OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Fiscal Year 2013 Postal Service Financial Statements Audit – San Mateo Accounting Services

Audit Report

Report Number
FT-AR-14-010-DR

May 28, 2014

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

We did not propose any adjustments; however, we identified the need to improve key controls established to ensure that contractor payments are correct and capital property is properly recorded.

Background

U.S. Postal Service San Mateo Accounting Services is responsible for accounting functions related to accounts payable, centralized postage payments, capital property, motor vehicles, and supply inventory. The Postal Service's Financial Testing Compliance group examines key financial reporting controls.

Our objectives were to determine whether San Mateo Accounting Services:

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

We also determined whether the Financial Testing Compliance group properly tested, documented, and reported key financial reporting controls.

What The OIG Found

San Mateo Accounting Services' accounting transactions were fairly stated and account balances conformed to the general classification of accounts. In addition, it complied with laws having a direct and material effect on the statements. Finally, the Financial Testing Compliance group properly tested, documented, and reported its examination of key financial reporting controls.

We did not propose any adjustments; however, we identified the need to improve key controls established to ensure that contractor payments are correct and capital property is properly recorded. Specifically, we identified deficiencies 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 fiscal year 2013.

What The OIG Recommended

We recommended management implement a control to verify and collect correct contract data entered into the contract labor system prior to payment. Also, we recommended management revise testing and reinforce procedures for the semi-annual capital property reviews, modify the report and instructions to include additional data for the review, and remove obsolete assets from inventory.

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Specifically, we identified deficiencies related to inaccurate contract labor rates in two of 25 invoices we reviewed and inaccurate capital property reviews.

Roll over the red flags to get the details

Transmittal Letter

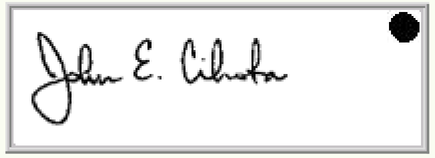
OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 28, 2014

MEMORANDUM FOR: SCOTT G. DAVIS
ACTING VICE PRESIDENT, CONTROLLER

JOHN T. EDGAR
VICE PRESIDENT, INFORMATION TECHNOLOGY

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



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

SUBJECT: Audit Report – Fiscal Year 2013 Postal Service Financial Statements Audit – San Mateo Accounting Services (Report Number FT-AR-14-010)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Accounting Services in San Mateo, CA, for the fiscal year ended September 30, 2013 (Project Number 13BM003FT000).

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

Attachment

cc: Julie S. Moore
Corporate Audit and Response Management

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Findings

We did not propose any adjustments or identify any issues that were material to the financial statements or that would affect the overall adequacy of internal controls.

Introduction

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Accounting Services in San Mateo, CA, for the fiscal year (FY) ended September 30, 2013 (Project Number 13BM003FT000).

The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. In addition, the Sarbanes-Oxley (SOX) law was enacted in 2002 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 requires the Postal Service to comply with Section 404 of SOX. The Postal Service Board of Governors (Board) contracted with an independent public accounting firm (IPA) to express opinions on the Postal Service's financial statements and internal controls over financial reporting. Our audit augments the IPA's opinion.[1] See Appendix A for additional information about this audit.

Conclusion

During our audit of San Mateo Accounting Services, we noted:

- Accounting transactions were fairly stated in the general ledger, and selected key controls[2] surrounding those transactions were designed and operating effectively.
- 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 having a direct and material effect on the financial statements taken as a whole.

Finally, the Financial Testing Compliance (FTC) group properly tested, documented, and reported its examination of key financial reporting controls. We did not propose any adjustments or identify any issues that were material to the financial statements or that would affect the overall adequacy of internal controls. However, throughout the year, we tested internal controls over financial reporting and found the need to improve key controls established to ensure contractor payments were made in the correct amount and capital property was properly recorded. Specifically, we identified control deficiencies[3] related to inaccurate contract labor rates in two of 25 invoices we reviewed and inaccurate capital property reviews. As a result, we identified nearly 8,000 potentially obsolete assets in the Property and Equipment Accounting System (PEAS),[4] contract overpayments of over $9,000, and $3 million in data integrity issues.[5]

In addition, the IPA identified control deficiencies affecting San Mateo Accounting Services that were not in the scope of our audit and are not contained in this report. The IPA informed management of these issues on November 1, 2013.

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1 The IPA maintains overall responsibility for testing and reviewing significant San Mateo 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 A key control is designed to prevent or detect financial statement misstatements.
3 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.
4 Records capital property transactions, including asset additions, adjustments to existing assets, disposals or retirements, and asset transfers between Postal Service locations.
5 The undepreciated value for these assets was about $48,000 as of February 2013.

Reviewers did not detect an incorrect labor rate for one contractor or use Postal Service contract information to validate the labor category; rather, the reviewer contacted the vendor for the data.

Contract Labor Rates

The key controls established to ensure Program Cost Tracking System (PCTS)[6] payments are made in the correct amount were not always effective. We identified two of 25 PCTS invoices with inaccurate labor rates.[7] This occurred because another control, not established as key, was not functioning properly to ensure that personnel correctly entered labor rates into PCTS. Specifically, reviewers did not detect an incorrect labor rate for one contractor or use Postal Service contract information to validate the labor category; rather, the reviewer contacted the vendor for the data. As a result, the Postal Service overpaid two contractors $9,450. We identified a similar issue in our FY 2011 financial statements audit.[8]

The Postal Service has at least three key controls in place to ensure contractor payments are made in the correct amount:

- PCTS will not process the invoice for payment without approval of the time and deliverables.
- The program manager or other authorized timecard approver validates and approves contractor time in PCTS.
- PCTS automatically generates invoices based on the contract information initially entered by the contracting officer representative in PCTS and weekly PCTS timecards approved by a program manager or other authorized timecard approver.

The Postal Service also requires a secondary reviewer to verify that correct labor rates are entered into PCTS before it issues a payment; however, this is not considered a key control. During our audit, we found one case where this secondary review did not identify an incorrect rate. If the Postal Service established the secondary review as a key control, input of labor rates in PCTS would get additional attention during SOX reviews to help ensure the Postal Service is paying the correct amounts.[9]

Having accurate labor rates and labor categories, as part of a collective suite of contracting controls, mitigates the Postal Service's risk of overpaying or underpaying its contractors. As a result of our audit, management corrected the labor rate and labor category in PCTS and took corrective action to recover the $9,450 in overpayments.

6 Tracks information technology deliverables, services, chargeback labor costs, and capital costs to internal Postal Service customers.
7 Each invoice can consist of multiple labor rates. The 25 invoices reviewed contained 76 labor rates. Two of the 76 labor rates were incorrect.
8 See Prior Audit Coverage section of this report.
9 As a key control is designed to prevent or detect financial statement misstatements, management conducts ongoing testing of these controls to ensure they are functioning as intended. A control not considered key may or may not be tested on an ongoing basis. In this case, we believe ongoing testing of this control will help reduce the risk of financial statement misstatements.

Capital Property Reviews

We tested the capital property key control[10] and found the Postal Service needs to improve its review and testing of the control. As part of its key SOX control testing, management did not identify any deficiencies with the capital property reviews. Its control testing included desk reviews to verify whether the *February 2013 Semi-Annual Capital Property Certification Reports*[11] were completed and had proper signatures. We initially performed the desk review procedures for 10 sites and agreed with management's control test results; however, we looked more thoroughly at the test procedures for those 10 sites and expanded our review to include six additional sites.[12] As shown in Table 1, we identified issues for 122 of the 275 capital property assets[13] reviewed at eight of the 16 sites.

Table 1: OIG Capital Property Review Exceptions

Postal Service Sites	OIG Found Assets but the Postal Service Did Not	Postal Service Found Assets but OIG Did Not	OIG and Postal Service Unable to Locate Assets	Missing Disposal Forms	Missing Transfer Forms	Assets Recorded as Disposed in PEAS	Total Assets
Capital Customer Service District (CSD)[14]	-	-	3	2	-	-	5
Chicago Processing and Distribution Center (P&DC)	-	-	-	-	1	-	1
Colorado/ Wyoming CSD	-	2	29	2	-	-	33
Connecticut Valley CSD	1	-	7	3	1	-	12
Eastern Law Office	-	-	-	-	1	-	1
Public Relations & Promotions Office[15]	-	-	58	-	-	-	58
San Diego CSD	2	1	-	-	2	2	7
Western Pennsylvania CSD	4	1	-	-	-	-	5

Source: OIG site verification and *February 2013 Semi-Annual Capital Property Certification Report* analysis.

10 This control (Key Control 308CA37) requires a material accountability officer (MAO) or designee to indicate whether he or she found equipment listed on the semi-annual capital property certification report. The report is annotated accordingly, and the MAO signs off on it.
11 The reports listed the assets selected for the February 2013 semi-annual capital property review. Management selects one-eighth of the assets for review semi-annually.
12 See the Objectives, Scope, and Methodology section of this report for the 16 sites and our expanded test procedures. We reviewed 275 capital property assets, with total acquisition costs of $11.7 million.
13 Some of the assets included automated file systems, contract postal unit counters, and telephone systems.
14 We were unable to confirm the accuracy of the PEAS records at this site because the equipment did not have asset identification labels.
15 We were unable to confirm the accuracy of the PEAS records because no capital equipment was at this site. Personnel stated the assets were obsolete and should be removed from PEAS.

These issues occurred because Postal Service personnel:

- Relied on incorrect asset verification information from other employees.
- Incorrectly marked the assets as "found."
- Misidentified the assets.
- Did not receive the assets' identification labels.
- Were unaware of procedures for acquiring replacement asset identification labels.
- Were unaware of the assets' locations.
- Were unaware of property transfer or disposal requirements.

Additionally, the asset locations or descriptions on the *February 2013 Semi-Annual Capital Property Certification Reports* were inaccurate or insufficient.

Some of the issues our additional testing found could be prevented by modifying the semi-annual capital property certification report and instructions. Specifically, requiring MAOs to note whether assets require disposal or transfer forms would serve as a reminder to complete the forms when necessary. Additionally, requiring MAOs to note asset locations and provide more detailed descriptions, such as the equipment's make, model, or serial number, would prompt Postal Service personnel to update PEAS records, which would ease asset identification in future semi-annual reviews. Lastly, requiring personnel to certify their understanding of policies and instructions would serve as a reminder to review them before performing the semi-annual capital property reviews.

Postal Service policy[16] requires personnel who perform semi-annual capital property reviews to ensure that capital property records are accurate. It also requires personnel to process all receipts, transfers, and disposals timely. Management's control test procedures for review of the semi-annual capital property certification report for proper signatures are insufficient evidence to support the control's effectiveness.[17] Testers should also verify the report demonstrates a reasonable review of the capital property itself.

Our additional control testing identified inaccurate, incomplete, and unverified records for 122 assets in PEAS. As a result of our audit, Postal Service personnel took corrective action to transfer, retire, or reinstate 70 assets. The PEAS records for 28 assets were unchanged as of January 8, 2014. As a result of the Postal Service's capital property review process, personnel recorded the remaining 24 assets[18] as "disposed" in PEAS because they were marked as "not found" on the *February 2013 Semi-Annual Capital Property Certification Report*.

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16 Handbook AS-701, *Material Management*, Section 532, dated April 2012.
17 Public Company Accounting Oversight Board (PCAOB), *Staff Audit Practice Alert No. 11, Consideration for Audits of Internal Control Over Financial Reporting,* dated October 24, 2013.
18 Personnel were unable to locate 17 of the 24 assets because the reports did not contain sufficient asset information. Additionally, personnel did not mark the remaining seven assets as "found" on the reports and did not complete disposal forms for these assets.

These issues do not have a material effect on the overall financial statements. However, the capital property review process is critical to the accuracy of PEAS records. Proper performance of internal controls aids in accurate reporting of capital property in the financial statements. Further, accurate, complete, and valid data in PEAS can enhance management's decisions regarding capital property. Therefore, the inaccuracy of the PEAS records for 122 assets caused data integrity errors of $1.1 million[19] in acquisition costs. See Appendix B for other impact.

Property and Equipment Accounting System Assets

We reviewed the capital property records in PEAS and identified 7,943 potentially obsolete assets, including:

- 205 stamp vending machines.
- 166 multi-commodity vending machines.[20]
- 2,750 point-of-service machines.
- 1,152 mini computers, acquired before FY 2000.
- 3,670 micro-computer systems, acquired before FY 2000.

Postal Service personnel stated the vending machines should have been physically removed and retired a few years ago; therefore, the inaccuracy of the PEAS records for 371 vending machines caused data integrity errors of $1.9 million[21] in acquisition costs. See Appendix B for other impact. Postal Service personnel also stated that some sites still have the old point-of-service machines, although plans have been under way since FY 2011 to retire and replace them with non-capital machines. Industry practice is to replace computers every 3-5 years and these computers are over 14 years old.

As a result of our inquiries, the Postal Service initiated corrective actions to retire all the vending machines in PEAS and to monitor and retire the point-of-service machines as appropriate. Removing obsolete assets from PEAS would prevent the Postal Service from using resources during the semi-annual capital property reviews to research assets that are no longer in use or no longer exist.

19 The undepreciated value for the 122 assets is about $48,000 as of February 2013.
20 Multi-commodity vending machines are self-service vending machines that contain stamps, envelopes, and post cards.
21 The vending machines were fully depreciated as of August 2013.

Recommendations

We recommend management implement a control to verify and collect correct contract data entered into the contract labor system prior to payment; revise testing and reinforce procedures for the semi-annual capital property reviews; and remove obsolete assets from inventory.

We recommend the acting vice president, Controller, in coordination with the vice president, Information Technology:

1. Implement as a key control the secondary review verifying correct data is entered into the Program Cost Tracking System, including labor rates and categories, before the system makes payment.

2. Develop and implement procedures to use Postal Service contract information to assign labor categories in the Program Cost Tracking System rather than using information provided by the vendor.

We recommend the vice president, Supply Management:

3. Modify the *Semi-Annual Capital Property Certification Report* and instructions to note whether transfer or disposal forms were completed for assets found, to note the asset locations and detailed descriptions of capital property located at the site, and to require personnel to certify they understand the capital property review policies and instructions.

4. Reinforce semi-annual capital property review and asset identification label acquisition procedures.

5. Research and remove obsolete capital property, as appropriate, from the Property and Equipment Accounting System.

We recommend the acting vice president, Controller:

6. Revise semi-annual capital property review control test procedures to ensure proper asset verification and completion of required disposal and transfer forms.

Management's Comments

Management generally agreed with the findings and recommendations. Management disagreed with $1.9 million of data integrity for the 371 vending machines because the assets were correctly identified in the PEAS and physically accounted for in inventory.

Regarding recommendation 1, management will assess controls over contract set-up in PCTS. Management plans to complete this action by September 30, 2014; however, they will not implement the remediation plan if they determine the associated cost outweighs the risk.

Regarding recommendation 2, management will implement a procedure for using the published price proposal from the Contract Authoring Management System (CAMS) to assign labor categories in PCTS. Management plans to complete this action by June 30, 2014.

Regarding recommendation 3, management will modify the *Semi-Annual Capital Property Certification Report* and the report instructions to include the recommended items. Management plans to complete this action by August 31, 2014.

Regarding recommendation 4, management will reinforce the importance of the reviews and the identification label acquisition procedures through publications and training. Management plans to complete this action by August 31, 2014.

Regarding recommendation 5, management will research and remove obsolete retail vending equipment, micro-computer systems, and point-of-service equipment from the PEAS. Management plans to complete this action by October 31, 2014.

Regarding recommendation 6, management will assess the design of the capital property review control and enhance the test procedures. Management plans to complete this action by August 31, 2014.

See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding recommendation 5, the asset records in PEAS were inaccurate because the vending machines were physically removed from the field and retired; therefore, personnel would not have been able to physically account for the vending machines as part of the Postal Service's inventory. We reported $1.9 million as other impact and categorized it as data integrity as opposed to one of the more elevated categories under monetary impact.

Appendices

Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Background

San Mateo Accounting Services is one of the Postal Service's three accounting services[22] and includes, as part of its functions, centralized accounting and disbursements. Its employees are responsible for accounts payable,[23] centralized postage payments,[24] capital property, motor vehicles, and supply inventory. The Postal Service's FTC group examines key financial reporting controls.

To verify the capital property inventory, the Postal Service selects one-eighth of the assets in PEAS on a semi-annual basis to review. Personnel verify the existence of the assets listed in the *Semi-Annual Capital Property Certification Report.* Personnel mark assets as either "found" or "not found" on the report. When personnel know an asset has previously been disposed or transferred, they are required to mark the asset as "found," complete a disposal or transfer form, and submit completed certification reports and any disposal and transfer forms to their designated Asset Accountability Service Center (AASC). AASC personnel review and sign the transfer forms and record the transferred assets in PEAS. Personnel review and forward all the disposal forms and completed reports with assets marked as "not found" to San Mateo Accounting Services, where they are maintained. San Mateo Accounting Services personnel record assets as "disposed" in PEAS based on the disposal forms. In cases where the reports indicate the assets were not found, personnel also record these assets as "disposed" in PEAS.

We have issued separate reports for Eagan[25] and St. Louis[26] accounting services and issued a separate financial statements audit report for headquarters.[27] 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.[28] The OIG also issued a separate report for the audit of FY 2013 information system controls at the Eagan, San Mateo, and St. Louis information technology and accounting service centers and the Raleigh ITSC.[29]

22 Other accounting services are in Eagan, MN, and St. Louis, MO.
23 Includes accounting for inventory purchases, contract cleaners, miscellaneous disbursements, commercial credit cards, relocation, and headquarters and field office payables.
24 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.
25 *Fiscal Year 2013 Postal Service Financial Statements Audit – Eagan Accounting Services* (Report Number FT-AR-14-006, dated February 24, 2014).
26 *Fiscal Year 2013 Postal Service Financial Statements Audit – St. Louis Accounting Services* (Report Number FT-AR-14-009, dated March 20, 2014).
27 *Fiscal Year 2013 Postal Service Financial Statements Audit – Washington, D.C. Headquarters for Fiscal Year 2013* (Report Number FT-AR-14-007, dated February 21, 2014).
28 In addition to the IPA's work, these reports encompass work the OIG performed at headquarters, the three solutions development and support field sites, and the Raleigh, NC, Information Technology Service Center (ITSC).
29 *Fiscal Year 2013 Information Technology Internal Controls* (Report Number IT-AR-14-003, dated March 26, 2014).

Highlights
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Objectives, Scope, and Methodology

The objectives of the audit were to determine whether San Mateo Accounting Services:[30]

- 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 FTC group properly tested, documented, and reported its examination of key financial reporting controls.

We re-performed key control testing related to semi-annual capital property reviews. The testing included a review of management's desk review procedures to verify required signatures and the completeness of the *February 2013 Semi-Annual Capital Property Certification Reports* for 10 sites:

- Albia, IA, Post Office (PO).
- Cam-Porter Square, Cambridge, MA, Station.
- Chicago, IL, PDC.
- Eastern Law Office, Philadelphia, PA.
- El Paso-Northgate, TX, Station.
- Manteo, NC, PO.
- Opa-Locka, FL, PO.
- Providence-Johnston, RI, Branch.
- South Florida. Pembroke Pines, FL, PDC.
- Warminster, PA, PO.

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

Additionally, we contacted personnel who completed the reviews for these 10 sites to determine whether Postal Service personnel transferred or disposed of the assets on the reports. We also re-performed the February 2013 semi-annual capital property review procedures at six additional sites:

- Capital CSD (Washington, D.C.).
- Colorado/Wyoming CSD (Denver, CO).
- Connecticut Valley CSD, Hartford, CT.
- Public Relations and Promotions Office, Washington, D.C.
- San Diego, CA, CSD.
- Western Pennsylvania CSD, Pittsburgh, PA.

We verified the assets listed on the *February 2013 Semi-Annual Capital Property Certification Reports* for these six sites. We reviewed the complete asset listing in PEAS for assets we were unable to locate at two sites. Furthermore, we used arbitrary selection methods to choose 20 assets to verify the accuracy of the records in PEAS.

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 conducted this audit from November 2012 through May 2014[31] 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 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 discussed our observations and conclusions with management on April 1, 2014, and included its comments where appropriate.

31 The scope of our audit was October 1, 2012, through September 30, 2013.

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

- Accounting Enterprise Data Warehouse Reporting.
- CAMS.
- Centralized Account Processing System.
- National Accounting Oracle Financial Application – Oracle Accounts Payable System.
- Enterprise Imaging and Workflow System.
- PEAS.
- PCTS.

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 verified PCTS invoice payment amounts were supported by contract labor rates. 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
Fiscal Year 2012 Postal Service Financial Statements Audit – San Mateo Accounting Services	FT-AR-13-006	12/20/2012	None

Report Results:
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 also found management issued Vehicle Maintenance Bulletin (VMB) VMB-01-12, *Vehicle Maintenance Repair for Shuttling Service*, which included procedures for reconciling monthly activity reports to the ordered vehicle shuttles/moves during the month. Accordingly, we considered this issue closed and did not make any additional recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact
Fiscal Year 2011 Postal Service Financial Statements Audit – San Mateo Accounting Service Center	FT-AR-12-009	1/18/2012	None

Report Results:
We did not propose any adjustments; however, we reviewed internal controls over financial reporting and identified two issues on contractual payables regarding supplier signatures and contract labor rates. Our audit of contracts from the CAMS found one Basic Pricing Agreement that did not include a supplier's signature. The IPA informed management of the issues on November 1, 2011. We also found that management implemented a program to review relocation expenses. Accordingly, we consider this issue closed. Furthermore, management did not issue a VMB addressing procedures for documenting and reconciling monthly U.S. Auto Club invoices prior to payment. We did not make any additional recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact
Fiscal Year 2010 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center	FT-AR-11-008	4/7/2011	$75,838

Report Results:
The Postal Service did not review supporting documentation for relocation services as part of the payment process, and personnel at a vehicle maintenance facility were not adequately reviewing or maintaining supporting documentation for shuttle services prior to payment. We also identified control deficiencies regarding vehicle sales requests and eBuy purchases. Management agreed to conduct an annual sampling of invoices to review supporting documentation for relocation services and to develop and implement a standard operating procedure for review and retention of U.S. Auto Club invoices prior to payment.

Appendix B: Other Impacts

Recommendation	Impact Category	Amount
3,4,6	Data Integrity[32]	$1,114,829
5	Data Integrity	$1,894,665
Total		**$3,009,494**

The data integrity amount for recommendations 3, 4, and 6 is the total acquisition cost for the 122 assets recorded in PEAS that we identified as inaccurate, incomplete, and unverified for FY 2013. The undepreciated value of the assets was about $48,000 as of February 2013.

The data integrity amount for recommendation 5 is the total acquisition cost for the 371 vending machines recorded in PEAS that we identified as obsolete. The vending machines were fully depreciated as of August 2013.

32 Validation of the consistency, accuracy, and completeness of data used by the Postal Service. Data used to support management decisions that are not fully supported or completely accurate. This can be the result of flawed methodology; procedural errors; or missing or unsupported facts, assumptions, or conclusions.

Appendix C: Management's Comments

UNITED STATES POSTAL SERVICE

April 30, 2014

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Management Advisory Report – Fiscal Year 2013 Postal Service Financial Statements Audit – San Mateo Accounting Services (Report Number FT-AR-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report. Management is in general agreement with the Office of Inspector General's (OIG) findings, recommendations, and remaining monetary impact not disputed below.

Monetary Impact: Supply Management disagrees with the $1.9 million data integrity monetary impact associated with the vending machines in recommendation 5. While the 371 vending machines were determined obsolete based upon the audit findings, they were still correctly identified within the Postal Service Property and Equipment Accounting System (PEAS) and physically accounted for as part of the Postal Service's inventory. Therefore, excess inventory may exist but the data integrity issues do not.

OIG Audit Recommendations:

We recommend the acting vice president, Controller, in coordination with the vice president, Information Technology:

Recommendation 1: Implement as a key control the secondary review verifying correct data is entered into the Program Cost Tracking System (PCTS), including labor rates and categories, before the system makes payment.

Management Response: Management partially agrees with the recommendation. Management will work with the SOX Program Management Office (PMO) to assess the design of controls governing contract set-up in PCTS with anticipated remediation by September 2014. However, if it is determined that the cost associated with this secondary review outweighs the risk, we will not implement.

Target Implementation Date: September 2014

Responsible Official: Manager, SOX Management Controls & Integration

Recommendation 2: Develop and implement procedures to use Postal Service contract information to assign labor categories in the PCTS rather than using information provided by the vendor.

Management Response: Management agrees with developing and implementing a procedure to use Postal Service contract information to assign labor categories in PCTS rather than using information provided by the vendor. Personnel within the Business Management Organization, with specifically COR access to PCTS, have been following the documented procedure to pull the published price proposal from CAMS (Contract Authoring and Management) application. To address the recommendation, the documented procedure will be implemented across all personnel with COR access to PCTS and not limited to the personnel within the Business Management Organization.

Target Implementation Date: June 2014

Responsible Official: Manager, IT Business Management

We recommend the Vice President, Supply Management:

Recommendation 3: Modify the Semi-Annual Capital Property Certification Report and instructions to note whether transfer or disposal forms were completed for assets found, to note the asset locations and detailed descriptions of capital property located at the site, and to require personnel to certify their understanding of the capital property review policies and instructions.

Management Response: Management agrees with this recommendation and will modify the Semi-Annual Capital Property Certification Report and instructions to include the recommended items by the next scheduled Semi-Annual Capital Property Review.

Target Implementation Date: August 2014.

Responsible Official: Manager, Asset Management

Recommendation 4: Reinforce semi-annual capital property review and asset identification label acquisition procedures.

Management Response: Management agrees with the recommendation and will continue to reinforce the importance of the Semi-Annual Capital Property Reviews through Postal Bulletin articles, training, and the inclusion of the certification statement in recommendation 3. The identification label acquisition procedures are under the responsibility of the San Mateo Accounting Service Center. Asset Management will coordinate with the Manager, San Mateo Accounting Service Center to include referenced information on how to acquire duplicate identification labels in its communications and training materials.

Target Implementation Date: This recommendation will be implemented by the August 2014 Semi-Annual Capital Property Review.

Responsible Official: Manager, Asset Management in coordination with the Manager, San Mateo Accounting Service Center.

Recommendation 5: Research and remove obsolete capital property, as appropriate, from PEAS.

Management Response: Management agrees with this recommendation.

- Retail Vending Equipment: The Asset Accountability Service Centers (AASCs) are currently completing a review of all vending equipment in PEAS and are processing PS-969 *Material Recycling and Disposal* forms to remove obsolete assets. Target completion date: June 30, 2014.
- Micro Computer Systems: The AASCs will undertake a national review of these systems and work with Information Technology to identify obsolete assets and process PS-969 *Material Recycling and Disposal* forms as needed. Target completion date: October 31, 2014.
- Point-Of-Service (POS) Equipment: This is an ongoing process as "obsolete" POS equipment is being retired and replaced in the field; the AASCs will continue to monitor this equipment and process PS-969 *Material Recycling and Disposal* forms as appropriate.

Target Implementation Date: Based on the later date above, completion will be October 2014.

Responsible Official: Manager, Asset Management

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We recommend the acting vice president, Controller:

Recommendation 6: Revise semi-annual capital property review control test procedures to ensure proper asset verification and completion of required disposal and transfer forms.

Management Response: Annually or as otherwise considered necessary, the SOX Program Management Office (PMO) assesses the design of test procedures for controls designated as key to address identified risks for Internal Control over Financial Reporting (ICFR). As the test procedures are dependent upon the design of the key control and available documentation, the SOX PMO will work with Supply Management on the design of the control (308.CA037) and make revisions to enhance the test procedures planned for implementation for the semi-annual review in August 2014.

Target Implementation Date: August 2014

Responsible Official: Manager, SOX Management Controls & Integration

This report and management's response does not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act.

Scott Davis
(A) Vice President, Controller

Susan Brownell
Vice President, Supply Management

4/28/14

for John Edgar
Vice President, Information Technology

cc: Corporate Audit Response Management

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