



Office of Inspector General | United States Postal Service

Audit Report

Fiscal Year 2019 Selected Financial Activities and Accounting Records

Report Number 19BM004FT000-R20 | January 6, 2020



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Highlights

Objective

The Postal Reorganization Act of 1970 requires annual audits of the U.S. Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act. This section requires the Postal Service to report the scope and adequacy of its internal control structure and procedures and assess their effectiveness. In addition, a U.S. Postal Service Board of Governors (Board) resolution requires annual audits of the Board's travel and miscellaneous expenses, and Board policies and procedures require annual audits of officer travel and representation expenses.

The Board contracted with an independent public accounting (IPA) firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts, processes, and internal controls. We coordinated audit work with the IPA firm to ensure adequate coverage.

Our audit objectives were to determine whether the Postal Service:

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

Findings

We tested key financial reporting controls, traced accounting transactions, and reviewed support documentation in selected accounting processes and determined the Postal Service fairly stated accounting transactions in the general ledger, and selected controls surrounding those transactions were operating effectively. The Postal Service also properly tested, documented, and reported its examination of selected key financial reporting controls related to headquarters and Accounting Services.

In addition, Board personnel and Postal Service officers generally submitted travel expense reports properly. We found limited, minor issues which have been discussed and addressed.

Recommendations

Based on the audit results, we did not offer any recommendations.

Transmittal Letter

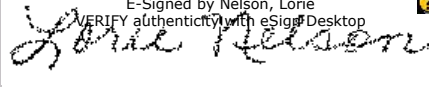


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

January 6, 2020

MEMORANDUM FOR: CARA M. GREENE
VICE PRESIDENT, CONTROLLER

MICHAEL J. ELSTON
ACTING SECRETARY OF THE BOARD

E-Signed by Nelson, Lorie
VERIFY authenticity with eSign Desktop


for

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

SUBJECT: Audit Report – Fiscal Year 2019 Selected Financial
Activities and Accounting Records (Report Number
19BM004FT000-R20)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Washington, D.C. Headquarters and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2019.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Headquarters (HQ) and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year (FY) ending September 30, 2019 (Project Numbers 19BM002FT000, 19BM003FT000, and 19BM004FT000). The HQ Controller's group establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. The three Accounting Services function as large, centralized accounting centers to process and record the financial transactions of the Postal Service:

- Eagan Accounting Services processes payroll and disbursements, maintains the general ledger, reconciles retail payments and banking data, and maintains cash and receivable accounts.
- San Mateo Accounting Services is responsible for accounts payable,¹ centralized postage payments,² capital property, motor vehicles, and supply inventory.
- St. Louis Accounting Services is responsible for money orders, real property, transportation, international mail, field sales, and accounts payable.³

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

- Fairly stated accounting transactions in the general ledger and whether selected controls surrounding those transactions were designed and operating effectively.

- Properly tested, documented, and reported its examination of selected key financial reporting controls⁴ related to HQ and Accounting Services.

See [Appendix A](#) for additional information about this audit.



Background

The Postal Reorganization Act of 1970,⁵ as amended, requires annual audits of the Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006⁶ requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX).⁷ SOX was enacted to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to report the scope and adequacy of its internal control structure and procedures for financial reporting and assess the effectiveness of such internal controls and procedures. In addition, a U.S. Postal Service Board of Governors (Board) resolution requires annual audits of the Board's travel and miscellaneous expenses.⁸ Further, Board policies and procedures require annual audits of officer travel and representation expenses.⁹

¹ Includes accounting for miscellaneous disbursements, commercial credit cards, and HQ and field office payables.

² 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.

³ Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and travel.

⁴ A key control is designed to prevent or detect financial statement misstatements.

⁵ Public Law 91-375, enacted August 12, 1970.

⁶ Public Law 109-435, enacted December 20, 2006.

⁷ Public Law 107-204, enacted July 30, 2002.

⁸ Resolution Number 86-12, *Resolution of the Board of Governors of the United States Postal Service*, dated July 8, 1986.

⁹ *Officers' Travel, Representation, and Office Expense Guidelines*, effective July 1, 2017. Representation expenses nearly always involve one or more non-Postal Service personnel (suppliers, customers, and foreign postal administrators) and a Postal Service officer.

The Board contracted with an independent public accounting (IPA) firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts, processes, and internal controls. We coordinated audit work with the IPA firm to ensure adequate coverage.

In addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA firm issued a separate report on its consideration of the Postal Service's internal controls and its test of compliance with certain provisions of laws, regulations, contracts, and other matters.¹⁰ 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.¹¹ The IPA firm also issued an audit opinion on the Board's expenses.¹²

Finding #1: Accounting Transactions and Related Controls

We tested key financial reporting controls, traced accounting transactions, and reviewed support documentation in 18 accounting processes and determined the Postal Service fairly stated accounting transactions in the general ledger and selected controls surrounding those transactions were operating effectively.¹³ In addition, the Postal Service properly tested, documented, and reported its examination of selected key financial reporting controls related to HQs and Accounting Services.

Finding #2: Office of the Board of Governors' Travel and Other Expenses

We reviewed all 249 payments¹⁴ for travel and other expenses, totaling \$170,950, incurred by the Office of the Board of Governors (Office) during FY 2019 to determine whether they complied with Postal Service and Board policies and procedures. In general, the Office's travel and other expenses were properly

“We tested key financial reporting controls, traced accounting transactions, and reviewed support documentation in 18 accounting processes and determined the Postal Service fairly stated accounting transactions in the general ledger and selected controls surrounding those transactions were operating effectively.”

supported, reasonable, and complied with policies and procedures. However, we identified minor issues related to the approval of travel expense reports prior to signature, payment of hotel sales taxes in tax-exempt states, and timeliness of processing.

We communicated these issues with the acting secretary of the board (Secretary). Board personnel were not always aware of existing policies, and the Secretary has taken actions to address these issues moving forward.

Finding #3: Officers' Travel and Representation Expenses

We reviewed 60 travel and representation expense reimbursement requests, totaling \$58,508, from 46 Postal Service officers to determine whether the reimbursement requests were supported and complied with Postal Service guidelines. For those reimbursement requests reviewed, Postal Service officers generally supported their claims and complied with Postal Service guidelines regarding travel and representation expenses. We found one instance of use of a travel card rather than a purchase card for a membership fee; this issue has been addressed.

Based on the audit results, we did not offer any recommendations.

¹⁰ In addition to the IPA firm's work, these reports encompass work the we performed at HQ and the three Accounting Services sites.

¹¹ *Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated November 14, 2019.

¹² *Statement of Expenditures of the Board of Governors for the Year Ended September 30, 2019*, dated November 14, 2019.

¹³ Including such accounting processes as contractual payables, leases, payroll, workers' compensation, and Board and officers' travel and other expenses.

¹⁴ Travel expense reports could contain two payments: one to the traveler and one to the credit card company. For our audit, we considered these as one payment transaction.

Management's Comments

Management agreed with the findings. Regarding finding 1, management will continue to be diligent in testing, documenting, and reporting key controls. Regarding finding 2, management will continue to ensure that expenses are properly supported, reasonable, and comply with policies and procedures. Regarding finding 3, management will continue to be diligent in their review and approval of all officers' travel and representation expenses.

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

Evaluation of Management's Comments

The Office of Inspector General considers managements comments responsive to the findings identified in the report.

Appendices

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Appendix A: Additional Information

Scope and Methodology

We conducted this audit from January 2019 through January 2020¹⁵ in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) 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 judgment, appropriate for supporting the overall audit opinion on financial statements. Those standards also require considering the results of previous engagements and following up on known significant findings and recommendations that directly relate to the audit objectives. An audit also requires a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of audit procedures to be performed. The evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA firm in obtaining reasonable assurance about whether the financial statements are free of material misstatements (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with the PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, the IPA firm and we 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 the IPA firm during the audit and Postal Service management on December 16, 2019, and included their comments where appropriate.

We relied on computer-generated data from Postal Service financial systems, including the Enterprise Data Warehouse (EDW),¹⁶ Electronic Travel System (eTravel),¹⁷ and the Human Capital Enterprise System (HCES).¹⁸ We also

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

To assess the reliability of these systems' data, we performed specific internal controls and transaction tests, including tracing selected financial information to supporting source records. For example, we traced HCES personnel transactions data to descriptions and employee identification numbers in the Payroll Systems. We determined the data were sufficiently reliable for the purposes of this report. We considered other computer-generated data in conducting our tests; however, the scope of the testing did not require us to validate the computer-generated data. These systems included but were not limited to:

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

¹⁵ The scope of our audit was October 1, 2018, through September 30, 2019.

¹⁶ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

¹⁷ eTravel is an automated, web-based system that enables Postal Service employees to create, submit, and review expense reports, and obtain reimbursements for actual and authorized transportation, lodging, and other expenses incurred while on official travel.

¹⁸ A Postal Service system that automates day-to-day personnel transactions related to hiring, promotion, job applications, retirements, and similar career-related functions.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
<i>Fiscal Year 2018 Selected Financial Activities and Accounting Records</i>	Determine whether the Postal Service fairly stated selected accounting transactions in the general ledger and whether selected controls surrounding those transactions were operating effectively; and properly tested, documented, and reported its examination of selected key controls related to HQ and Accounting Services.	FT-AR-19-006	1/30/2019
<i>Fiscal Year 2018 Officers Travel and Representation Expenses</i>	Determine whether travel, representation, and office expense reimbursements requested by Postal Service officers during FY 2018 were supported and complied with Postal Service guidelines.	FT-AR-19-005	12/18/2018
<i>Fiscal Year 2017 Selected Financial Activities and Accounting Records</i>	Determine whether the Postal Service fairly stated selected accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively; and properly tested, documented, and reported its examination of selected key controls related to HQ and Accounting Services.	FT-AR-18-005	12/29/2017
<i>Officers' Travel and Representation Expenses for Fiscal Year 2017</i>	Determine whether travel and representation expense reimbursements requested by Postal Service officers during FY 2017 were properly supported and complied with Postal Service policies and procedures.	FT-AR 18-004	11/28/2017
<i>Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2017</i>	Determine whether travel and miscellaneous expenses of the Board, including external professional fees, were properly supported, reasonable, and complied with Postal Service and Board policies and procedures.	FT-AR-18-003	11/21/2017

Appendix B: Management's Comments



December 24, 2019

JOHN E CIHOTA
Deputy Assistant Inspector General for Finance and Pricing

SUBJECT: Fiscal Year 2019 Selected Financial Activities and Accounting Records
Project Number – 19BM004FT000

Management has reviewed the Draft Report – Fiscal Year 2019 Selected Financial Activities and Accounting Records Project Number – 19BM004FT000, and agrees with the OIG's findings regarding Accounting Transactions and Related Controls (Finding #1) and will continue to be diligent in the testing, documentation and reporting of key controls related to Headquarters and Accounting Services.

Management agrees with the OIG's findings regarding the Office of the Board of Governors' Travel and Other Expenses (Finding #2) and will continue to be diligent in ensuring that the expenses are properly supported, reasonable, and comply with policies and procedures.

Management also agrees with the OIG's findings regarding Officer Travel and Representation Expenses (Finding #3). We will continue to be diligent in the review and approval of all Officers' travel and representation expenses.

A handwritten signature in blue ink, appearing to read "Cara Greene".

Cara Greene
Vice President, Controller

A handwritten signature in blue ink, appearing to read "Michael Elston".

Michael Elston
Secretary of the Board of Governors (A)

cc: Sally K. Haring, Manager, Corporate Audit & Response

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