February 23, 2009

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2008 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center (Report Number FT-AR-09-009)

This report presents the results of our audit of selected financial activities and accounting records at the U.S. Postal Service Information Technology and Accounting Service Center (IT/ASC) in St. Louis, MO, for the fiscal year (FY) ended September 30, 2008 (Project Number 08BM001FT000). The Postal Reorganization Act of 1970, as amended, requires annual audits of the Postal Service's financial statements. We conducted this audit in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements. This audit addressed financial risks. See Appendix A for additional information about this audit.

Conclusion

During our audit of the St. Louis IT/ASC, we noted that:

- Financial accounting policies and procedures provided for an adequate internal control structure and complied with accounting principles generally accepted in the U.S.

- Accounting transactions at the St. Louis IT/ASC impacting the general ledger account balances were stated in accordance with accounting principles generally accepted in the U.S.

- General ledger account balances conformed to the general classification of accounts on a basis consistent with that of the previous year.

- The Postal Service complied with laws and regulations that have a direct and material effect on the financial statements.

We did not propose any adjustments, but we did identify control deficiencies regarding international rates; property transactions; contract postal unit (CPU) payments; missing, lost, or stolen money orders; and travel expense claims. These items were not significant to the financial statements and did not affect the overall adequacy of internal controls.

International Express Mail® Rates

Express Mail rates in the International Web System (IWS)[1] were not always accurate or supported. While we noted improvement in the maintenance of Terminal Dues® and Parcel Post® rates due to corrective action taken as a result of our prior year audit,[2] we continued to find discrepancies with Express Mail rates. Specifically, based on a statistical random sample of Express Mail rates for 50 of 184 FPAs from the IWS, we identified (1) there were no source documents to support rates for two FPAs and (2) rates were incorrect for four FPAs.[3] This occurred primarily because Headquarters, International Postal Affairs (IPA), did not obtain and maintain the rate documents on file and did not timely inform the St. Louis International Accounting Branch (IAB) of rate changes. See Appendix B for more information on our statistical sampling methodology and projected results.

Agreements between the Postal Service and FPAs determine Express Mail rates. There is no predetermined or uniform frequency of rate changes; therefore, the IAB depends on the IPA to inform them of any rate changes and to provide them the documentation used to update rates in the IWS when such events occur. The Postal Service uses these rates to calculate payable amounts for outbound mail, generate billings to FPAs for inbound mail, and calculate the monthly accrual amounts. To ensure accurate financial information and correctly stated billings, the rates must be accurate and supported. When rates are not accurate, the risk of misstated financial information or incorrect billings increases. We did not calculate monetary impact for these errors since Express Mail volume for the FPAs involved was not significant.[4]

Based on our audit work, IAB personnel updated the IWS with the correct rates for four FPAs and the IPA worked with two FPAs to get the source documents. In addition, the IPA and the IAB are working on a joint process to improve the integrity of Express Mail rates. The new process requires the IPA to obtain and maintain all needed rate documents on file, provide the IAB the rate source documents, and inform the IAB of rate changes in a timely manner. The process also requires the IAB to timely update the rates in the IWS upon receiving information from the IPA. Further, it encourages frequent communication between the IAB and IPA to confirm rate changes, perform bi-annual reviews of Express Mail rates, and certify the rates are correct.

Due to the corrective actions taken, we are not making any recommendations regarding this issue. We will continue to monitor this area as part of our annual financial statement audit work.

[1] The IWS determines the weight and pieces of exported and imported international mail to settle accounts between the Postal Service and foreign postal administrations (FPA).
[2] See the "Progress on Prior Years' Recommendations" section of this report for details of prior Terminal Dues and Parcel Post rate issues.
[3] Poland and Venezuela had no supporting documents. Bahrain, Bangladesh, Macau, and Turkey had incorrect rates in the system.
[4] These FPAs combined had less than 2 percent of the overall Express Mail volume in calendar years 2007 and 2008.

Partial Land Sales

Postal Service personnel did not always accurately record partial land sales transactions. Specifically, we noted depreciation activity related to a facility that was sold in FY 2001. When St. Louis ASC personnel initially recorded the transaction,[5] they removed the entire dollar amount of the land from the general ledger inventory account[6] rather than the dollar amount of the portion sold.[7] As a result, in FY 2001 the Postal Service understated the general ledger land and building accounts by $608,312 and $2,335,471, respectively. Further, the Postal Service recorded a loss of $2,128,573 when they should have recorded a gain of $322,364.

Postal Service policy[8] requires the St. Louis IT/ASC to remove the partial land cost from inventory upon closing the sale. ASC personnel advised they were aware of the issue but had set it aside for further investigation. As such, it was not yet resolved at the time of our inquiry. St. Louis General Accounting Branch personnel requested the original documentation from the appropriate FSO and processed adjusting journal entries in September 2008 to correct the issue.

We found identical issues for recording partial land sales in our FY 2007 audit. We recommended the St. Louis ASC remove only the partial land cost from inventory upon closing partial sales and implement a procedure requiring periodic reviews to ensure proper processing of routine property sales. Management implemented procedures requiring the systems accountant to review all real estate transactions prior to recording. In addition, for more complex, non-standard real estate transactions, the systems accountant consults with Headquarters Accounting Policy prior to recording entries to the general ledger. Further, to enhance the reconciliation process, the monthly real estate transactions report shows sales proceeds deposited as well as the associated gain and/or loss on sales. Except for this earlier error, we did not identify any instances of this issue during FY 2008. Therefore, we are not making any recommendations but will continue to monitor the situation as part of our annual financial statement audit work.

Audit Comment

The Postal Service's increased efforts to ensure the accuracy of facility records and improved notification processes between the FSOs, Headquarters Corporate Accounting, and the St. Louis ASC should also ensure land and property disposals are recorded timely. We noted that during FY 2008, FSO personnel informed the St. Louis ASC of three properties that were disposed of in prior years, but the FSO had not yet

[5] The St. Louis ASC and Headquarters Accounting Policy rely on Facilities Service Office (FSO) personnel to provide complete and timely documentation for facility disposal activity upon completion of the sales transaction.
[6] Account 17111 – U.S. Postal Service-Owned Land.
[7] Original land value for the Tucson Silverbell facility sold in FY 2001 was $745,424. Rather than a zero balance, the adjusted land value after the partial sale should have been $608,312.
[8] Handbook F-25, *Real Property and Leasehold Improvement Accounting*, dated November 1990.

provided information to record those transactions. St. Louis ASC personnel took immediate action to record these transactions.[9]

Contract Postal Unit Payments

The Postal Service did not always terminate CPU firm-fixed price contract payments upon conversion to performance-based contracts.[10] This occurred because district retail office personnel did not notify the Denver Category Management Center (CMC) of the conversion date. As a result, the Postal Service overpaid two CPU suppliers a total of $8,122.[11] In addition, if these erroneous payments had gone undetected, we project overpayments totaling $35,080 over a 2-year period would have occurred. During the course of our audit, the Postal Service canceled the automatic payments on the firm-fixed price contracts and initiated action to collect the overpayments.

We found identical issues for converted contracts in our FY 2007 audit. In response to our FY 2007 audit recommendation, the Postal Service updated notifications of contract conversions to include the Denver CMC. To further improve controls, the Postal Service also agreed to create a report in the CPU Technology system that shows CPUs with two invoices generated in the same month for the same contract number. The target completion date for system corrective action is Quarter 4, FY 2009.

Based on corrective actions taken and planned, we are not making additional recommendations but will continue to monitor this issue as part of our ongoing financial statements audit work. We will report $8,122 as recoverable questioned costs and $35,080 as funds put to better use in our *Semiannual Report to Congress.* See Appendix C for our calculation of monetary impact.

Management's Comments

Management did not take issue with the $43,202 in monetary impact. See Appendix G for management's comments in their entirety.

[9] Danville, IN, Main Post Office partial land disposal in FY 2007; Boston, MA, Vehicle Maintenance Facility demolition in FY 2001; Kansas City, MO, Main Post Office disposal in FY 2004.
[10] Contract types include firm-fixed price contracts, whereby CPU suppliers receive a fixed amount for services provided, and performance-based contracts, whereby suppliers are paid based on percentage of sales. The Postal Service paid $85.1 million to CPU suppliers in FY 2008.
[11] The two suppliers received automated payments for both the firm-fixed price and performance-based contracts: one supplier for 3 months and the other supplier for 9 months.

Missing, Lost, or Stolen Money Orders

Postal Service policy[12] directs postal retail units (PRU) to use the bi-weekly *Postal Bulletin* as the primary means of identifying missing, lost, or stolen money orders when a more timely and complete listing is available on the Postal Service's website. While personnel at PRUs with Point-of-Service (POS) technology use the latter methodology, management has not yet communicated this option to PRUs that do not have POS technology.

The Postal Service's internal and external websites[13] not only include ranges of 10 or more money orders included in the *Postal Bulletin,* but also list ranges of less than 10 money orders and individual money orders that have been identified as missing, lost, or stolen. Another benefit of using the Postal Service's websites is that St. Louis ASC personnel update them as soon as they receive an official missing, lost, or stolen report. Revisions do not depend on a *Postal Bulletin* publication date which could be as long as 2 weeks. In addition, the websites provide a quick and accurate mechanism for searching money order serial numbers. Further, when terminals are not available at the counter, PRU personnel can print a current copy from the Postal Service's websites and use a hard copy for verification.

Based on an October 21, 2008, website listing for missing, lost, or stolen money orders, there were 2,233 money orders not included in the *Postal Bulletin*.[14] We estimate the total value of these money orders as $893,200, based on the Postal Service's estimated value of $400[15] per money order. Though we found no cash missing and no lost or stolen money orders, when Postal Service personnel do not use the latest and most complete information to identify missing, lost, or stolen money orders, the Postal Service increases the risk of someone illegally cashing these accountable items.

We recommend the Vice President, Controller, direct the Manager, Accounting Policy, to:

1. Remove the requirement to use the biweekly *Postal Bulletin* as the primary means for identifying missing, lost or stolen money orders from Handbook F-101, *Field Accounting Procedures*, and replace it with the Postal Service's website addresses.

2. Communicate to all postal retail units without Point-of-Service technology the requirement to use the missing, lost or stolen money order information published on the Postal Service's websites, as available.

[12] Handbook F-101, *Field Accounting Procedures*, July 2008.
[13] The *Postal Bulletin* is available at either www.usps.com or www.usps.gov.
[14] The *Postal Bulletin* would not have included these missing, lost or stolen money orders since they were either in ranges of fewer than 10 or single money order issuances.
[15] FY 2005 average money order value reported in the *St. Louis ASC Fraud Money Order Summary for Lost/Stolen Money Orders* report.

We will report $893,200 as non-monetary impact, accountable items at risk, in our *Semiannual Report to Congress*.

Management's Comments

Management disagreed with the finding and stated their data concludes the risk level is low enough not to warrant additional operational changes. Also, according to management, the finding did not consider two major control mechanisms that have been implemented. First, the POS system receives a daily download of the missing, lost or stolen money order file from the money order database. The system will detect and prevent the retail associate (RA) from cashing the money orders included in this file; therefore, a manual process is not required to prevent the RA from cashing missing, lost, or stolen money orders. Second, management implemented the Money Order Verification System via an Interactive Voice Response (IVR) system as a fraud prevention method for internal and external users.

Management advised that current policy requires retail units that do not have POS technology to check the most current *Postal Bulletin* before they cash money orders; however, they have the option of calling the IVR or checking the website. They stated that current policy does not go beyond checking the *Postal Bulletin* because smaller retail units often have one person working at the retail window, which may prevent them from leaving the customer. Again, as the historical data proves, the risk is not high enough for the national policy to require retail personnel at retail units that do not have POS technology to check the website.

Management also disagreed with the non-monetary impact of $893,000 because the calculation includes POS offices that have negligible risk.

Evaluation of Management's Comments

Management's response did not differentiate between the two recommendations. We acknowledge that POS system and IVR control mechanisms use the latest information available and reduce the risk of cashing missing, lost, or stolen money orders. However, management has not yet required retail sites that currently do not have POS technology (approximately 60 percent) to check the website or call the IVR. The intent of our recommendations was to strengthen controls for those sites. We acknowledge that it may not always be practical for offices to use the website or IVR; however, we continue to believe that Postal Service policy should establish the best process as the primary means, with stated alternatives when the website or IVR is not the appropriate tool to use under certain conditions. Regarding risk, we agree the total value of cashed missing, lost, or stolen money orders is low. However, we note the total value during Quarter 1, FY 2009, rose to approximately $7,500 (45 money orders). Therefore, we conclude there is a continued risk of cashing missing, lost, or stolen money orders which warrants the recommended operational change.

Regarding the $893,200 in non-monetary impact, we agree retail units with the POS technology have less risk because of the POS and IVR processes in place there. However, in determining non-monetary impact we must consider maximum risk, meaning there is a possibility that RAs at units that do not have the POS technology could cash all identified missing, lost, or stolen money orders. Therefore, we believe the non-monetary impact of $893,200 is appropriate.

Because the total value of cashed missing, lost, or stolen money orders is not significant, we will not continue to pursue this issue at this time. We will monitor it as part of our annual financial statement audit work.

Travel Expense Claims

Postal Service employees did not always accurately complete travel expense reports in the eTravel System (eTravel) and include required receipts. Specifically, from our statistical sample, we identified eight errors on 70 approved FY 2008 Quarter 2 expense reports in eTravel. We also identified five errors in our completeness test[16] of 25 randomly selected FY 2008 Quarter 3 expense reports. These errors occurred because Postal Service employees were not always aware of the requirements, and local officials approved travel expense claims in error. In addition, St. Louis ASC personnel processed summary expense reports without verifying the required receipts were attached to the expense reports. Further, an employee submitted a reimbursement prior to the hotel transaction being populated into eTravel. As a result, the Postal Service reimbursed employees for incorrect or unsupported travel expense amounts and recorded travel expenses in the incorrect accounting month. See Appendix D for our detailed analysis of this topic.

We recommend the Vice President, Controller, direct the Manager, Corporate Accounting, to:

3. Reiterate travel expense report preparation and approval requirements to all area finance managers.

4. Provide training on travel expense report preparation as appropriate.

We recommend the Vice President, Controller:

5. Direct the Manager, St. Louis Accounting Service Center, to instruct St. Louis Accounting Service Center employees to verify that required receipts are attached to summary expense reports and obtain missing receipts before processing.

[16] Completeness testing involves a random selection of source documentation, which is subsequently traced through the system to ensure the transaction was complete.

Management's Comments

Management neither agreed nor disagreed with the finding and recommendations 3 through 5. They plan to review travel expense report preparation and approval requirements with area accounting and finance managers during meetings held in February and March 2009, respectively, and will provide appropriate training on travel expense report preparation, highlighting reflection of approved business expenditures, attachment of required receipts, and timely submission of expense reports. Management will also work with St. Louis Accounting Services Back Office personnel to compile a list of common errors, by close of Postal Quarter 2, FY 2009, for area eTravel coordinators to use in training. In addition, the St. Louis Accounting Services Back Office has modified their procedure to ensure employees scan only bar coded receipt reports with properly attached receipt(s).

Evaluation of Management's Comments

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

Interim Reports

See Appendix E for details of control issues regarding Miami International Service Center (ISC) inbound international mail, CPU bonding, and rail service claim payments and Transportation Contract Support System (TCSS) access at the Capital Metro Distribution Network Office (DNO). These items were not significant to the financial statements, did not affect the overall adequacy of internal controls, and were reported to management through interim reports.

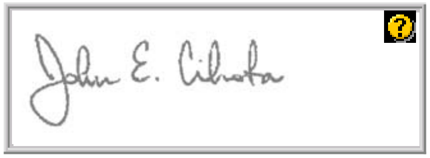
Progress on Prior Years' Recommendations

We followed up on recommendations concerning international mail, manual transportation payments, FY 2007 Peak Season (Christmas 2006) fuel, highway extra trips, closing instruction procedures, and leasehold improvements from prior years' financial statement audits at the St. Louis IT/ASC.[17] See Appendix F for a description of previously reported issues and the progress the Postal Service has made in addressing the recommendations.

We will report monetary impact of $43,202, including $8,122 as recoverable questioned costs and $35,080 as funds put to better use, and non-monetary impact of $893,200, accountable items at risk, in our *Semiannual Report to Congress*.

[17] We also made recommendations concerning CPU payments and partial land sales in prior years' financial statement audits. However, we discuss those issues in other sections of this report, so we do not repeat them here.

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



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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The St. Louis IT/ASC is one of three ASCs Postal Service-wide.[18] It is responsible for accounting functions related to money orders, real property, transportation, international mail, and accounts payable.[19] The facility is also responsible for processing financial and accountability data from field units.

We have issued separate financial statement audit reports for headquarters and the Eagan, MN, and San Mateo, CA, IT/ASCs. Further, in addition to the overall opinion on the Postal Service's financial statements, the independent public accounting firm, contracted by the Board of Governors to express an opinion on the financial statements, will issue separate reports on the Postal Service's internal controls and compliance with laws and regulations. The OIG will also issue a separate report for the audit of the FY 2008 information system controls at the Eagan, San Mateo, and St. Louis IT/ASCs and the Raleigh, NC, Information Technology Service Center.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

- Financial accounting policies and procedures provide for an adequate internal control structure and comply with accounting principles generally accepted in the U.S.

- Accounting transactions at the St. Louis IT/ASC impacting the general ledger account balances for assets, liabilities, equity, income and expenses of the Postal Service are fairly stated in accordance with accounting principles generally accepted in the U.S.

- General ledger account balances conform to the general classification of accounts of the Postal Service on a basis consistent with that of the previous year.

- The Postal Service complies with laws and regulations that have a material and direct effect on the financial statements as a whole.

As part of our audit, we assessed internal controls, tested transactions, and verified account balances. We conducted this audit from November 2007 through February 2009 in accordance with generally accepted government auditing standards. 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 professional judgment,

[18] Other ASCs are located in Eagan, MN, and San Mateo, CA.
[19] Includes accounting for rents and leases, contract stations, vehicle hire, uniform allowance, indemnity claims, tort claims, and eTravel.

appropriate for supporting the overall audit opinion on the 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 objectives of the audit. An audit also includes obtaining a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed.

We supported the external auditors in obtaining reasonable assurance about whether the financial statements are free of material misstatement (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 generally accepted government auditing standards may not detect a material misstatement. However, the external auditors and the OIG 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 management officials on December 22, 2008, and included their comments where appropriate.

We relied on computer-generated data from several Postal Service financial systems, including:

- Accounting Data Mart
- [redacted] Accounts Payable[20]
- electronic Facilities Management System (eFMS)
- Money Order History File
- eTravel
- Settlement Management System
- Surface Air Management System
- [redacted] Merchandising System
- TCSS

We performed specific internal control and transaction tests on these systems' data to include tracing selected financial information to supporting source records. For example, we verified that payment authorizations supported payments recorded in eFMS and that the Postal Service applied the amounts to the appropriate general ledger accounts.

[20] Formerly referred to as Accounts Payable Excellence.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results[21]
J.T. Weeker (Chicago) International Service Center – Inbound International Mail	FT-AR-06-013	3/22/2006	$147,729	Except for letter class mail, inbound international mail volumes were not always accurate and internal controls for recording inbound international mail needed strengthening. Management took corrective action, and the recommendations are closed.
Manual Transportation Payments	FT-AR-08-001	11/15/2007	N/A	Manual transportation payments were not always properly supported, approved, or authorized prior to payment. Management took corrective actions, and the recommendations are closed.
Fiscal Year 2007 Peak Season (Christmas 2006) Fuel	FT-AR-08-003	12/14/2007	N/A	Postal Service personnel could not determine whether payments represented the actual costs associated with the transportation of FY 2007 peak season (Christmas 2006) mail. Management took corrective action, and the recommendation is closed.
New York International Service Center – Inbound International Mail	FT-AR-08-005	1/24/2008	$13,700,604	Volume data used to bill FPAs for inbound Express Mail and letter class service was not always accurate. Two significant recommendations regarding policies and procedures to document complete processing and billing cycle and controls to ensure FPAs are correctly billed for all valid dispatches remain open.

[21] See Appendix F for further details.

Fiscal Year 2007 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-08-010	3/31/2008	$6,644	A significant deficiency existed with international issues.[22] In addition, we identified control deficiencies regarding highway extra trips, transportation systems' access, eTravel claims, CPU payments, and property transactions. One significant recommendation to modify policies and procedures to include destination facility validation in the highway extra trips payment process remains open.

[22] Ernst and Young, LLP, the independent public accounting firm contracted to opine on the Postal Service's financial statements, reported this as a significant deficiency in its *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). A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The significant deficiency was closed in FY 2008.

APPENDIX B: STATISTICAL SAMPLING AND PROJECTION FOR THE AUDIT OF EXPRESS MAIL RATES

The objective of this portion of the audit was to determine whether Express Mail rates in the IWS were correct by tracing the rates in the system to the rate source documents at the IAB.

The audit team obtained the Express Mail rate file from the IAB. The file contains 184 FPAs with Express Mail rates for calendar year 2008. Using unrestricted random sampling with a 90 percent confidence level, we selected a sample of 50 FPAs to test.

STATISTICAL PROJECTION OF THE SAMPLE DATA

We found discrepancies with six FPAs from the sample of 50. We used the Office of Audit Services (OAS) Regional Advanced Technique Staff (RATS)-STATs, U.S. Department of Health and Human Services, Version 2, program to get the statistical projection of the sample result. At a 90 percent confidence level, the projected error rate has a point estimate of 12 percent (or 22) of the FPAs with incorrect Express Mail rates in the system. The upper bound on the error rate is 20.652 percent (or 38 of the FPAs), and the lower bound on the error rate is 6.522 percent (or 12 of the FPAs).

APPENDIX C: CPU PAYMENTS

We will report the overpayments of $8,122 as monetary impact, recoverable questioned costs, and future overpayments of $35,080 as funds put to better use in our *Semiannual Report to Congress*. We calculated these amounts as follows.

RECOVERABLE QUESTIONED COSTS

CPU	Calculation[23]	Amount	Total*
1	December through August 2008: 9 months X $791.67	$7,125.03	
	Less $473.52 compensation due supplier for March 2008	(473.52)	
	Subtotal		$6,652
2	July through September 2008: 3 months X $670	$2,010.00	
	Less $540 compensation due supplier for July 2008	(540.00)	
	Subtotal		$1,470
	Total		$8,122

FUNDS PUT TO BETTER USE

CPU	Calculation[24]	Total Amount*
1	24 months X $791.67	$ 19,000
2	24 months X $670.00	16,080
	Total	$35,080

* Total amounts are rounded to nearest dollar.

[23] Recoverable questioned costs are costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations. We used actual amounts paid as provided by the Denver CMC.
[24] Funds the Postal Service could use more efficiently by implementing recommended actions.

APPENDIX D: TRAVEL EXPENSE CLAIMS

Postal Service employees did not always accurately complete their expense reports in eTravel and include required receipts with their expense reports. Specifically, from our statistical sample of 70 approved expense reports in eTravel, we identified eight errors as follows.[25]

- One report had an incorrect expense amount for the hotel and the employee was overpaid $8.60.
- Two reports were missing a hotel receipt.
- Five vouchers were not submitted timely.[26]

Postal Service Handbook F-15, *Travel and Relocation*, outlines travel reimbursement requirements for Postal Service employees on official business travel. It states employees should:

- Itemize hotel expenses.[27]
- Attach required receipts per the eTravel summary expense report and send the report and receipts to the St. Louis ASC for processing.
- Submit the eTravel expense report as soon as possible after completing travel but no later than the end of the accounting month in which travel was completed.

We found similar errors in our completeness test of 25 randomly selected travel expense reports submitted in Quarter 3. Specifically, we found one traveler was overpaid $5 for a hotel personal expense; three travel expense reports were missing required receipts for airfare[28] and hotel expenses; and one travel expense report was not submitted timely.

These errors occurred because employees were not always aware of the requirements, and local officials approved eTravel expense claims in error. In addition, the St. Louis ASC scanned the barcodes for summary expense reports without verifying the required receipts were attached to the expense reports. Further, an employee submitted a reimbursement prior to the hotel transaction being populated into eTravel. As a result, the Postal Service reimbursed employees for incorrect and unsupported travel expense amounts and recorded travel expenses in the incorrect accounting month. Using the

[25] We used OAS RAT-STATS program's simple random sample size generator to calculate the sample size from a universe of 145,223 eTravel expense reports, valued at $23,865,004. We excluded OIG and Board of Governors travel vouchers from our sample.
[26] The OIG considers eTravel expense reports submitted more than 30 days after completion of travel not timely. The five vouchers were submitted between 34 and 104 days following travel completion.
[27] Itemization of hotel charges is mandatory to eliminate all non-reimbursable charges that may be in the lodging bill.
[28] Airfare receipts were required for two reports because the employees did not use the pre-populated expense amount that appears in eTravel; instead, the employees manually entered the airfare into eTravel.

OAS RAT-STATS program to analyze the results, we estimated an error rate of 11.429 percent, or 16,598 eTravel expense reports. We calculated the actual percentage of errors was between 5.067 percent (or 7,358 eTravel expense reports) and 21.280 percent or (30,903 eTravel expense reports) at a 95 percent confidence level.

APPENDIX E: INTERIM FINDINGS

During our audit, we identified and reported the following three issues to management through interim reports.

Miami International Service Center – Inbound International Mail[29]

Volume data used to bill FPAs for inbound international letter class and Parcel Post mail at the Miami ISC was accurate. However, volume data used to bill FPAs for inbound international Express Mail Service *(*EMS) was not always complete. Based on Express Mail billing data analyzed for the Miami ISC for the period October 1 to December 31, 2007, we determined the Post Office did not bill 1,058 manually entered dispatches[30] to the FPAs. As a result, the Postal Service under billed FPAs for processing and delivery of inbound international Express Mail items by $2,084,620 for the period October 9 to December 31, 2007. Because of the corrective action taken as a result of our audit, we did not offer a recommendation.

Contract Postal Unit Bonding[31]

The Postal Service did not have procedures in place to verify CPUs completed the annual financial examination, maintained a current file of CPU activities, and assessed the adequacy of bond amounts. In addition, the Postal Service did not have procedures to monitor the validity of existing bond waivers. Finally, existing procedures did not provide for establishing and updating oversight tools to monitor the adequacy of bond amounts.

We recommended the Postal Service clarify procedures for granting bond waivers for CPUs, develop and implement procedures to ensure that existing monitoring tools reflect current requirements, and communicate the availability and use of these tools. We also recommended the areas develop and implement procedures for local and district monitoring of CPU activities and financial examinations, reiterate bonding requirements to all CPU contractors and contracting officer representatives, and evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Management agreed with the recommendations and planned or implemented corrective action to ensure that bonding requirements are met, waivers are appropriate, and monitoring tools are current and used. We will continue to monitor implementation of corrective actions in our FY 2009 audit.

[29] *Miami International Service Center – Inbound International Mail* (Report Number FT-AR-08-012, dated September 3, 2008).
[30] At the time of our review, there were a total of 1,413 dispatches in the billing data.
[31] *Contract Postal Unit Bonding* (Report Number FT-AR-09-005, dated December 10, 2008).

Capital Metro Distribution Network Office[32]

Highway transportation payment information entered into TCSS at the Capital Metro DNO was properly supported, authorized, and accurate. However, key duties and responsibilities related to contract administration and TCSS system administration were not appropriately separated for an individual at the Capital Metro DNO. In addition, although internal controls over the Rail Management Information System (RMIS) service claims processed manually at the Capital Metro DNO improved from the previous audit, improvement is still needed to ensure RMIS service claim payments made to rail carriers are properly authorized and recorded, and transactions are accurate.

For TCSS, we recommended management review access privileges for personnel at the Capital Metro DNO to ensure adequate segregation of duties exists. With regard to RMIS service claim payments, we recommended management:

- Communicate supporting documentation requirements to personnel authorized to review and approve RMIS service claim supporting documentation packages.

- Direct personnel responsible for investigating, compiling, and entering service claim information into the RMIS to prepare supporting documentation packages in accordance with Postal Service policy.

- Direct personnel authorized to review and approve service claim payments in RMIS to perform a review of all FY 2008 packages for the proper supporting documents and reconcile the claim payments with the RMIS master contract rate to ensure the payments were appropriate.

- Conduct a quarterly review of RMIS service claim packages and payments to ensure compliance with Postal Service policy.

[32] *Capital Metro Distribution Network Office* (Report Number FT-AR-09-008, dated January 30, 2009).

APPENDIX F: PROGRESS ON PRIOR YEARS' RECOMMENDATIONS

J.T. Weeker (Chicago) International Service Center– Inbound International Mail[33]

Except for letter class mail, inbound international mail volumes were not always accurate, and internal controls for recording inbound international mail at the J.T. Weeker (Chicago) ISC needed strengthening. Specifically, mail volumes on manifests did not support billing and revenue data in the general ledger for inbound international Express Mail and Parcel Post. For Coventry (upgraded) Parcels, the Postal Service did not always request missing source documents.[34] In addition, the Postal Service did not have a process in place to monitor volume data entered for inbound international mail. We recommended management reiterate the requirement to request missing source documents for Coventry (upgraded) Parcels and implement a procedure to continuously monitor the reliability of inbound international mail volume data used to support billings, to include manual and scanned data.

In response to our recommendations, management reassigned and trained new personnel and reinforced the need to request missing documents. Also, they developed a procedure to verify manual data entries of letter class mail dispatches and Parcel Post mail dispatches. Although J.T. Weeker has not taken corrective actions regarding Express Mail discrepancies, we realize that Express Mail data is scanned for billing purposes with no intervention from the record unit personnel. In addition, based on our FY 2007 audit at the New York ISC, we determined that Express Mail discrepancies were in large part due to a flaw in the Express Mail program, which management has subsequently corrected. Accordingly, we believe the issues regarding Express Mail are not fully under control of J.T. Weeker personnel. Accordingly, we closed the recommendation on March 10, 2008. We will continue to test Express Mail billing information as part of our financial statement audit work.

Manual Transportation Payments[35]

Although the Postal Service accurately recorded manual transportation payments, they were not always properly supported, approved, or authorized prior to payment. Specifically, Transportation Portfolio CMC personnel did not always enter adequate documentation into the Logistics Contract Management Systems (LCMS) to support manual transportation payments. Further, Transportation Portfolio personnel approved — and St. Louis ASC personnel authorized and released — manual transportation payments without ensuring the documentation in LCMS supported the payments. In response to our recommendations to improve the payment process, management established and communicated policies and procedures regarding the documentation in

[33] *J.T. Weeker (Chicago) International Service Center – Inbound International Mail* (Report Number FT-AR-06-013, dated March 22, 2006).
[34] Inbound international mail documents supporting weights and pieces of mail received to support billings to FPA. These documents are filed on-site in the international records unit at the ISCs or international exchange offices.
[35] *Manual Transportation Payments* (Report Number FT-AR-08-001, dated November 15, 2007).

the LCMS needed to support manual transportation payments and approval and authorization responsibilities in the payment process.

Management's actions corrected the issues identified and, accordingly, we closed these recommendations during FY 2008. We will continue to review documentation included within the LCMS as part of our annual financial statement audit.

FY 2007 Peak Season (Christmas 2006) Fuel[36]

Postal Service personnel could not determine whether payments represented the actual costs associated with the transportation of FY 2007 peak season (Christmas 2006) mail. Specifically, they did not properly validate peak season (Christmas 2006) fuel invoices or perform post-season reconciliations of those payments. In response to our audit, management enhanced the payment-related documentation and implemented a process change for FY 2008 contracts to require fuel suppliers and air carriers to provide supporting documentation to validate invoices. Management's action corrected the issue identified and we closed this recommendation during FY 2008.

New York International Service Center – Inbound International Mail[37]

Volume data used to bill FPAs for inbound air Parcel Post Mail at the New York ISC was accurate. However, volume data used to bill FPAs for inbound Express Mail and letter class service was not always accurate. In response to our recommendations, management planned to establish policies and procedures to address billing of inbound international mail and communicate with relevant parties 3 months after implementing new settlement systems, which is tentatively scheduled for June 30, 2009. Also, personnel modified, reviewed, and verified changes to the EMS database load and error reporting within the IAB system, which allows all relevant data to be included in the EMS billing process. Further, management agreed to establish controls to ensure they bill FPAs correctly for valid dispatches, including dispatch numbers used more than once in a calendar year. Management expects this task to be completed by June 30, 2009. Finally, Headquarters IPA sent the China Postal Administration correspondence regarding the use of duplicate dispatch numbers and China has taken action to improve and avoid duplication within a calendar month. Headquarters IPA will follow up when notified of instances of duplicate dispatch numbers.

During FY 2008, we identified issues with Express Mail billing data for the Miami and Chicago ISCs;[38] however, the issues differ from those identified at the New York ISC and are discussed separately in Appendix E. Management's actions corrected the recommendations regarding changes to the EMS database and duplicate dispatch

[36] *Fiscal Year 2007 Peak Season (Christmas 2006) Fuel* (Report Number FT-AR-08-003, dated December 14, 2007).
[37] *New York International Service Center – Inbound International Mail* (Report Number FT-AR-08-005, dated January 24, 2008).
[38] *Miami International Service Center – Inbound International Mail* (Report Number FT-AR-08-012, dated September 3, 2008).

numbers. Accordingly, we consider those recommendations closed. However, we will continue to monitor the recommendations addressing establishment of policies and procedures to address billing of inbound international mail and controls to ensure FPAs are correctly billed for valid dispatches.[39]

International Mail Rates[40]

We identified issues with international mail rates in prior years' audits.[41] Specifically, rates were not always correct, timely updated, and/or properly supported. We recommended management implement and communicate complete written policies and procedures to require employees to enter and update rates timely, to obtain support for rates as necessary, and to verify periodically international rates. In response to our recommendation, management implemented procedures to ensure employees receive and act upon all sequentially numbered Universal Postal Union Circulars and addressed bilateral agreement rate discrepancies identified during the billing and settlement processes. Also, they will initiate inquiries to Headquarters IPA for updated rate information. Further, management developed and implemented detailed desk procedures that outline steps for entering and verifying new rates and require review and comparison of data entered to the source documentation. Finally, in addition to verification of rates after entry, employees will conduct and record a final review (annual, Parcel Post quarterly, periodic).

Except for Express Mail, management's actions corrected the issues identified; therefore, we consider this recommendation closed. We address Express Mail rate discrepancies in a separate section of this report.

Highway Transportation Extra Trips

Internal controls over payments made to highway transportation contractors for trips in addition to those under contract (extra trips) need strengthening. The current payment process does not include validation from the destination facility. Instead, the originating facility initiates and maintains control of the authorization and certification forms and submits the certification form directly to the St. Louis IT/ASC for further processing. Management advised that even though the destination facility does not verify the form used for payment, current controls require the destination facility to complete its portion of the form used as support to prepare the payment form. However, in response to our recommendation, management advised they will review this payment process as part of

[39] These recommendations are considered significant and should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.
[40] The remainder of this section contains issues reported in our *Fiscal Year 2007 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-08-010, dated March 31, 2008).
[41] Prior audit findings: *Fiscal Year 2007 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-08-010, dated March 31, 2008); *Fiscal Year 2006 Postal Service Financial Statement Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-07-011, dated March 28, 2007); and *International Parcel Post Accrual* (Report Number FT-AR-06-007, dated December 27, 2005).

the Postal Service's efforts to comply with the Sarbanes-Oxley Act and anticipate any related actions to be completed during FY 2009. We will continue to monitor this issue as part of our annual financial statements audit.[42] Also, we are conducting a nationwide review of the Postal Service's oversight of highway transportation contracts extra trips.[43]

Project Financial System (PFS) Unrecorded Liability

St. Louis IT/ASC personnel did not timely complete year-end closing instruction procedures. Specifically, at the time of our audit, they did not create a liability accrual to record PFS payments as required by year-end closing instructions. In response to our recommendation, management instructed branch managers to adhere to closing schedules and instructions. In addition, the St. Louis ASC prepared a processing schedule specific to the facility asset accounting section which includes the quarterly PFS accrual process. The system accountant communicates with Accounting Policy personnel through the close of the general ledger who then advise when to book the final accrual. Also, in FY 2008, management modified the PFS accrual report to run daily beginning the month after the end of the quarter and a cumulative total is provided. Management's actions corrected the issues identified in the finding and, accordingly, we consider these recommendations closed.

Leasehold Improvement Amortization

Postal Service personnel did not always timely resolve leasehold improvement project exceptions. According to St. Louis IT/ASC personnel, there were no specific Postal Service policies or procedures in place to resolve these exceptions. Further, personnel were not adequately trained to resolve exceptions or had higher priority projects. In response to our recommendation, St. Louis ASC and Headquarters Facilities personnel prepared procedures on resolving various exceptions on the *Leasehold Amortization Calculation Exception Lists* report and initially agreed to train responsible personnel on resolving leasehold amortization exceptions. However, since personnel who developed the procedures will also be responsible for clearing the exceptions, formal training was not necessary.

Management's actions corrected the issues identified in the finding. We noted the number of exceptions that appeared on the report in FY 2008 decreased from the prior year. Accordingly, these recommendations are considered closed.

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[42] We consider this recommendation significant and it should not be closed in the Postal Service's follow-up tracking system until we provide written confirmation that it can be closed.
[43] *Draft Audit Report - Review of the Postal Service Oversight of Extra Highway Transportation Contract Trips*.(Report Number CA-AR-09-DRAFT, dated February 4, 2009).

APPENDIX G: MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

UNITED STATES POSTAL SERVICE

February 6, 2009

LUCINE M. WILLIS

SUBJECT: Transmittal of Draft Management Audit Report— Fiscal Year 2008 Postal Service Financial Statements Audit—St. Louis Information Technology and Accounting Service Center (Report Number FT-AR-09-DRAFT)

This provides Postal Service management's response to the subject audit report. We appreciate the opportunity to review and provide comments. We have no issue with the monetary impact of $43,202. We do not agree with the non-monetary impact of $893,200. This amount does not take into account that over 40 percent of the retail units have Point of Service (POS) technology which utilizes a daily download of the missing, lost, and stolen money orders.

[redacted]

Recommendation #1
Remove the requirement to use the biweekly *Postal Bulletin* as the primary means for identifying missing, lost, or stolen money orders from Handbook F-101, *Field Accounting Procedures*, and replace it with the Postal Service's website addresses.

Response
Management disagrees with this finding. Our data concludes that the fiscal year (FY) 2008 loss due to cashing a missing, lost, or stolen money order from the Postal Retail Units was $800.00 which involved only one money order. Based on this data, we can conclude that the risk level is low enough not to warrant additional operational changes. Also, the finding did not consider two major control mechanisms that have been implemented.

First, the POS system receives a daily download of the missing, lost, or stolen money order file from the money order data base. The system will detect and prevent the Retail Associate from cashing the money orders included in this file. Since the update of the file is on a daily basis, it does not take a manual process to prevent the cashing of missing, lost, or stolen money orders.

Second, management in 2006 implemented the Money Order Verification System via an Interactive Voice Response system (IVR). This is for internal and external users as a fraud prevention method in addition to the POS system controls. Non-POS offices are still required to check the most current Postal Bulletin before they cash money orders. In addition to the required policy, they have the option of applying more stringent controls by calling the IVR or checking the website. However, the current policy does not go beyond the current process of checking the Postal Bulletin. This is in consideration of the operational feasibility of non-POS offices. Smaller retail units often have one person working at the retail window which may prevent them from leaving the customer. As the historical data proves, the risk is not high enough for the national policy to require non-POS retail personnel to check the website.

Management also disagrees with the non-monetary impact of $893,200. This calculation included POS offices which receive a daily file and have negligible risk.

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Recommendation #2
Communicate to all postal retail units without POS technology the requirement to use the missing, lost, or stolen money order information published on the Postal Service's websites, as available.

Response
Refer to response in recommendation #1.

Recommendation #3
Reiterate travel expense report preparation and approval requirements to all area finance managers.

Response
Corporate Accounting will review the travel expense report preparation and approval requirements with the area accounting managers in their February 2009 meeting, and with the area finance managers in their March 2009 meeting.

Recommendation #4
Provide training on travel expense report preparation as appropriate.

Response
Corporate Policy will work with Accounting Services Back Office in St. Louis to compile a list of common errors on reports. This list will be sent to the Area eTravel coordinators to use as a basis for training. The District eTravel coordinators will determine appropriate resources to be used— i.e. the quick start guides and eTravel training videos available on the travel help web site.

Corporate Policy will also provide appropriate training on travel expense report preparation highlighting the following:

1. Expense amount in report will reflect approved business expenditures.
2. Required receipts on bar coded Receipt Report are attached and mailed to the Accounting Services Back Office in St. Louis.
3. Emphasize timely submission of expense report after completing travel.

The common errors will be identified by the close of Postal Quarter II.

Recommendation #5
Direct the Manager, St. Louis Accounting Service Center, to instruct St. Louis Accounting Service Center employees to verify that required receipts are attached to summary expense reports, and obtain missing receipts before processing.

Response
The Accounting Services Back Office in St. Louis has modified their procedure to ensure only bar coded Receipt Report with properly attached receipt(s) will be scanned.

Lynn Malcolm

Lynn Malcolm

cc: Katherine S. Banks
Vincent H. DeVito, Jr.
Jo Ann Mitchell
Stephen J. Nickerson