



November 30, 2009

VINCENT H. DEVITO, JR.  
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2009 Postal Service Financial Statements Audit  
– Washington, D.C., Headquarters (Report Number FT-AR-10-005)

This report presents the results of our audit of selected financial activities and accounting records at Washington, D.C., Headquarters for the fiscal year (FY) ended September 30, 2009 (Project Number 09BM007FT000). 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 (IPA) firm's overall audit opinion on the Postal Service's financial statements. This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

## Conclusion

During our audit at the Washington, D.C., Headquarters, we noted:

- 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 headquarters<sup>1</sup> impacting the general ledger (GL) account balances were stated in accordance with accounting principles generally accepted in the U.S.
- GL 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 taken as a whole.

We did not propose any adjustments; however, we did follow up on a prior year finding to assess the actions taken by the Postal Service on manual JVs.

---

<sup>1</sup> The U.S. Postal Service Office of Inspector General (OIG) and the IPA coordinate testing and review of significant headquarters accounts and manual journal vouchers (JVs).

## Progress On Prior Year Finding And Observation

In each of the last 2 years, we reported that controls over JV preparation, approval, and review needed strengthening. As shown in the following table, for FY 2009, of the 751 manual JVs reviewed, we found four instances where certain controls were not exercised. Our review of the JVs for FY 2009 indicates a significant improvement. However, because these controls over the JV process are considered key,<sup>2</sup> any error could impact the opinion of the IPA on internal controls over financial reporting in FY 2010. The issues identified for FY 2009 were brought to the attention of Corporate Financial Reporting, and the issues have not recurred since Quarter 2.

Timeframe of JV – FY 2009					Internal Control Issue	Instances In FY 2008
Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total		
--	--	--	--	0	No evidence of “entered by”	1
2	--	--	--	2	Staff members approved JVs prepared by their managers	8
--	--	--	--	0	Some or all support missing	2
--	2	--	--	2	No evidence of final approval, input into the <i>Journal Entry Vehicle</i> , or posted to the GL	5

In FYs 2008 and 2007, we observed the following two issues during our JV review that were not part of the documented JV procedures. These are not considered key controls; however, we presented them to management to further enhance the JV entry process. For FY 2009, we found significant improvement.

JV Entry Process Issue	Number of Instances in FY 2009	Number of Instances in FY 2008	Number of Instances in FY 2007
Inconsistent Evidence of Approval for JVs that were Prepared and Approved by Another Office	1	2	14
“Approver” and “Entered By” was the Same Official	0	3	2

Based on the actions taken by the Postal Service during FY 2009, and the fact that key controls were effective in Quarters 3 and 4, we are not making any recommendations.

We are not making any additional recommendations in this report. As a result, management chose not to respond formally to this report.

<sup>2</sup> A key control is one that is essential to providing a level of assurance that process objectives are being achieved.

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.



John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

Attachment

cc: Joseph Corbett  
Julie S. Moore  
Stephen J. Nickerson  
Bill Harris

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

U.S. Postal Service Headquarters Finance establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. Internal control and reporting systems have been created to ensure management and the public receive meaningful financial information in accordance with generally accepted accounting principles. We conducted this audit in support of the IPA's overall audit opinion on the Postal Service's financial statements. We will issue separate financial statement audit reports for the Eagan, MN; San Mateo, CA; and St. Louis, MO, Information Technology and Accounting Service Centers (IT/ASCs). Further, in addition to the overall opinion on the Postal Service's financial statements, the IPA, 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 2009 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:

- The 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 headquarters impacting the GL 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.
- GL 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.

To accomplish our objectives, we conducted fieldwork from January 2009 through November 2009. We have a memorandum of understanding with the IPA regarding our responsibilities for testing and reviewing internal controls and processes and significant headquarters accounts (for example, cash, investments, workers compensation),

manual JVs,<sup>3</sup> and laws and regulations. Further, we verified the Board of Governors' travel and miscellaneous expenses totaling \$226,339 and external professional fees totaling \$58,245; and tested and accepted officers' travel and representation expenses totaling approximately \$567,000. We issued a separate report for our audit of the FY 2009 Board of Governors' travel and miscellaneous expenses<sup>4</sup> and will issue a report for our audit of the FY 2009 officers' travel and representation expenses.

We conducted this audit from January 2009 through November 2009 in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, appropriate for supporting the overall audit opinion on the financial statements. Those standards also require us to consider the results of previous engagements and follow 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. We believe the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA 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 PCAOB and *Government Auditing Standards* may not detect a material misstatement. However, the IPA 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 on November 23, 2009, and included their comments where appropriate.

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

- eTravel.
- Chase Insight.
- Workers' Compensation Master File.
- Accounting Data Mart.

---

<sup>3</sup> Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*, requires auditors to perform certain tasks to address the risk of management override of internal control. To address such situations, SAS No. 99 requires auditors to test the appropriateness of journal entries recorded in the GL and other adjustments.

<sup>4</sup> *Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2009* (Report Number FT-AR-10-002, dated November 5, 2009).

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 tested the reliability of the Workers' Compensation Master File by comparing the system's data with a random sample of 60 case files.

**PRIOR AUDIT COVERAGE**

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Report Results</b>
<i>Fiscal Year 2008 Postal Service Financial Statements Audit – Washington, D.C., Headquarters</i>	FT-AR-09-007	1/16/2009	We identified a control deficiency regarding manual JV processing. This item was not significant to the financial statements and did not affect the overall adequacy of internal controls. We recommended management develop formal written procedures for manual JV processing and distribute to all applicable personnel. Management developed formal written procedures effective January 16, 2009, and the recommendation was closed.
<i>Fiscal Year 2007 Postal Service Financial Statements Audit – Washington, D.C., Headquarters</i>	FT-AR-08-006	2/8/2008	We identified a control deficiency regarding manual JV processing. We recommended management reiterate JV internal control procedures to all applicable personnel, and management planned to do so in January 2008. We followed up on the recommendation as part of our FY 2008 audit and closed the matter.
<i>Fiscal Year 2006 Postal Service Financial Statements Audit – Washington, D.C., Headquarters</i>	FT-AR-07-004	12/7/2006	We did not report any findings or provide any recommendations.