November 2, 2006

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Service Level Agreements
(Report Number FT-AR-07-001)

This report presents issues concerning the timeliness and consistency of Service Level Agreements (SLAs). We identified these issues during our review of internal controls at the St. Louis Information Technology and Accounting Service Center (IT/ASC)[1] (Project Number 06BM003FT001).

Background

Accounting Services[2] and field customers, represented by area finance managers, established SLAs in conjunction with the Shared Services/Accounting (SS/A) project in 2002.[3]

SLAs help ensure prompt, high-quality service to field units that use accounting services. SLAs outline annual performance measures, also known as performance indicators or expectations, for financial activities that were formerly the responsibility of district accounting offices and are now centralized at the Accounting Service Centers (ASC). Examples of performance measures include the number of days spent by the field sales branch at the St. Louis ASC resolving exceptions identified in audits of field units' daily financial transaction reports, and the amount of time that accounting help desk (AHD) agents spend in answering calls from field units. Service Management generates metrics to show whether the performance measures outlined in the SLAs are being met and posts them to the Accounting Center Support web page.

[1] Internal control reviews are part of the overall fiscal year (FY) 2006 Postal Service Financial Statements audit for the St. Louis IT/ASC (Project Number 06BM003FT000).
[2] Accounting Services manages accounting processes and procedures at the three accounting service centers (ASC) in Eagan, Minnesota; St. Louis, Missouri; and San Mateo, California; and the Accounting Center Support, which includes the Accounting Help Desk (AHD), Scanning and Imaging Center, and Service Management. The SLAs include the ASCs and the AHD, located in St. Louis.
[3] The SS/A project was intended to streamline accounting processes and operate more efficiently without sacrificing internal controls and service.

Objective, Scope, and Methodology

Our objective was to determine whether SLAs were timely and consistent measures of agreed performance. To achieve our objective, we reviewed Accounting Services SLAs and interviewed U.S. Postal Service personnel at the three ASCs, the AHD, and Accounting Services at Postal Service Headquarters. We conducted this audit from May through November 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate. We did not rely on computer-generated data for our audit.

Prior Audit Coverage

We previously determined that the Information Technology group, Standard Accounting for Retail (SAFR) program officials, and ASC management had not established an SLA.[4] We did not make any recommendations, but concluded that the SS/A initiative did not meet industry best practices and standards. Management subsequently established an SLA.

Results

Accounting Services SLAs were not timely and consistent measures of agreed-upon performance. Specifically, Accounting Services did not update and post FY 2005 and FY 2006 SLAs to the Accounting Services website until the second quarter of each fiscal year. In addition, the field sales branch at the St. Louis ASC amended the FY 2006 SLA to include additional performance measures and corresponding metrics without the concurrence of the other parties. Further, Accounting Services did not have written procedures for establishing annual performance measures through SLAs.

Postal Service management could not provide documentation to show that managers were aware of the need to post the SLA in a timely manner, with full concurrence of all parties, and for a full performance period. At the start of a new fiscal year, the previous fiscal year's agreement is not applicable. As a result, although performance is monitored and results are communicated throughout the fiscal year, for the period of time until a new SLA was enacted for FYs 2005 and 2006, Accounting Services did not have an official SLA to manage financial activities and reporting and provide transparency and accountability in financial operations. In addition, adding new performance measurements to the SLA midway through FY 2006 without the concurrence of all parties reduced the opportunity for additional improvement and prevented full measurement of annual goal achievement.

[4] *Shared Services Accounting Project* (Report Number DA-OT-04-001, dated January 30, 2004).

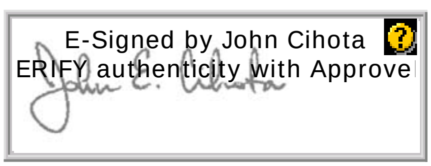
The Government Performance and Results Act of 1993 requires the Postal Service to establish performance measures to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity for each fiscal year. These measures support the annual performance plan, which links performance goals with operations throughout the organization. The law also requires annual performance reports that compare actual performance with the performance goals.

Accounting Services has made significant progress in holding itself accountable for its performance. The FY 2007 SLA was posted timely and with the concurrence of all parties to the agreement. In addition, Accounting Services now has a written process for establishing SLAs each fiscal year and amending the SLA during the fiscal year.

Because of the actions taken by Accounting Services, we are not making any recommendations at this time. However, we continue to believe that SLAs should be established for a full performance period. We do not believe it is appropriate for the written process to allow amendments to the SLA during the performance period, except for discontinued or new internal processes that require deleting or adding performance measures and corresponding metrics. We will continue to monitor Accounting Services' SLA activities to evaluate the frequency and impact of the SLA modifications.

We discussed the results of this review with management and incorporated their comments as applicable. Management chose not to respond formally to this report, and no further action is required.

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



John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

cc: H. Glen Walker
Elizabeth L. Novillis
Edward L. Brown
William A. Cole
Patricia A. Queen
Dean R. Rodman
Steven R. Phelps