



December 21, 2006

DEAN R. RODMAN
MANAGER, EAGAN ACCOUNTING SERVICE CENTER

SUBJECT: Audit Report – Internal Controls Over Receipt and Disbursing
Activities (Report Number FT-AR-07-006)

This report presents issues concerning internal controls over receipt and disbursing activities at the Disbursing Branch located at the Eagan Information Technology and Accounting Service Center (IT/ASC) (Project Number 06BM001FT001). We identified these issues during our audit of the fiscal year (FY) 2006 U.S. Postal Service Financial Statements – Eagan IT/ASC.

Background

The Disbursing Branch receives approximately \$230.3 million and disburses approximately \$4.8 billion annually¹ for the three Postal Service Accounting Service Centers (ASC).² Its functions include receiving, processing, and accounting for cash from various sources for a variety of reasons. Regarding cash receipts, Disbursing Branch personnel record cash on prenumbered Postal Service (PS) Forms 3544, USPS Receipt for Money or Services, to identify the date and amount received. Regarding disbursements, they process all PS Forms 1865, Voucher and Schedule of Payments, signed by authorized officers, and maintain signature/designation cards for all certifying officers.

The Finance Branch is responsible for certifying funds and for identifying employees authorized to certify those funds. A supplement to the *Treasury Financial Manual, Now That You're a Certifying Officer*, states each agency is responsible for assessing the personal liability and obligations of its certifying officers. The Postal Service adopted responsibilities and liabilities as stated in the supplement and the Finance Branch provides this booklet to all new certifying officers. Accordingly, Postal Service certifying officers are personally accountable for payments they certify. Additionally, they may be required to reimburse the agency for payments found to be illegal, improper, or incorrect, and this liability cannot be relieved.

¹ The Disbursing Branch generally receives cash from Postal Service employees, attorneys, and vendors for reasons such as accounts receivable payments, garnishment processing fees, and non-sufficient fund charges.

² The three ASCs are located in Eagan, Minnesota; St. Louis, Missouri; and San Mateo, California. Amounts do not include payroll.

Objective, Scope, and Methodology

The objective of this part of the audit was to determine the adequacy of internal controls over receipt and disbursing activities. We conducted this work at the Disbursing Branch located at the Eagan IT/ASC.

To accomplish our objective, we obtained and analyzed accounting records, reviewed applicable Postal Service policies and procedures, and reviewed Treasury manuals regarding cash management functions. Further, we interviewed Eagan Accounting Service Center personnel and observed procedures they performed.

We conducted this part of the audit from May through December 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We did not rely on any computer extracted data for our audit. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

We review disbursing activity annually as part of our financial statement audit at the Eagan IT/ASC.

Results

Internal controls over receipt and disbursing activities at the Disbursing Branch located at the Eagan IT/ASC were generally in place and effective. However, we identified issues related to safeguarding of assets that, if corrected, could reduce the risk of fraud, waste, or mismanagement. Specifically, Disbursing Branch personnel did not always properly examine voucher and schedule of payments for proper certification and two employees mingled funds with their personal accounts.

Examination of Forms for Proper Certification

From April 19 to June 28, 2006, Disbursing Branch personnel processed payments totaling \$23,917,906 certified by an officer without a valid signature/designation card on file.

Postal Service Handbook F-19, *Accountability of Disbursing Officers*, Section 223, Review of Documents, requires disbursing officers to examine PS Form 1865 for proper completion, correct certification, and accurate computation. In addition, the *Treasury Financial Manual* requires exempt agencies to maintain a valid signature/designation card on file for each designee and designated function for comparison.³

³ *Treasury Financial Manual*, Volume 1, Part 4-1100, Delegations and Designations of Authority for Disbursing Functions, considers exempt agencies to be those that perform their own disbursing functions.

The Finance Branch periodically prepares a certifying officer list, but the officer who certified these payments was omitted from the list.⁴ Therefore, the Disbursing Branch properly revoked the officer signature/designation card on file. However, disbursing personnel continued to process payments with the officer's certification because they did not always compare certifying officials shown on PS Form 1865 with officer signature/designation cards on file.

During our audit, the Finance Branch discovered the error and completed a valid signature/designation card. When certifying officials are not validated, the Postal Service increases its risk of improper payments. We plan to report the \$23,917,906 as Safeguarding Assets, Assets at Risk (non-monetary impact) in our *Semiannual Report to Congress*.

Recommendations

We recommend the Manager, Eagan Accounting Service Center, direct the Manager, Disbursing Branch, to:

1. Instruct disbursing personnel to compare certifying officials shown on PS Forms 1865, Voucher and Schedule of Payments, with officer signature/designation cards on file in accordance with policies and procedures.
2. Confirm changes to the certifying officer list are proper before revoking signature/designation cards.

Management's Comments

Management agreed with our recommendations and stated, in part, that the Disbursing Branch will confirm deletions prior to revoking signature/designation cards. Also, they will compare certifying official signatures on payment vouchers to those on signature/designation cards to ensure payments are certified by employees with a valid signature/designation card. Subsequent to the receipt of the response, management stated they implemented the new enhancements prior to or on December 13, 2006.

Management disagreed with our \$23,917,906 of Safeguarding Assets, Assets at Risk (non-monetary impact) because they stated the officer is well known and, therefore, there was no risk of monetary loss. Management's comments, in their entirety, are included in the appendix.

⁴ The employee was a valid certifying officer. However, the Finance Branch erroneously removed the employee from the list.

Evaluation of Management's Comments

Management's comments are responsive to the recommendations and actions taken should correct the issues identified in the finding. We continue to believe our audit work resulted in Safeguarding Assets, Assets at Risk (non-monetary impact). The Finance Branch periodically updates the certifying officers list to reflect changes in employment status and job responsibilities. In this case, the certifying officer continued in the same capacity; however, when disbursing personnel do not validate the list, the risk of improper payments because of a change in certifying officers is increased. We will continue to monitor the newly implemented procedures during our future financial statement audit work.

Depositing Cash into Personal Accounts

Two employees deposited Postal Service funds in their own personal accounts to convert cash to a check so it could be deposited with the Federal Reserve Bank (FRB) of Minneapolis.⁵ Postal Service Handbook F-19, Section 315, Restrictions, specifically prohibits mingling Postal Service funds with personal accounts.

Since certain employees had accounts at the financial institution located at the Eagan IT/ASC, they deposited Postal Service cash into their accounts and then immediately withdrew those same funds as a check so they could be deposited into the FRB of Minneapolis. When the Postal Service mingles its funds with employee personal funds, it increases the risk of loss.

During the course of our audit, management established an account at the financial institution located at the Eagan IT/ASC and discontinued the practice of depositing cash into employee accounts to convert to checks. Therefore, we are not making a recommendation at this time. However, we will continue to monitor this issue during future financial statements audit work.

Other Observations



Payments for accounts receivable, returned accounts payable checks, returned payroll checks, undeliverable checks, returned savings bonds, and confirmed deposits are first received in the Eagan mailroom and later delivered to the Disbursing Branch for processing. The Eagan mailroom is a part of Host Computing Services. As such, the Disbursing Branch does not have authority over its operations. Accordingly, we did not include mailroom operations in the scope of our audit. However, we did observe limited mailroom activities directly related to our objective. We offer the following comments based on our observations:

⁵ *Treasury Financial Manual*, Volume 1, Part 5-2000, Checks and Cash Received in Collections, states that deposits made at FRBs must not contain cash.

- Mailroom clerks open sensitive mail that contains cash and negotiable instruments without oversight.
- A mailroom clerk left a mail cart containing negotiable instruments unattended in the hallway while gathering other mail.
- A mailroom clerk did not verify the identity of a man who picked up Disbursing Branch mail.

We will continue to monitor these activities as part of our ongoing audit work at the Eagan IT/ASC.

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

E-Signed by John Cihota 
VERIFY authenticity with Approver


John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachment

cc: Lynn Malcolm
Vincent H. DeVito, Jr.
Elizabeth L. Novillis
Steven R. Phelps

APPENDIX. MANAGEMENT'S COMMENTS



December 4, 2006

JOHN E. CIHOTA
DEPUTY ASSISTANT INSPECTOR GENERAL
for FINANCIAL OPERATIONS

SUBJECT: Draft Audit Report – Internal Controls over Receipt and Disbursing
Activities (Report Number FT-AR-07-DRAFT)

Management has reviewed the draft audit report and agrees with the OIG
recommendation.

OIG Recommendation:

We recommend the Manager, Accounting Service Center, direct the Manager, Disbursing
Branch, to:

1. Instruct disbursing personnel to compare certifying officials shown on PS Forms 1865, Voucher and Schedule of Payments, with officer signature/designation cards on file in accordance with policies and procedures.
2. Confirm changes to the certifying officer list are proper before revoking signature/designation cards.

Management Response:

1. Management agrees with the recommendation and has directed the Manager, Disbursing Branch to take the following course of action:
2. Signature/Designation Card (SF210's) are provided periodically by each ASC along with a list of current authorized Certifying Officers. Whenever an employee is authorized as a new Certifying Officer, or an employee is no longer authorized as a Certifying Officer, the list is updated and appropriate SF210's are completed and forwarded to the Disbursing Branch.
3. The Eagan Disbursing Branch will update the signature card file each time changes are received. Confirmation of deletions will be made before any revocation of a

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signature/designation card. After each update, electronic images of valid cards will be provided to the Sr. Disbursing Specialist. Prior to releasing payments, Sr. Disbursing Specialist will compare the "Signature of Authorized Certifying Officer" on every "Voucher and Schedule of Payments" to the signature on the Signature/Designation card (SF210). If the signature cannot be matched, the payment voucher is returned to the issuing ASC for appropriate signature. These enhanced procedures will ensure that payments being processed are always certified by an employee having a valid signature/designation card on file, and that changes to the certifying officer list are confirmed, prior to revocation of a signature/designation card.

4. Safeguarding of Assets, Assets at Risk (non-monetary impact):

Management affirms that subject payments were processed without a valid signature card on file. The employee whose card had been mistakenly revoked is a 10-year office veteran who is well known and whose name is highly recognizable by all disbursing office personnel. There was no risk of monetary loss. Enhanced controls as indicated above will assure that all certified payment vouchers are properly validated to payment cards before release of payments.

This report contains no FOIA exempt information.


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