



March 20, 2008

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

GEORGE W. WRIGHT
VICE PRESIDENT, INFORMATION TECHNOLOGY OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2007 Postal Service Financial Statements
Audit – San Mateo Information Technology and Accounting Service Center
(Report Number FT-AR-08-009)

This report presents the results of our audit of the financial activities and accounting records at the U.S. Postal Service Information Technology and Accounting Service Center (IT/ASC) in San Mateo, California, for the fiscal year (FY) ended September 30, 2007 (Project Number 07BM004FT000). The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. We conducted this audit in support of the independent public accounting (IPA) firm's overall audit opinion on the Postal Service's financial statements. Refer to [Appendix A](#) for additional information about this audit.

OVERALL AUDIT CONCLUSION

- Financial accounting policies and procedures provided for an adequate internal control structure and complied with accounting principles generally accepted in the U.S.
- Accounting transactions at the San Mateo IT/ASC impacting the general ledger account balances were stated in accordance with accounting principles generally accepted in the U.S.
- General ledger account balances conformed to the general classification of accounts on a basis consistent with that of the previous year.
- The Postal Service complied with laws and regulations that have a direct and material effect on the financial statements.
- Control deficiencies regarding the enterprise Imaging Workflow System (eIWS), management of accounts receivable and recurring services contract payments were identified. These items were not significant to the financial statements and did not affect the overall adequacy of internal controls.
- Refer to [Appendix F](#) for a summary of monetary and non-monetary impact.

eIWS PROCESSING CONTROL

The Postal Service did not always pay invoiced amounts processed through eIWS correctly. Specifically, when the form used to process the invoices included discrepancies, eIWS processed the transactions without correction. Personnel at field units requesting payments for goods and services enter the total amount to be paid in the “Invoice Gross Amount” field on Postal Service (PS) Form 8230, Authorization for Payment.¹ They must also distribute the total amount to one or more general ledger accounts and finance numbers. eIWS was programmed to pay the gross amounts entered on the forms. eIWS recognized when the total of the distributed amounts did not equal the invoice gross amount. However, it simply replaced the gross amount with the total distributed amount and processed the invoice.

Criteria

Controls should be designed to help ensure the accuracy of transactions during processing.

Cause

eIWS was not programmed to set aside for manual review those invoices with differences between the invoice gross amount and the distributed total. Instead, the system processed the invoices using the distributed total as the amount to be paid.

Effect

- From July 19, 2004, through August 1, 2007, the Postal Service processed 3,446 invoices (totaling \$1,103,633) on which eIWS identified errors between the invoice gross amounts and the distributed totals. The Postal Service overpaid \$150,839 on 648 invoices and underpaid \$100,815 on 704 invoices. They paid the remaining invoices correctly.²
- If this issue had gone undetected, we project the Postal Service would have processed net overpayments of \$32,850 over the next 2 years. Please refer to [Appendix C](#) for our calculation of projected overpayments.

¹ Refer to [Appendix B](#) for a copy of the form.

² Two invoices were cancelled prior to payment.

Corrective Action

- When brought to their attention, the Postal Service modified eIWS. As of August 2, 2007, eIWS sets aside invoices with differences between the gross and distributed amounts for further review and correction prior to payment. Accordingly, we are not making any recommendations.
- We will report the net overpayment of \$50,024 as monetary impact, recoverable questioned costs, and the projected overpayments of \$32,850 as monetary impact, funds put to better use, in our *Semiannual Report to Congress*. In addition, because a control was not in place to prevent payment of invoices where discrepancies existed, we will report \$1,053,609 as non-monetary impact, assets at risk, in our *Semiannual Report to Congress*, for those invoices with discrepancies that were paid correctly.

MANAGING ACCOUNTS RECEIVABLE

The San Mateo IT/ASC did not manage all accounts receivable for which it was responsible. Specifically, we identified 34 of 17,976 accounts receivable over 30 days old, valued at \$81,614, where San Mateo IT/ASC personnel did not review the accounts to ensure payments were being made.

Criteria

- Handbook F-20A, *Accounting Service Center Accounting Guidelines*, dated May 1999, with updates through October 10, 2001.
- Handbook F-16, *Accounts Receivable*, dated February 1990.

Cause

- San Mateo IT/ASC personnel did not enter customer payment plan information in the Oracle Accounts Receivable System (OARS) for the 34 accounts receivable identified. Further, when payment plan information is not entered into OARS, the *Payment Plan Reports* do not include the accounts receivable.
- The *Past Due Report*, used to manage the accounts receivable, does not include account status or payment information.

Effect

- For 23 of the 34 accounts valued at \$60,906, no payments were received for 30 or more days.³
- Our expanded analysis, to consider accounts receivable with payments made within 60 days, showed payment plans were established for four of the 34 accounts receivable within 60 days. The remaining 30 accounts receivable, valued at \$73,371, did not have customer payment plan information entered into OARS and no payments were received on 14, valued at \$32,509, for 60 or more days.

Corrective Action

- After we brought this issue to management's attention, they reiterated to applicable IT/ASC personnel the importance of entering all customer payment plan information into OARS.
- As of November 28, 2007, all 34 accounts were either paid in full, written off, forwarded for collection, or monitored (customer payment plan information was entered in OARS).
- We will report \$81,614 as non-monetary impact, assets at risk, in our *Semiannual Report to Congress*. Please refer to [Appendix D](#) for our detailed analysis of this issue.

Recommendation

We recommend the Vice President, Controller, in coordination with the Vice President, Information Technology Operations:

1. Modify the *Past Due Report* to include the account status and payment activity information.

³ As of June 22, 2007.

RECURRING SERVICES CONTRACT PAYMENTS

The Postal Service did not always make recurring service contract payments in a timely manner. Specifically, we tested payments related to 22 recurring services contracts and found:

- 12 contracts where the initial payments were between 16 and 167 days late.
- 17 instances where subsequent payments on those same contracts were also late.⁴

Criteria

Management Instruction FM-610-2000-2, *Compliance with the Prompt Payment Act*, dated March 7, 2000.

Cause

We did not expand our procedures to determine the exact cause for each late payment. However:

- In one instance, the San Mateo IT/ASC did not receive the local agreement from the field site until 30 days after the contract began.
- In three instances, Category Management Center (CMC) personnel did not enter newly created contract information timely to the Contract Authoring and Management System (CAMS).
- In eight instances, the San Mateo IT/ASC did not receive contract renewal information from the CMCs timely.⁵

Effect

- When payments are not made timely, there is increased risk that contractors may not be willing to contract with the Postal Service in the future, may not provide timely or adequate services, or may refuse to perform work.
- Management demonstrated that both the number of transactions requiring Prompt Payment Act (PPA) interest payments and PPA amounts paid was less in the first quarter of FY 2008 compared to the same period in FY 2007.

⁴ Total number of recurring services contracts was 12,323 as of September 30, 2007.

⁵ We did not determine the exact timeframes the CMCs received contract information from the field sites.

Prior Action

Prior to the start of our fieldwork (in January 2007), the San Mateo IT/ASC began sending out reminder letters to the field sites 90 days prior to the expiration of the recurring services contracts.

Corrective Action

As a result of a separate U.S. Postal Service Office of Inspector General (OIG) report,⁶ management agreed to establish procedures to reissue old contracts in CAMS with new contract award numbers at the time of renewal, modification, or change. This will ensure contract information interfaces with the Accounts Payable Excellence (APEX) system for payment. Refer to [Appendix E](#) for our detailed analysis of this issue.

Recommendation

We recommend the Vice President, Controller:

2. Coordinate with the Vice President, Supply Management, to reiterate to Category Management Center and field site personnel the importance of providing both recurring services contract and local agreement information to the San Mateo Information Technology and Accounting Service Center in time to avoid Prompt Payment Act interest payments.

PROGRESS ON PRIOR YEARS' RECOMMENDATIONS

We followed up on prior years' recommendations related to our financial statements audits at the San Mateo IT/ASC.

Accurate Calculation of Prompt Payment Act Interest

The Postal Service calculated PPA interest on invoices paid via electronic funds transfers using the date the electronic payment file was transmitted from the San Mateo IT/ASC to the Eagan IT/ASC.⁷ Although the Eagan IT/ASC transmitted the file to the Federal Reserve Bank that same day, no funds were transferred to vendors' accounts on that day. As a result, Postal Service PPA interest payments did not include 1 full day of interest owed. We recommended the Postal Service revise the method for calculating PPA interest on late electronic funds transfer payments by using the U.S. Code of Federal Regulations settlement date.

⁶ *Application Control Review of Oracle Accounts Payable – Feeder Systems* (Report Number IS-AR-07-014(R), dated August 9, 2007).

⁷ *Fiscal Year 2006 Postal Service Financial Statement Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-07-010, dated March 26, 2007).

Progress

The Postal Service revised the method for calculating PPA interest on late electronic funds transfer payments and currently uses the U.S. Code of Federal Regulations settlement date.

Audit Comment

This recommendation was closed through the formal closeout process on July 26, 2007.

Semiannual Capital Property Reviews

In FY 2004, management implemented our recommendation to advise personnel to conduct semiannual capital property record reviews.⁸ However, in FYs 2005 and 2006, the condition continued to exist. As a result, management may not have been timely accounting for additions, disposals, or obsolescence. We recommended management direct material accountability officers (MAO) to conduct semiannual capital property record reviews.

Progress

In August 2007, management issued an email to district managers reminding them of the requirement to conduct semiannual capital property record reviews and requested they forward it to installation heads and MAOs.

Audit Comment

During FY 2007, we tested 75 sites for property existence and semiannual capital property reviews and found:

- Semiannual reviews were not performed at 31 of the 75 sites.
- We were unable to locate 14 property items at three sites.
- Personnel were not always aware of their responsibility to perform semiannual reviews.

⁸ *Fiscal Year 2003 Postal Service Financial Statement Audit – San Mateo Information Technology and Accounting Service Center* (Report Number FT-AR-04-008, dated February 24, 2004).

- Because the reminders were sent in August, we could not fully evaluate the effect of management's actions. Therefore, we are not making any recommendations at this time. We will continue to monitor this area as part of our annual financial statements audit work.
- During FY 2007, the Postal Service performed a 5-year inventory survey on personal property equipment. Based on those results, the Board of Governors' IPA concluded that although only an insignificant amount of property could not be located, the process was very cumbersome and labor-intensive. Coupled with the OIG's findings, the IPA indicated control processes are not functioning as management intended. They recommended management refine its capital equipment inventory process and re-design its control processes, and projected an approximate \$40 million overstatement in the Postal Service's financial records.

Management's Comments

Management agreed with the recommendations. On February 11, 2008, the San Mateo IT/ASC submitted a software change request to modify the *Past Due Invoice Report* to indicate the status of past due invoices, including both account payment and activity status. For recurring services contract payments, the ASCs will continue to send reminder letters to field sites 90 days prior to the expiration of local cleaning agreements. The Vice President, Supply Management, will ensure the next update to the *Administrative Support Manual (ASM)* includes a requirement that ASCs receive renewal agreements 15 working days prior to the term expiration date. The planned effective date of the ASM update is October 1, 2008. Finally, by March 30, 2008, management will update the *Cleaning Services Local Buying Agreement Guidelines* with that same requirement. We have included management's comments, in their entirety, in [Appendix G](#).

Management's comments did not address monetary or non-monetary impact. However, in separate communication on March 17, 2008, management stated they agreed with all monetary impact.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and the corrective actions should resolve the issues.

We will report \$82,874 of monetary impact — including \$50,024 of recoverable questioned costs and \$32,850 of funds put to better use — and \$1,135,223 of non-monetary impact, assets at risk, in our *Semiannual Report to Congress*.

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



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: H. Glen Walker
Susan M. Brownell
Vincent H. DeVito, Jr.
Jo Ann E. Mitchell
Stephen J. Nickerson
William A. Cole
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The San Mateo IT/ASC includes one of three accounting service centers Postal Service-wide.⁹ It is a large, centralized accounting and disbursement center responsible for accounts payable,¹⁰ centralized postage payments,¹¹ capital personal property, motor vehicles, and supply inventory.

We will issue separate financial statement audit reports for headquarters and the Eagan and St. Louis IT/ASCs. Further, in addition to the overall opinion on the Postal Service's financial statements, the Board of Governors' IPA, contracted to express an opinion on the financial statements, will issue separate reports on the Postal Service's internal controls and compliance with laws and regulations. The OIG will also issue a separate report for the audit of the FY 2007 information system controls at the Eagan, Minnesota; San Mateo, California; and St. Louis, Missouri IT/ASCs; and the Raleigh, North Carolina Information Technology Service Center.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

- The financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.
- Accounting transactions at the San Mateo IT/ASC 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 material and direct effect on the financial statements as a whole.

To accomplish our objectives, we conducted fieldwork from November 2006 through February 2008. As part of our audit, we assessed internal controls, tested transactions,

⁹ The others are in IT/ASCs located in Eagan, Minnesota, and St. Louis, Missouri.

¹⁰ Includes accounting for motor vehicle supply parts and services, bulk fuel inventory purchases, miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field payables.

¹¹ The Centralized Account Processing System is an electronic postage payment system that provides business mailers a way to pay postage at multiple post offices through a centralized account.

and verified account balances. We conducted this audit from November 2006 through March 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient audit evidence to limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on the financial statements. Those standards also require considering the results of previous engagements and following up on known significant findings and recommendations that directly relate to the objectives of the audit.

An audit also includes obtaining a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. We supported the external auditors in obtaining reasonable assurance about whether the financial statements are 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 generally accepted auditing standards may not detect a material misstatement. However, the 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 officials on February 22, 2007, and included their comments where appropriate.

We relied on computer-generated data from several Postal Service financial systems, including Accounting Data Mart, APEX, Centralized Account Processing System, Vehicle Management and Accounting System, Material Distribution/Inventory Management System, eIWS, and Property and Equipment Accounting System. We performed specific internal control and transaction tests on these systems' data, to include tracing selected financial information to supporting source records. For example, we verified that payments recorded in APEX were supported by certified invoices and the amounts were properly applied to the appropriate general ledger accounts.

PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Results |
|--|----------------------|--------------------------|---|
| <i>Fiscal Year 2006 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center</i> | FT-AR-07-010 | March 26, 2007 | Semiannual capital property reviews not performed at 51 of 80 sites. |
| <i>Fiscal Year 2005 Postal Service Financial Statement Audit – San Mateo Information Technology and Accounting Service Center</i> | FT-AR-06-010 | January 26, 2006 | Semiannual capital property reviews not performed at 15 of 26 sites. |
| <i>Fiscal Year 2004 Postal Service Financial Statement Audit – San Mateo Information Technology and Accounting Service Center</i> | FT-AR-05-007 | January 12, 2005 | Management reemphasized the requirements to perform capital property reviews. |

Refer to the **Progress on Prior Years' Recommendations** section of this report for details of these issues.

APPENDIX B: PS FORM 8230, AUTHORIZATION FOR PAYMENT



Authorization for Payment

(Print Legibly in Upper Case using Black Ball-Point Pen) SUBMIT ORIGINAL INVOICE WITH THIS FORM.

| | | | | | | |
|----|---------|----------------|-----------------|------------------------------|------------|------------|
| 1. | Invoice | Credit Invoice | Tort Claim | 2. TIN: (Except tort claims) | | |
| 3. | Vendor | Foreign Vendor | Postal Employee | Non-Postal SSN | PPA Exempt | Non-Profit |

4. Vendor/Payee Name: _____

5. Remit to Address:

Address Line 1 _____

Address Line 2 _____

Address Line 3 _____

City _____

State _____ ZIP+4® _____

6. Vendor Invoice # (EXACTLY AS ON INVOICE, INCLUDING SPACES, HYPENS, ETC.): _____

7. Invoice Date: _____ 8. Invoice Received Date: _____

9. Goods Rec'd Date: _____ 10. Invoice Gross Amount: _____

11. GLA Account #:

| | |
|--|---------|
| Finance No. | Amount: |
| Additional lines for more than one GLA or Finance #: | |
| GLA Account #: | |
| Finance No. | Amount: |
| GLA Account #: | |
| Finance No. | Amount: |

12. Post Office™ Contact Information:

Contact Name: _____ Phone Number: _____ Fax Number: _____

13. Certification of Invoice: I certify that the goods and services described have been received and that the invoice is correct and proper for payment. I also certify that the vendor will not accept the IMPAC credit card.

| | | | |
|----------------------------------|----------------------|---------------------------|--|
| Signature of Certifying Officer: | <input type="text"/> | Date Certified: | |
| Title of Certifying Officer: | <input type="text"/> | Originating Office ZIP+4: | |

**APPENDIX C: ENTERPRISE IMAGING WORKFLOW SYSTEM
PROJECTED OVERPAYMENTS**

If the issue had gone undetected, we project the Postal Service would have overpaid \$32,850 over a 2-year period as follows:

| | |
|--|--------------|
| Actual Net Overpayments | \$50,024 |
| ÷ Number of Days (July 19, 2004 through August 1, 2007) | <u>1,109</u> |
| = Overpaid Amounts per Day (Rounded) | \$45 |
| X Number of Days Projected (2 Years) | <u>730</u> |
| = Projected Net Overpayments | \$32,850 |

APPENDIX D: MANAGING ACCOUNTS RECEIVABLE

The San Mateo IT/ASC did not manage all accounts receivable for which it was responsible. Specifically, we identified 34 accounts receivable over 30 days old (valued at \$81,614) where San Mateo IT/ASC personnel did not review the accounts to ensure payments were being made.

The San Mateo IT/ASC manages accounts receivable established for items included in five general ledger accounts.¹² The accounts receivable include, but are not limited to, erroneous payments to vendors or on money orders, damages to vehicles and property, monies owed from government agencies, contracted services,¹³ uniform allowance vendors,¹⁴ Customer Claims Response System (CCRS),¹⁵ and electronic Address Change Services (ACS).¹⁶ As of November 6, 2007, the San Mateo IT/ASC was responsible for managing 17,976 accounts receivable valued at \$20.8 million.

San Mateo IT/ASC personnel establish payment plans and enter customer information¹⁷ into OARS based on payments received or debtor actions prompting payment plan updates.¹⁸ They also advised their procedures include reviewing the status of each receivable at least monthly.

Further, they informed us the San Mateo IT/ASC uses the *Past Due Report* and *Payment Plan Report*, both generated from OARS, to manage accounts receivable. The *Past Due Report* includes all of the accounts receivable that are more than 30 days old. Personnel use the *Past Due Report* to randomly select accounts receivable with high current balances for review and to identify for review the lowest balance accounts receivable.¹⁹ For selected high balance accounts receivable, they then query the *Payment Plan Report* and OARS to determine whether the status is current, including whether accounts are in collections,²⁰ on payment plans, in dispute, or on hold; and whether debtors are paying as required. For low balance accounts receivable, personnel query OARS and review the account information to determine whether or not

¹² 13190 *Miscellaneous*, 13470 *Motor Vehicle Accidents Receivable*, 13475 *Property Damage Receivable*, 13480 *Money Order Customers Receivable*, and 13490 *Miscellaneous Receivables*.

¹³ Funds owed by Contract Postal Units.

¹⁴ Rebates that vendors who sold Postal Service uniforms owe.

¹⁵ The system which enables Postal Service employees to process domestic indemnity claims received from customers when Insured Mail articles are lost or damaged in the mail. CCRS receivables arise when the Postal Service finds lost items on which it paid claims and subsequently provides the items to the customers.

¹⁶ ACS is a service the Postal Service provides customers for address corrections/updates. The receivable results when customers who subscribe to and receive the service are billed for that service.

¹⁷ The information entered includes account notes, payment plan period (payment frequency), payment plan amount (amounts paid at each period), and payment plan start date.

¹⁸ Debtor actions prompting payment plan updates can be formal, implied, or verbal; and include memoranda of agreements and phone conversations.

¹⁹ The San Mateo IT/ASC did not establish thresholds for determining high balance and low balance cutoffs.

²⁰ This includes forwarding to Cross Servicing at the Eagan IT/ASC, which issues dunning notices to delinquent debtors and referrals to the Department of Treasury Debt Management Services.

to write-off the accounts receivable.²¹ Personnel use the *Payment Plan Report* because the *Past Due Report* does not include account status or payment information. Only the *Payment Plan Report* includes the latest payment information for those accounts receivable where payment plan information exists in OARS. When payment plan information does not exist in OARS, those accounts receivable are not included in the *Payment Plan Report*.

Postal Service policy²² requires ASCs to manage accounts receivable and states that accounts receivable not paid within 30 days are considered delinquent. Postal Service policy also requires the accounts receivable unit managers to establish and maintain accounting control over accounts receivable, and to demand payments from the debtors who owe money to the Postal Service.²³ Further, management of accounts receivable includes monitoring account status and activity.

This occurred because San Mateo IT/ASC personnel did not enter customer payment plan information in OARS for the 34 accounts receivable identified. When payment plan information was not entered to OARS, the *Payment Plan Report* did not include the accounts receivable. Also, the *Past Due Report* that is used to manage accounts receivable did not include account status or payment information.

As a result, for 23 of the 34 accounts valued at \$60,906, no payments were received for 30 or more days.²⁴ Also, when accounts receivable are not adequately monitored, there is increased risk the Postal Service may never collect the receivable.

To account for the timing of payments, we expanded our analysis to consider accounts receivable with payments made within 60 days.²⁵ In that scenario, payment plans were established for four of the 34 accounts receivable within 60 days. The remaining 30 accounts receivable, valued at \$73,371, did not have customer payment plan information entered into OARS and no payments were received on 14, valued at \$32,509, for 60 or more days.

As of November 28, 2007, all 34 accounts receivable were either paid in full, written off, forwarded for collection action, or monitored (customer payment plan information was entered in OARS).

²¹ If the balance relates to finance charges, the San Mateo IT/ASC evaluates the account receivable to determine whether or not to write-off the amount.

²² Handbook F-20A, *Accounting Service Center Accounting Guidelines*.

²³ Handbook F-16, *Accounts Receivable*.

²⁴ As of June 22, 2007.

²⁵ For example, one debtor made multiple payments in previous months, thus was ahead of their payment plan requirements. However, they had not made a payment within 30 days of June 22, 2007, the date of the payment plan report reviewed.

APPENDIX E: RECURRING SERVICES CONTRACT PAYMENTS

The Postal Service did not always make recurring service contract payments in a timely manner. Specifically, we tested payments related to 22 recurring services contracts and found:

- 12 contracts where initial payments were between 16 and 167 days late.
- 17 instances where subsequent payments on those same contracts were also late.

There are three basic methods to initiate or renew recurring services contracts and related payments:

- Postmasters at field sites send local agreements directly to the San Mateo IT/ASC where the information is entered into APEX for payment.
- CMC personnel enter information for contracts established after May 2006 into the CAMS. This information interfaces directly with APEX for payment.
- CMC personnel enter renewal information into CAMS for contracts established prior to May 2006, because these contracts were not initially established in CAMS and, therefore, there is no interface with APEX. CMC personnel then forward the information to the San Mateo IT/ASC where the renewal information is entered into APEX for payment.

Best practices call for timely payments. Also, Postal Service policy²⁶ states that suppliers are entitled to interest when the Postal Service does not pay a supplier's invoice on or before the due date.

Although we did not expand our procedures to determine the exact cause for each late payment, we identified one instance where the field site did not send the agreement to the San Mateo IT/ASC timely. Specifically, the San Mateo IT/ASC received the local agreement 30 days after the contract began. Also, in three instances, CMC personnel did not enter newly created contract information timely to CAMS, and in eight instances the San Mateo IT/ASC did not receive contract renewal information from the CMCs timely. Note, however, we did not determine the exact timeframes the CMCs received contract information from the field sites.

When payments are not made timely, there is increased risk that contractors may not be willing to contract with the Postal Service in the future, may not provide timely or adequate work, or may refuse to perform work.

In order to mitigate late entry of local agreement contract information into APEX, in January 2007, the San Mateo IT/ASC began sending reminder letters to the field sites 90 days prior to the expiration of the recurring services contracts. Further, as a result of

²⁶ Management Instruction FM-610-2000-2.

our report titled *Application Control Review of Oracle Accounts Payable – Feeder Systems*,²⁷ management agreed to establish procedures to reissue old contracts in CAMS with new contract award numbers at the time of renewal, modification or change. This will ensure contract information interfaces with APEX for payment.

²⁷ Report Number IS-AR-07-014(R), dated August 9, 2007.

APPENDIX F: SUMMARY OF MONETARY AND NON-MONETARY IMPACT

| MONETARY IMPACT | | |
|---------------------------------|-----------------|------------------------------|
| Description | Amount | Category |
| eIWS Processing Control: | | |
| Actual net overpayments | \$50,024 | Recoverable Questioned Costs |
| Projected net overpayments | 32,850 | Funds Put to Better Use |
| Total Monetary Impact | \$82,874 | |

| NON-MONETARY IMPACT | | |
|--|--------------------|-----------------|
| Description | Amount | Category |
| eIWS Processing Control: | | |
| Invoices with discrepancies that were paid correctly | \$1,053,609 | Assets at Risk |
| Managing Accounts Receivable | | |
| Receivables over 30 days old that were not reviewed | 81,614 | Assets at Risk |
| Total Non-Monetary Impact | \$1,135,223 | |

APPENDIX G: MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER



March 12, 2008

JOHNSON JOHN

SUBJECT: Draft Audit Report—Fiscal Year 2007 Postal Service Financial Statements Audit—San Mateo Information Technology and Accounting Service Center (Report Number FT-AR-08-DRAFT)

This provides Postal management's response to the subject audit report. We appreciate the opportunity to review and provide comments. The following addresses the specific recommendations to the Controller:

Recommendation #1

Modify the Past Due Report to include the account status and payment activity information.

Management Response

Management agrees with this recommendation. On February 11, 2008, the San Mateo Accounting Section submitted Software Change Request #08-045 to the Headquarters Change Control Board. The request is to modify the Past Due Invoice Report to indicate the status of past due invoices which will include both account and payment activity status. The report once modified will help ensure that past due invoices are properly coded and managed accordingly.

Recommendation #2

Coordinate with the Vice President, Supply Management, to reiterate to Category Management Center and field site personnel the importance of providing both recurring services contract and local agreement information to the San Mateo Information Technology and Accounting Service Center (ASC) in time to avoid Prompt Payment Act interest payments.

Management Response

Management agrees with this recommendation and will take several actions to support implementation. First, the ASC will continue to send out reminder letters to field sites (local cleaning agreements) 90 days prior to the expiration. In addition, the Supply Management Vice President has agreed that during the next update of the ASM, section 722.7, which covers cleaning services valued at less than \$10,000, a requirement to ensure renewal agreements are received at the ASC 15 working days prior to the term expiration date will be added. The planned effective date for this ASM update is October 1, 2008. In addition, before March 30th, we will update the Cleaning Services Local Buying Agreement Guidelines, available at the Accounting web site, to include the same requirement.

475 L'ENFANT PLAZA SW RM 8011
WASHINGTON DC 20260-5200
202-268-4177
FAX: 202-268-6934
WWW.USPS.COM

- 2 -

The Supply Management Vice President has also agreed to remind contracting officers to take necessary actions to ensure that recurring services contract information is provided to the ASC in time to avoid Prompt Payment Act interest payments. This will be accomplished through a cascade of your final report to all Supply Management contracting personnel with a request that they also send to applicable contracting officer's representatives who share responsibility for timely processing of contract renewals. The cascade will be issued within 30 calendar days following issuance of your final report.

This report contains no FOIA exempt information.



Lynn Malcolm
Vice President, Controller

cc: Katherine S. Banks
William Cole
Jo Ann Mitchell
Susan Witt