OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Post Office Discontinuance Accounting Procedures

Audit Report

September 25, 2012

Report Number FF-AR-12-007

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 25, 2012

Post Office Discontinuance Accounting Procedures

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BACKGROUND:

The U.S. Postal Service discontinued 537 retail units from fiscal years 2009 through 2011. Although initiatives to close more retail units have been abandoned, the closing of postal units may occur in the future.

Between the time operations end at a discontinued unit and the financial records are closed and deactivated, accounting transactions can be charged to the discontinued unit. Those transactions should be allocated to the unit that will be assuming the operations of the discontinued unit and have adequate visibility so they can be monitored for propriety. Therefore, having the correct policies and controls in place is important to ensure proper allocation and visibility of all financial transactions associated with future closures and is key to the success of any new initiatives.

Our objective was to determine whether the Postal Service properly accounted for revenue, expenses, assets, and liabilities when discontinuing postal retail units.

WHAT THE OIG FOUND:

The Postal Service properly accounted for the disposition of assets and liabilities at discontinued units; however, it did not properly allocate and provide adequate visibility of revenue and expenses at discontinued postal retail units. Specifically, the Postal Service did not allocate revenue and expenses to the appropriate gaining unit after discontinuing operations at 271 (or 50 percent) of the 537 postal retail units. In addition, the Postal Service did not provide adequate visibility of financial transactions at 221 (or 41 percent) of the 537 units. Rather, transactions from these units were commingled with transactions from other, related units. As a result, we identified about $17 million annually of improperly allocated revenue and expenses.

While the Postal Service has recently issued a management instruction and an updated handbook, neither documents a process to deactivate a finance number and allocate or provide adequate visibility over financial activity occurring subsequent to the unit closing.

WHAT THE OIG RECOMMENDED:

We recommended management develop specific criteria to deactivate finance numbers at discontinued postal retail units. Also, we recommended that management establish a method to allocate revenue and expenses at discontinued station and branch operations, and provide adequate visibility of all transactions.

Link to review the entire report

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 25, 2012

MEMORANDUM FOR: TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER

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

SUBJECT: Audit Report – Post Office Discontinuance Accounting Procedures (Report Number FF-AR-12-007)

This report presents the results of our audit of the evaluation of Post Office™ Discontinuance Accounting Procedures (Project Number 12BG005FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Analysis and Performance, or me at 703-248-2100.

Attachments

cc: Megan J. Brennan
Stephen J. Masse
Dean J. Granholm
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the evaluation of Post Office discontinuance accounting procedures (Project Number 12BG005FF0000). Our objective was to determine whether the U.S. Postal Service properly accounted for revenue,[1] expenses,[2] assets,[3] and liabilities[4] when discontinuing postal retail units.[5] This self-initiated audit addresses financial risk. See Appendix A for additional information about this audit.

The Postal Service principally conducts retail business at 26,600 post offices (lead offices) and at 4,800 subordinate[6] units of the lead offices, known as branches or stations. The Postal Service's accounting system was designed to distinguish financial activity among these units by assigning each lead office a unique finance number. Each unit's finance number consists of 10 digits, with the 1st six digits being unique for each of the 26,600 lead offices.[7] However, while the 1st six digits are unique among each of the lead units, any assigned subordinate branch or station uses the same 1st six digits as the lead unit to which it is assigned. The branches and stations are distinguished by a four-digit extension, which is unique only among the branches and stations assigned to a lead office. For example:

Lead Office 1 Finance Number 1234560000
Station A Finance Number 1234560001
Station B Finance Number 1234560002

Lead Office 2 Finance Number 2345670000
Station C Finance Number 2345670001
Station D Finance Number 2345670002

Many times, especially in large cities, there are a large number of subordinate stations and branches assigned to a lead office. Financial information accumulates at the lead office level, thereby making it difficult or sometimes impossible to sub-divide reported information down to the subordinate station or branch level. However, all areas and districts have the option of changing the historical organization of the finance numbers in their district by assigning unique lead finance numbers to individual stations and branches. All 67 Postal Service districts have accomplished this to some degree to provide visibility and better control of financial information. They have changed the

[1] Revenues includes commercial revenue, retail revenue, appropriation revenue, and investment income.
[2] Expenses include transportation expenses and operating expenses, such as travel, training, and cleaning services.
[3] Assets include operating cash, property and equipment, buildings, land, and leasehold improvements.
[4] Liabilities include compensation and benefits, payables, and customer deposits.
[5] For this report, units represent post offices, stations, and branches.
[6] Subordinate refers to stations and branches without unique lead finance numbers, which report financial activity, such as expenses, to a main Post Office.
[7] A unique lead finance number identifies a specific unit and only accumulates that unit's financial data. In addition, deactivating a unique lead finance number impacts only that specific unit.

finance numbers for 3,000 stations and branches so that they now have unique lead finance numbers; however, about 1,800 stations and branches without unique lead finance numbers assigned remain.

Discontinuance of a unit occurs when operations physically cease and all activity is transferred to another gaining unit.[8] The final determination to discontinue a postal retail unit is approved by the vice president, Delivery & Post Office Operations, and announced in the *Postal Bulletin*.[9] From fiscal years (FY) 2009 through 2011, the Postal Service officially discontinued 537 postal retail units.

The Postal Service recently issued procedures[10] to establish a consistent process for closing the financial accountabilities[11] at discontinued units. Additionally, in July 2011, the Postal Service identified 3,652 postal retail units for possible closure in a program titled the Retail Access Optimization Initiative (RAOI). In December 2011, the Postal Regulatory Commission (PRC) issued an advisory opinion on RAOI, noting problems with cost and revenue data associated with subordinate stations and branches not having a unique lead finance number. In May 2012, the Postal Service abandoned the RAOI in favor of drastically reducing hours of operation at these units.

A new initiative called the Post Office Structure Plan (POStPlan)[12] reduces operating hours at about 13,000 postal retail units. While the RAOI has been stopped, management has stated that future closing of postal retail units is still a possibility. Therefore, proper allocation of all financial transactions associated with future closures is an important process in the success of any new initiative. The Postal Service should have the ability to obtain cost and revenue data related to unit-specific operations.

Conclusion

The Postal Service properly accounted for the disposition of assets and liabilities at discontinued units; however, the Postal Service did not properly allocate and provide adequate visibility of revenue and expenses at discontinued postal retail units. Specifically, the Postal Service did not allocate revenue and expenses to the appropriate gaining unit after discontinuing operations at 271 (or 50 percent) of the 537 lead units. In addition, the Postal Service did not provide adequate visibility over financial transactions at 221 (or 41 percent) of the 537 units. Rather, transactions from these units were commingled with all transactions from other units with the same lead finance number.

[8] The postal retail unit that assumes the discontinued unit’s financial and operational activity.
[9] The *Postal Bulletin* is the official source for Postal Service directives. Information includes discontinuances and suspensions of Postal Service facilities.
[10] Management Instruction FM-130-2011-2, *Closing the Financial Accountability of a Discontinued Post Office, Station, Branch, or Community Post Office*, June 30, 2011.
[11] Financial accountabilities include stamps, cash, customer trust accounts, money orders, employee items, and Voyager and Smart Pay credit card accounts.
[12] The POStPlan maintains existing post offices, staffed by Postal Service employees, with a reduction in retail hours to match customer usage.

While the Postal Service recently issued unit discontinuance guidance, the guidance does not document a process to deactivate a lead office finance number and allocate or provide visibility of reported financial activity that occurs subsequent to the unit closing. Further, the Postal Service did not assign responsibility for reviewing and allocating financial transactions attributed to discontinued units. Not properly allocating revenue and expenses associated with discontinued units affects the gaining unit's budget, operations, and potential closure considerations. As a result, the Postal Service cannot accurately and comprehensively make educated decisions on future initiatives regarding unit-specific cost and revenue data. We identified about $17 million annually of improperly allocated revenue and expenses. See Appendix B for the other impact calculation.

Allocation and Visibility of Revenue and Expenses for Discontinued Postal Retail Units

The Postal Service did not properly allocate and provide adequate visibility of revenue and expenses when discontinuing post offices, stations, and branches. Specifically, the Postal Service did not deactivate finance numbers at 271[13] of 537 postal retail units closed from FYs 2009 through 2011. Deactivation occurs when the Postal Service removes the lead office's unique lead finance number from active status in the finance number[14] system and prevents the recording of any additional financial transactions.

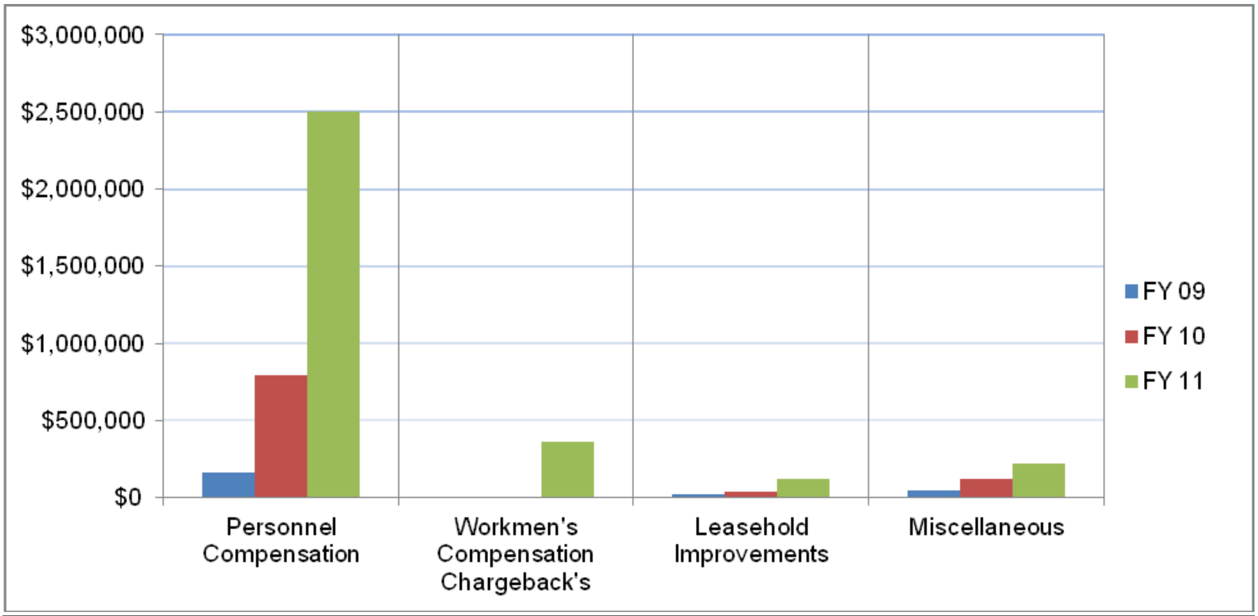
Our review of the 271 lead offices identified revenue of $23.6 million and expenses of $4.4 million that were not appropriately allocated to the gaining postal retail unit. This occurred because the Postal Service did not have accounting controls in place to identify these misallocated financial transactions or assign responsibility for deactivating the unique lead finance number. As a result, the Postal Service did not accurately account for budget or operations at gaining units.[15] The Postal Service should be able to obtain financial data related to unit-specific operating and budgetary costs. This would allow the Postal Service to accurately and comprehensively make informed decisions on future initiatives, such as closing postal retail units.

Allocating Expenses for Discontinued Post Offices

We reviewed the types of expenses charged to the 271 discontinued lead offices, as shown in Chart 1.

[13] An additional 45 lead offices correctly discontinued their unique six-digit finance numbers. These 45 units used ad hoc procedures to close out the lead finance numbers, resulting in revenue and expenses being properly allocated to the gaining unit. However, Postal Service policy currently does not address when or how to close out a unique lead finance number at a discontinued unit.
[14] The Finance Number Control Master system is a database that contains organizational hierarchy information used by the Postal Service for financial processing and reporting. The purpose of the database is to provide a master reference source of the information needed to edit and validate accounting transactions and generate financial reports.
[15] Revenue and expenses will be summarized with all financial information for the district at year's end and, therefore, not affect district-level budgeting.

Chart 1. Expense Data for 271 Lead Offices



Source: Accounting Data Mart (ADM).[16]

The major expense categories from FYs 2009 through 2011 were personnel compensation, workmen's compensation chargebacks,[17] and leasehold improvements.[18] The miscellaneous category included expenses such as supplies, vehicle maintenance services, and rural carrier equipment maintenance. Postal Service Headquarters accounting personnel determined that these charges should have been allocated to either the gaining postal unit, or the postal district responsible for the discontinued unit, or properly charged as termination accounting expenses.[19] If the 271 lead office finance numbers were properly deactivated and removed from the accounting system, the accounting system would have automatically returned these transactions to the individual or department that initiated the expense for proper determination and final allocation. However, Postal Service procedures for discontinuing a unit did not designate anyone with the responsibility for deactivating the lead finance number and ensuring its removal from the accounting system.

The Postal Service uses district discontinuance coordinators (coordinators) to ensure the discontinuance process is orderly and completed timely. They coordinate with the Finance, Supply Management, Real Estate Departments and postmasters at the

[16] ADM is the repository for all accounting and finance related data for the Postal Service. ADM provides a one-stop reporting location for financial reports.
[17] These are ongoing workmen's compensation charges being assessed against former employees of the discontinued unit.
[18] Leasehold improvements are additions, improvements, or alterations made by the leasee to leased property that cannot be removed upon termination of the lease because they are attached to, or form part of, the leased premises.
[19] These are charges that need to be expensed when a lease is terminated so they are allocated to the appropriate accounting period and the financial statements are properly stated. For example, the balance of leasehold improvements should be expensed when a lease is terminated.

discontinued and gaining postal units. Coordinators also manage the process of transferring assets, review and facilitate lease matters, resolve utility issues, coordinate district finance responsibilities, and facilitate the approval process between district management and Postal Service Headquarters. However, the coordinator's administrative responsibility is complete when the vice president, Delivery and Post Office Operations, officially declares a unit discontinued. Further, the recently issued management instruction does not assign anyone the responsibility of deactivating the lead office finance number and ensuring its removal from the accounting system. As a result, no further financial reviews occurred, finance numbers were not deactivated, and revenue and expenses continued to accrue to discontinued units.

In addition to our analysis above, we randomly reviewed documentation for 20 discontinuances for expenses not allocated to the gaining unit at four districts[20] and Postal Service Headquarters. Additionally, we discussed termination of leases, expiration of contracts, and the proper allocation of physical assets with district, area, and Postal Service Headquarters personnel. We did not identify any questionable expenses during these reviews.

Visibility of Revenue and Expenses for Discontinued Stations and Branches

The Postal Service did not have a method to provide adequate visibility of revenue and expenses charged against the 221 discontinued subordinate stations and branches.[21] Based on the activity we found occurring for the discontinued lead post offices, we estimated that as much as $19.2 million in revenue and $3.6 million in expenses were accumulated to these units after they were discontinued. However, neither we nor Postal Service personnel could determine the nature of any expenses, their propriety, or where to allocate those transactions because the financial transactions accumulated to the accounting records for the lead office. These transactions are commingled with all transactions for units with the same lead finance number.[22] Additionally, the method of organizing the financial data around the lead finance number will prevent the Postal Service from implementing action to address the PRC's concerns. The PRC identified problems with cost and revenue analysis when data roll up to the lead office. Organizing financial data for all units around a unique lead finance number will allow the Postal Service to identify cost and revenue associated with subordinate stations and branches.

Based on our audit, the Postal Service is considering developing an ADM report to identify and accumulate station and branch financial information and facilitate transaction visibility and allocation of revenue and expenses to the gaining unit. Alternatively, if an ADM report does not satisfy their objective, they indicated that assigning unique lead finance numbers to all units will allow for financial transparency.

[20] Albany, Greater Boston, Northern New England, and the Central Pennsylvania districts.
[21] Of the 537 units discontinued from FYs 2009 through 2011, 221 subordinate stations and branches were still active in the accounting system.
[22] For example, if there is a lead office with five subordinate stations and branches, the financial information for all six is summarized with the lead office's finance number.

Recommendations

We recommend the vice president, controller:

1. Develop specific criteria to deactivate unique lead finance numbers at closed postal retail units.

2. Establish a method to allocate and provide visibility of revenue and expenses at discontinued subordinate stations and branches.

Management's Comments

Management agreed with the findings and recommendations in the report. Specifically, management stated that in response to recommendation 1, effective December 31, 2012, they will implement an action plan to ensure unique lead finance numbers are closed and properly realigned in conjunction with the 10-digit unit finance number. In response to recommendation 2, effective March 31, 2013, management will implement enhanced ADM reporting to monitor revenue and expenses posted to discontinued offices within the station and branch hierarchy. This enhanced ADM reporting will allow greater visibility of improperly allocated revenue and expenses. See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

Appendix A: Additional Information

Background

This audit addresses the financial risk associated with not properly accounting for revenue, expenses, assets, and liabilities when discontinuing retail postal units. From FYs 2009 through 2011, 537 post offices, stations, and branches have been discontinued as reported in the *Postal Bulletin*. However, in some cases these retail postal units may have ceased actual operations as many as 20 years ago.

On December 23, 2011, the PRC issued *Advisory Opinion on Retail Access Optimization Initiative (RAOI),* which identified problems with cost and revenue data to unique 10-digit identifiers, finance number and name discrepancies across databases. In their advisory opinion, the PRC concluded a number of findings, which included:

- The Postal Service should disaggregate cost data to allow estimation of unit-specific operating costs. Data on operating costs for most stations and branches are currently aggregated with the "main" Post Office and other subordinate stations and branches.

- The Postal Service should disaggregate revenue data to allow estimation of unit-specific revenue and net-revenue. Data on walk-in and total revenue for most stations and branches are currently aggregated with the "main" Post Office and other subordinate stations and branches.

- The Postal Service should standardize the identification of units across databases.

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service properly accounted for revenue, expenses, assets, and liabilities when discontinuing retail postal units. To accomplish this objective, we reviewed retail postal operations discontinued from FYs 2009 through 2011. In addition, we:

- Reviewed PRC documents related to discontinuing retail postal operations.

- Reviewed Government Accountability Office reports related to discontinuing retail postal operations.

- Reviewed the June 30, 2011, Management Instruction FM-130-2011-2.

- Interviewed Postal Service officials and reviewed policy and procedure guidelines to determine whether the Postal Service will be able to provide adequate visibility of unit-specific financial data in future retail postal unit discontinuances.

- Obtained financial data from the Postal Service Enterprise Data Warehouse,[23] ADM, financial performance reports,[24] and *Postal Bulletins*.

- Visited four districts (Albany, Greater Boston, Northern New England, and Central Pennsylvania) and Postal Service Headquarters to discuss procedures for closing financial accountabilities and providing visibility of financial activity at discontinued units. We randomly reviewed 20 discontinuance folders with the coordinator to identify expenses and procedures at units undergoing a discontinuance review.

We conducted this performance audit from November 2011 through September 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 28, 2012, and included their comments where appropriate.

To conduct this review, we relied on computer-processed data maintained by Postal Service operational systems. We did not test the validity of controls over these systems; however, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers and other postal data sources. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

[23] A collection of data from many sources, which is stored in a single place for reporting and analysis purposes.
[24] Financial performance reports are generated in ADM and compare current and prior years' revenue and expense.

Appendix B: Other Impacts

Recommendation	Impact Category	Amount
1	Data Integrity[25]	$27,990,505
2	Data Integrity	22,826,205
Total		**$50,816,710**

We estimate the Postal Service improperly allocated $50.8 million of revenue and expenses to discontinued post offices, stations, and branches. We identified 271 discontinued lead postal retail units that continued to accumulate $23.6 million in revenue and $4.4 million in expenses allocated to those units. This yields an average of $87,094 in revenue and $16,192 in expenses per unit. In addition, we identified 221 subordinate postal units, where revenue and expenses rolled up to a lead Post Office. To estimate costs associated with those units, we multiplied our yield of $87,094 and $16,192 by 221 units, totaling $19.2 in revenue and $3.6 million and expenses.

[25] Data used to support management decisions that are not fully supported, erroneous, 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

FINANCE

UNITED STATES
POSTAL SERVICE

September 19, 2012

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Post Office Discontinuance Accounting Procedures
Report Number FF-AR-12-DRAFT

We appreciate the opportunity to review and comment on the subject draft audit report. Management agrees with the recommendation to develop specific criteria for the deactivation of unique lead finance numbers at retail units. Management also agrees with the recommendation to establish a method to allocate and provide visibility of revenue and expenses at discontinued subordinate stations and branches.

Management asserts that the actual financial transactions and estimates referred to in this audit are properly authorized and posted in accordance with GAAP. The combined estimate of $50,816,710 represents revenue and expense allocated to discontinued units, which were not properly aligned to the assuming units after functionally deactivated. Management does not dispute the estimated data integrity impact over the three fiscal years tested.

Recommendation 1:
Develop specific criteria to deactivate unique lead finance numbers at closed postal retail units.

Management Response/Action Plan:
Management agrees to implement an action plan that will ensure unique lead finance numbers are closed and properly realigned in conjunction with the 10 digit unit finance number.

Responsible Management Official:
The Manager of Revenue and Field Accounting is responsible for implementation.

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Target Implementation Date:
Management expects to implement this action plan by the end of Quarter 1 FY 2013.

Recommendation 2:
Establish a method to allocate and provide visibility of revenue and expenses at discontinued subordinate stations and branches.

Management Response/Action Plan:
Management agrees to implement enhanced Accounting Data Mart reporting to monitor revenue and expense posted to discontinued offices within the station and branch hierarchy. The enhanced reporting will allow greater visibility of improperly allocated revenue and expense. Action will be taken to reallocate and prevent illegitimate postings.

Responsible Management Official:
The Manager of Revenue and Field Accounting is responsible for implementation.

Target Implementation Date:
Management expects to implement this action plan by the end of Quarter 2 FY 2013.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

Timothy F. O'Reilly
Vice President, Controller

cc: Megan J. Brennan
Stephen J. Masse
Dean J. Granholm
Corporate Audit and Response Management