



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

**Fiscal Year 2012 Postal Service
Financial Statements Audit –
Eagan Accounting Services**

Audit Report

February 5, 2013

Report Number FT-AR-13-009



OFFICE OF
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UNITED STATES POSTAL SERVICE

HIGHLIGHTS

February 5, 2013

**Fiscal Year 2012 Postal Service
Financial Statements Audit –
Eagan Accounting Services**

Report Number FT-AR-13-009

BACKGROUND:

The U.S. Postal Service Eagan Accounting Services is responsible for processing payroll, maintaining the general ledger, reconciling financial data, and maintaining cash and receivable accounts. We conducted this audit in support of the independent public accounting firm's overall opinions on the Postal Service's financial statements and internal controls over financial reporting.

Our objectives were to determine whether:

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

WHAT THE OIG FOUND:

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

accounting transactions were fairly stated, and general ledger account balances conformed to the general classification of accounts. Finally, the Postal Service complied with laws and regulations having a direct and material effect on the financial statements. However, we determined the Postal Service did not comply with federal regulations regarding records retention for the Combined Federal Campaign program.

We did not propose adjustments; however, throughout the year, we reviewed internal controls over financial reporting and issued a separate interim report regarding the interpretation of compensation cap provisions. The Postal Service is presently seeking advice from the U.S. Department of Justice Office of Legal Counsel to resolve all the issues identified in the interim report. Accordingly, we did not propose any further recommendations regarding the compensation cap provisions in this report.

WHAT THE OIG RECOMMENDED:

We recommended that management revise their records retention policy for the Combined Federal Campaign to comply with federal regulations.

[Link to review the entire report.](#)



OFFICE OF
INSPECTOR
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UNITED STATES POSTAL SERVICE

February 5, 2013

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

DEBORAH M. GIANNONI-JACKSON
VICE PRESIDENT, EMPLOYEE RESOURCES
MANAGEMENT

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

SUBJECT: Audit Report – Fiscal Year 2012 Postal Service Financial
Statements Audit – Eagan Accounting Services
(Report Number FT-AR-13-009)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Eagan, MN, Accounting Services for the fiscal year ended September 30, 2012 (Project Number 12BM002FT000).

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

Attachments

cc: Joseph Corbett
Julie S. Moore
Jean D. Parris
Dean R. Rodman
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of selected financial activities and accounting records at the U.S. Postal Service Accounting Services in Eagan, MN, for the fiscal year (FY) ended September 30, 2012 (Project Number 12BM002FT000). We conducted this audit in support of the independent public accounting (IPA) firm's overall opinions on the Postal Service's financial statements and internal controls over financial reporting.¹ This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. In addition, congress passed Sarbanes-Oxley (SOX) legislation in calendar year 2002 to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to state their responsibility for establishing and maintaining an adequate internal control structure and make an assertion on the effectiveness of the internal control structure over financial reporting. The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of SOX. The Board of Governors (Board) contracted with the IPA to express opinions on the Postal Service's financial statements and internal controls over financial reporting.

Conclusion

During our audit of Eagan Accounting Services we noted that:

- The 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 Eagan Accounting Services impacting the general ledger account balances for assets, liabilities, equity, income, and expenses of the Postal Service were fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conformed with the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service complied with laws and regulations relating to Eagan Accounting Services having a direct and material effect on the financial statements as a whole. However, we determined the Postal Service has not complied with federal

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

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

regulations regarding records retention for the Combined Federal Campaign (CFC) program.

We did not propose any adjustments; however, we did issue an interim report regarding the Postal Service's interpretation of compensation cap provisions.³ In response to our recommendation, the U.S. Department of Justice Office of Legal Counsel is presently reviewing the issue. This item was not material to the financial statements and did not affect the overall adequacy of internal controls. Accordingly, we did not propose any further recommendations in this report.

In addition, the IPA identified control deficiencies⁴ affecting Eagan Accounting Services that were not in the scope of our audit and are not reported here. The IPA informed management of these issues on November 1, 2012.

Non-Compliance with Federal Regulations

Postal Service policy did not comply with federal regulations regarding records retention for the CFC program. Postal Service regulations⁵ state that the Privacy Act of 1974,⁶ as amended, applies to all communications, written and verbal. To ensure employee privacy, the Postal Service did not retain CFC pledge forms⁷ beyond 6 months. However, federal regulations⁸ require CFC documents to be kept for three complete campaign periods. The Privacy Act of 1974 does not specifically mention the CFC or retention of pledge forms; therefore, federal regulations apply in this circumstance. As a result, CFC pledge forms were prematurely destroyed and cannot be used to substantiate employee contributions.

Recommendation

We recommend the vice president, Employee Resources Management, in conjunction with the vice president, controller:

1. Revise the Postal Service's records retention policy for the Combined Federal Campaign to comply with federal regulations.

³ Officer Compensation for Calendar Year 2011 (Report Number FT-AR-13-001, dated October 19, 2012).

⁴ 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.

⁵ Combined Federal Campaign Operational Guidelines, Publication 530, October 2011.

⁶ 5 U.S.C. §552a.

⁷ Pledge forms are used to initiate employee contributions through payroll deductions.

⁸ Title 5 Code of Federal Regulations – Administrative Personnel, Chapter I – Office of Personnel Management, Subchapter B – Civil Service Regulations, Part 950 – Solicitation of Federal Civilian and Uniform Service Personnel for Contributions to Private Voluntary Organizations §950.604 Records Retention.

Management's Comments

Management agreed with the finding and recommendation and will revise procedures to retain CFC pledge forms for 4 years. The planned action is scheduled for implementation by June 30, 2013. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

Appendix A: Additional Information

Background

Eagan Accounting Services is one of three accounting services⁹ offices and functions as a large, centralized accounting and disbursement center. Its employees are responsible for processing payroll, maintaining the general ledger, reconciling financial data, and maintaining cash and receivable accounts.

We have issued separate reports for St. Louis¹⁰ and San Mateo¹¹ Accounting Services and will issue a separate financial statements audit report for headquarters. Further, in addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA issued a separate report on its consideration of the Postal Service's internal controls and its test of compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report was to describe the scope of testing of internal controls over financial reporting and compliance and the results of that testing, not to provide an opinion on internal controls over financial reporting or on compliance.¹² The OIG also issued 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 (ITSC).¹³

The CFC is the world's largest annual workplace charity campaign with more than 200 CFC campaigns¹⁴ throughout the country and internationally. Postal Service employees make contributions through cash, check, and payroll deductions to support eligible non-profit organizations that provide health and human services throughout the world. About 85,000 Postal Service employees contribute more than \$900,000 to the campaigns through payroll deductions each pay period. Contributions are solicited September 1 through December 15 each year. Employees choose a charity and contribution by completing a pledge form, which authorizes and initiates the payroll deductions. These payroll deductions are processed at Eagan Accounting Services and payments are disbursed to the various campaigns.

⁹ Other Accounting Services are in St. Louis, MO, and San Mateo, CA.

¹⁰ *FY 2012 Postal Service Financial Statements Audit – St. Louis Accounting Services* (Report Number FT-AR-13-005, dated December 17, 2012).

¹¹ *FY 2012 Postal Service Financial Statements Audit – San Mateo Accounting Services* (Report Number FT-AR-13-006, dated December 20, 2012).

¹² In addition to the IPA's work, these reports encompass work the OIG performed at headquarters; Integrated Business Systems Solutions Centers in St. Louis, Eagan, and San Mateo; field sites; and the Raleigh, NC, ITSC.

¹³ *Fiscal Year 2012 Information Technology Internal Controls* (Report Number IT-AR-13-003, dated January 28, 2013).

¹⁴ Campaigns identify the charitable fund raising program established and administered by the director of the Office of Personnel Management.

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:¹⁵

- Financial accounting policies and procedures of the Postal Service provide for an adequate internal control structure¹⁶ and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at Eagan ASCs impacting the general ledger account balances for assets, liabilities, equity, income, and expenses of the Postal Service are fairly stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conform to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.
- The Postal Service complies with laws and regulations that have a direct and material effect on the financial statements taken as a whole.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. Our audit included tests originated by the OIG and reperformance of management testing. We conducted this audit from November 2011 through February 2013¹⁷ in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (U.S.) and standards applicable to financial audits contained in the *Government Auditing Standards* issued by the comptroller general of the U.S. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on financial statements. Those standards also require considering the results of previous engagements and following up on known significant findings and recommendations that directly relate to the objectives of the audit. An audit also requires a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of audit procedures to be performed. We believe the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA in obtaining reasonable assurance about whether the financial statements were free of material misstatements (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with the PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We

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

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

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

discussed our observations and conclusions with management on December 17, 2012, and included their comments where appropriate.

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

- Accounting Enterprise Data Warehouse Reporting.
- National Accounting Oracle Financial Application.
- Payroll Systems.
- SAP Human Capital Management.
- Employee Personnel Action History.
- PostalEASE.
- Electronic Official Personnel Folder.

To assess the reliability of these systems' data, we performed specific internal control and transactions tests, including tracing selected financial information to supporting source records, for testing originated by the OIG. For example, we traced payroll system reports to Report AAL060P, *Content of W2s Created For Year 11*. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2011 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-12-007	12/19/11	\$28,758,859

Report Results:

We did not propose any adjustments or report any significant issues and did not make any recommendations. Management took corrective action during our audit to improve their methodology of estimating the unemployment compensation liability accrual and reduced the accrual by \$28.8 million.

<i>Fiscal Year 2010 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-11-005	12/30/10	None
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Report Results:

We did not propose any adjustments or report any significant issues and did not make any recommendations. Management took corrective action during our audit to update the certifying officer list and implement additional controls to prevent improper certification of payments. Management also took action to correct the formula in the *Time and Attendance System Close Out Report*.

Appendix B: Management's Comments



January 22, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Fiscal Year 2012 Postal Service Financial Statement Audit – Eagan Accounting Services (Report Number [FT-AR-13-DRAFT])

This provides Postal Service management's response to the subject audit report issued January 4, 2013. Management agrees with the findings in the report. We appreciate the opportunity to review and provide comments.

Recommendation 1:

Revise the Postal Service's records retention policy for the Combined Federal Campaign to comply with federal regulations.

Management Response/Action Plan:

USPS will update the System of Records (SOR) 100.400 with an additional routine use specific to Combined Federal Campaign (CFC) pledge forms, as well as add a retention period for the CFC pledge forms to be retained for four years from the cutoff date.

Target Implementation Date:

The time required to update SOR 100.400 with an additional routine use and a new retention period specific to CFC pledge forms is approximately five months. First, the SOR is required to undergo a USPS internal clearance process. After the SOR has been approved internally, it then is forwarded to the Office of Management and Budget, the House of Representatives and the Senate for comment with a 40 day waiting period. Simultaneously, a Federal Register Notice will be published for public comment with a 30 day waiting period. If no comments are received, that would delay the update of the SOR, it is then published internally in the USPS Postal Bulletin. Finally, the updates to the SOR are made in the AS-353 handbook approximately three to six weeks later.

Responsible Official:

Joseph Bruce, Manager, Corporate Personnel Management.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

A handwritten signature of Timothy F. O'Reilly.
Timothy F. O'Reilly
Vice President, Controller

A handwritten signature of Deborah M Giannoni-Jackson.
Deborah M Giannoni-Jackson
Vice President, Employee Resource Management