended the Acting Vice President, Controller, strengthen procedures to ensure proper key internal control testing, documenting, and reporting.

Transmittal Letter

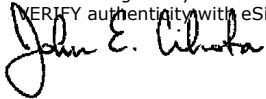


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

January 30, 2019

MEMORANDUM FOR: CARA M. GREENE
ACTING VICE PRESIDENT, CONTROLLER

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop



John E. Cihota

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

SUBJECT: Audit Report – Fiscal Year 2018 Selected Financial Activities
and Accounting Records (Report Number FT-AR-19-006)

This report presents the results of our audit of the 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, 2018 (Project Number 18BM004FT000).

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 Response Management

Results

Introduction/Objective

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Headquarters (HQ) and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year (FY) ending September 30, 2018 (Project Number 18BM004FT000). The U.S. 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, processes, and internal controls. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work with the IPA firm to ensure adequate coverage.

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

- Fairly stated accounting transactions in the general ledger and whether selected controls surrounding those transactions were designed and operating effectively.
- Properly tested, documented, and reported its examination of selected key financial reporting controls¹ related to Headquarters and Accounting Services.

Background

The Postal Reorganization Act of 1970,² as amended, requires annual audits of the Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006³ requires

“ The Testing Team tests components of financial processes to support management's annual and quarterly SOX certifications. ”

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 109-435, enacted December 20, 2006.

⁴ Public Law 107-204, enacted July 30, 2002.

⁵ Includes accounting for miscellaneous disbursements, commercial credit cards, and HQ and field office payables.

⁶ 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.

⁷ Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and travel.

⁸ The Postal Service contracts with Deloitte to test controls on behalf of the SOX testing team.

the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX).⁴ SOX was enacted to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to report the scope and adequacy of its internal control structure and procedures for financial reporting and assess the effectiveness of such internal controls and procedures. See [Appendix A](#) for additional information about this audit.

The HQ Controller's group establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. The three Accounting Services function as large, centralized accounting centers, to process and record the financial transactions of the Postal Service:

- Eagan Accounting Services processes payroll and disbursements, maintains the general ledger, reconciles sales and banking data, and maintains cash and receivable accounts.
- San Mateo Accounting Services is responsible for accounts payable,⁵ centralized postage payments,⁶ capital property, motor vehicles, and supply inventory.
- St. Louis Accounting Services is responsible for money orders, real property, transportation, international mail, field sales, and accounts payable.⁷

The SOX Compliance Testing Team⁸ (Testing Team) tests components of financial processes to support management's annual and quarterly SOX certifications. The Testing Team evaluates the effectiveness of internal controls within financial processes. These include day-to-day activities that impact the Postal Service's financial processes, such as those related to payroll, procurement, and revenue. The Testing Team follows a written test plan outlining the steps and evidence necessary to evaluate each control's effectiveness.

ACCOUNTING SERVICES

Eagan Accounting Services processes payroll and disbursements, maintains the general ledger, reconciles sales and banking data, and maintains cash and receivable accounts.

San Mateo Accounting Services is responsible for accounts payable, centralized postage payments, capital property, motor vehicles, and supply inventory.

St. Louis Accounting Services is responsible for money orders, real property, transportation, international mail, field sales, and accounts payable.

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.⁹ 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.¹⁰

Finding #1: Testing, Documenting, and Reporting

The Postal Service fairly stated accounting transactions in the general ledger and selected controls surrounding those transactions were operating effectively. However, the Testing Team did not always properly test, document, and report its key control examinations. Specifically, we re-performed 27 controls tests and determined the Testing Team:

- Did not properly test one of their 15 sampled items for international mail exchange rates.¹¹ The Testing Team verified the exchange rate¹² used for international payment calculations for August 30, 2018, when it should have verified the rate for August 2, 2018. The Testing Team did not provide a reason for the error; however, after we notified the Testing Team of the error, it verified the exchange rate for the correct date.
- Did not properly document and report its test results for one of 10 sampled items for real property payment authorizations.¹³ Specifically, the Testing Team documented conflicting results for a control attribute.¹⁴ On one document, the Testing Team stated that the attribute was not applicable for testing.¹⁵ However, on its summary of testing document, the Testing Team reported test results for the same attribute.

The Testing Team performed three levels of review for this test to ensure the test conclusion was clear, complete, and reasonable. None of the reviews noted the contradictory information. When we notified the Testing Team, the Team appropriately corrected the error. However, the Team also changed the record of

⁹ In addition to the IPA firm's work, these reports encompass work the OIG performed at HQ and the three Accounting Services sites.

¹⁰ The IPA firm issued its last report in FY 2018: *Report of Independent Auditors 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 14, 2018.

¹¹ Key Control 210.CA050.

¹² The Special Drawing Rights currency exchange rate, obtained from the International Monetary Fund website for U.S. dollar payments.

¹³ Key Control 208.CA009.

¹⁴ Attribute testing involves requesting, obtaining, and reviewing a set of documents as evidence that a control is operating as intended.

¹⁵ The tested attribute compares the agreed-upon value of the work completed to the requested payment amount.

testing summaries for other attributes not included in our sample selection. In one instance, the Testing Team changed the testing results summary for three of its sample items to match the documented attribute conclusions. We forwarded the matter to the IPA firm for its consideration and further testing.

Management uses test procedures to assess whether controls are in place and functioning effectively.¹⁶ If the 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. These issues did not significantly impact the results of our control testing and were not material to the overall financial statements.

Recommendation #1

We recommended the **Acting Vice President**, Controller, strengthen procedures to ensure proper key internal control testing, documenting, and reporting.

Management's Comments

Management agreed with the finding and recommendation in this report and stated it did not impact the results of the control testing or the conclusion on operating effectiveness, and was not material to the overall financial statements.

Management further explained each issue and stated that corrective action was implemented to address them. Specifically, when the finding was first identified, the Testing Team reinforced the procedures required for successful detailed reviews with testers and reviewers. Management also plans to continue to emphasize quality in its annual training for testers and reviewers, to be completed by March 31, 2019, prior to the start of FY 2019 control testing.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report and corrective actions should resolve the issue identified in the report.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

¹⁶ Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control-Integrated Framework, Principle 16, Monitoring Activities, May 2013.

Appendices

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Appendix A: Additional Information

Scope and Methodology

We conducted this audit from December 2017 through January 2019¹⁷ in accordance with the standards of the Public Company Accounting Oversight Board (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 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, the IPA firm and 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 Postal Service management on December 14, 2018, and include their comments where appropriate.

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

- Human Capital Enterprise System.
- Program Cost Tracking System (PCTS).¹⁸

We also relied on data from the U.S. Department of Labor included in the Workers' Compensation Master File maintained by the OIG.

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 PCTS invoice labor rates to Postal Service contract documentation. We determined the data were sufficiently reliable for the purposes of this report. We considered other computer-generated data in conducting our tests; however, the scope of the testing did not require us to validate the computer-generated data. These systems include but were not limited to:

- Enterprise Data Warehouse.
- Centralized Account Processing System.
- Contract Authoring Management System.
- Electronic Facilities Management System.
- Employee Personnel Action History.
- Foreign Post Settlement System.
- Injury Compensation Performance Analysis System.
- Money Order Main Frame.
- National Accounting Oracle Financial Application – Oracle Accounts Payable System.
- Property and Equipment Accounting System.
- Solution for Enterprise Asset Management.

¹⁷ The scope of our audit was October 1, 2017, through September 30, 2018.

¹⁸ A Postal Service web-based system that facilitates tracking and invoicing of contractor labor, time, and material expenses.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2017 Selected Financial Activities and Accounting Records</i>	<p>Our audit objectives were to determine whether the Postal Service:</p> <ul style="list-style-type: none"> Fairly stated selected accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively. Properly tested, documented, and reported its examination of selected key controls related to HQ and Accounting Services. 	FT-AR-18-005	12/29/2017	None
<i>Fiscal Year 2016 Postal Service Selected Financial Activities and Accounting Records</i>	<p>The objectives of the audit were to determine whether the Postal Service:</p> <ul style="list-style-type: none"> Fairly stated accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively. Properly tested, documented, and reported its examination of selected key financial reporting controls related to HQ and Accounting Services. Properly tested, documented, and reported its examination of information technology general controls for the financially significant applications and their underlying infrastructure. 	FT-AR-17-006	3/16/2017	None

Appendix B: Management's Comments

CARA M. GREENE
VICE PRESIDENT, CONTROLLER (A)



December 17, 2018

LAZERICK POLAND
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Fiscal Year 2018 Selected Financial Activities and Accounting
Records [Report Number FT-AR-19-DRAFT]

As stated in the report, the OIG has identified one finding in FY2018. Management reviewed the finding and determined that there were no changes in conclusion for operating effectiveness of the controls tested and all conclusions had adequate support and documentation to conclude on operating effectiveness.

Detailed Responses:

Finding #1(a):

Did not properly test one of their 15 sampled items for international mail exchange rates. The Testing Team verified the exchange rate used for international payment calculations for August 30, 2018, when it should have verified the rate for August 2, 2018. The Testing Team did not provide a reason for the error; however, after we notified the Testing Team of the error, it verified the exchange rate for the correct date.

Management Response:

Management Agrees

The tester was initially provided the supporting documentation for the control performance date of 8/30/2018 instead of the selected date of 8/3/2018 (for the exchange rate date of 8/2/2018), due to transposition in the payment number (UY083018 vs. UY080318). As such, the exchange rate was verified for payment number UY083018, instead of the selected payment number UY080318, as noted on the sample selection document. The tester obtained the correct supporting documentation and updated the identifying information prior to final conclusion of control 210.CA050. Finding #1(a) did not impact the results of our control testing, conclusion on operating effectiveness, and was not material to the overall financial statements.

475 L'Enfant Plaza SW
Washington, DC 20260-5222
www.usps.com

Finding #1(b):

Did not properly document and report its test results for one of 10 sampled items for real property payment authorizations. Specifically, the Testing Team documented conflicting results for a control attribute. On one document, the Testing Team stated that the attribute was not applicable for testing. However, on its summary of testing document, the Testing Team reported test results for the same attribute.

The Testing Team performed three levels of review for this test to ensure the test conclusion was clear, complete, and reasonable. None of the reviews noted the contradictory information. When we notified the Testing Team, the Team appropriately corrected the error. However, the Team also changed the record of testing summaries for other attributes not included in our sample selection. In one instance, the Testing Team changed the testing results summary for three of its sample items to match the documented attribute conclusions. We forwarded the matter to the IPA firm for its consideration and further testing.

Management Response:

Management Agrees

For one of the 10 sampled items, the attribute was changed from Tickmark B noting the attribute was not applicable to 'X' noting it passed without exception. A detailed invoice was tested as allowed by the testing attribute. Additional documentation was not required, and the testing results summary remained unchanged for this sample. The correction was made in the attribute and completed prior to final conclusion of control 208.CA009.

For the three sampled items whose testing results summary did not match the attributes conclusions, the summary was updated with Tickmark D noting an electronic signature on the hard copy payment authorization. OIG states "We forwarded the matter to the IPA firm for its consideration and further testing", however, no additional testing was required for the particular scope period. The tickmarks were present in the original attributes conclusions and updates to the testing results summary were made prior to final conclusion of control 208.CA009.

Finding #1(b) did not impact the results of our control testing, conclusion on operating effectiveness, and was not material to the overall financial statements.

Recommendation #1

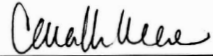
We recommended the Acting Vice President, Controller, strengthen procedures to ensure proper key internal control testing, documenting, and reporting.

Management Response/Action Plan:

Corrective actions on Finding #1(a) and #1(b) have already been implemented at this time. When the findings were first identified by the OIG, the SOX Testing team held discussions with testers and reviewers to reinforce the procedures required for successful detailed reviews. The targeted implementation date for OIG's Recommendation #1 is March 31, 2019. The SOX Testing team performs targeted trainings each year and plans to continue to emphasize quality in these trainings. The Tester and Reviewer trainings are scheduled to be delivered in March prior to the start of FY19 control testing.

Target Implementation Date: March 31, 2019

Responsible Official: Cara Greene, Acting Vice President, Controller



Cara Greene
(A) Vice President, Controller

cc: Manager, Corporate Audit Response Management



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