



November 16, 2007

DIRECTOR, FINANCIAL REPORTS DIVISION
FINANCIAL MANAGEMENT SERVICE, U.S. DEPARTMENT OF THE TREASURY

LYNDA DOWNING
U.S. GOVERNMENT ACCOUNTABILITY OFFICE

DANNY WERFEL
OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Audit Opinion on the Postal Service's Special-Purpose
Financial Statements

Attached is a copy of the report on our audit of the Postal Service's special-purpose closing package. The objective of the audit was to express an opinion on the reclassified balance sheet as of September 30, 2007, and September 30, 2006, and the related reclassified statements of net cost and changes in net position for the years then ended (referred to as special-purpose financial statements).

The special-purpose financial statements and notes were prepared by the Postal Service for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Postal Service's financial statements. In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Postal Service as of September 30, 2007, and September 30, 2006, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements prescribed in *Treasury Financial Manual*, Chapter 4700.

If you have any questions, please contact John Cihota, Deputy Assistant Inspector General for Financial Accountability, or Lorie Nelson, Director, Financial Reporting, at (703) 248-2100.

A handwritten signature in cursive script that reads "Gordon C. Milbourn III". The signature is written in black ink and includes a small flourish at the end.

Gordon C. Milbourn III
Assistant Inspector General
for Audit

Attachments

cc: H. Glen Walker
Lynn Malcolm
Stephen J. Nickerson
Katherine S. Banks



November 16, 2007

H. GLEN WALKER
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE PRESIDENT

SUBJECT: Audit Report – Opinion on the Postal Service’s Special-Purpose
Financial Statements (Report Number FT-AR-08-002)

We have audited the accompanying reclassified balance sheets as of September 30, 2007, and September 30, 2006, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the Postal Service (Project Number 07BM008FT000). These special-purpose financial statements are the responsibility of Postal Service management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit. (See the appendix for the special-purpose financial statements, notes, and other data.)

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700, as described in Note X, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Postal Service’s financial statements.



In our opinion, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of the Postal Service as of September 30, 2007, and September 30, 2006, and its net costs and changes in net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in the Postal Service's financial statements. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, another auditor issued reports dated November 14, 2007, and November 13, 2006, on its consideration of the Postal Service's internal controls over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered the Postal Service's internal controls over the special-purpose financial statements and compliance with TFM Chapter 4700. Management is responsible for establishing and maintaining internal controls over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with TFM Chapter 4700 requirements.

Our consideration of internal controls over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal controls over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal controls, or a combination of deficiencies, that adversely affect the Postal Service's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the special-purpose financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in a more than remote likelihood that material

misstatements in relation to the special-purpose financial statements being audited will not be prevented or detected.

The Postal Service's independent public accounting firm's *Report 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, 2007, identified three deficiencies in internal control over financial reporting they considered to be significant: (1) accounting for real estate transactions, (2) accounting for international mail transactions, and (3) procedures for mail acceptance.

We found no material weaknesses in internal controls over the financial reporting process for the special-purpose financial statements, and our tests of compliance with TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. However, providing opinions on internal controls over the financial reporting process for the special-purpose financial statements or on compliance with TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of the Postal Service, the U.S. Department of the Treasury, the Office of Management and Budget and the U.S. Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.



Gordon C. Milbourn III
Assistant Inspector General
for Audit

Attachment

cc: Lynn Malcolm
Stephen J. Nickerson
Katherine S. Banks