



# OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

## Fiscal Year 2016 Postal Service Selected Financial Activities and Accounting Records Audit Report

Report Number  
FT-AR-17-006

March 16, 2017





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act.***

### Background

The Postal Reorganization Act of 1970 requires annual audits of the U.S. Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX). This section requires the Postal Service to report the scope and adequacy of its internal control structure and procedures and assess their effectiveness.

The U.S. Postal Service Board of Governors contracted with an independent public accounting firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The firm maintains overall responsibility for testing and reviewing significant Postal Service accounts, processes, systems, and internal controls. The U.S. Postal Service Office of Inspector General (OIG) coordinates audit work with the firm to ensure adequate coverage.

Our audit objectives were to determine whether the Postal Service:

- Fairly stated accounting transactions and whether selected key controls surrounding those transactions were operating effectively.

- Properly tested, documented, and reported its examination of selected key financial reporting controls at Postal Service Headquarters and Accounting Services.
- Properly tested, documented, and reported its examination of general controls for the financially significant applications and their underlying infrastructure.

### What the OIG Found

The Postal Service's accounting transactions were fairly stated, and selected key controls were operating effectively. In addition, we found the Postal Service properly tested, documented, and reported selected financial controls.

We did not propose any adjustments or identify any issues or control deficiencies that were material to the financial statements or that would affect the overall adequacy of internal controls.

Further, general controls for financially significant applications and their underlying infrastructure were properly documented and reported. However, management did not always properly test the controls for account approvals, change approvals, default accounts, and security updates.



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Specifically, the Postal Service internal control testing team did not always select samples from the correct universe and incorrectly tested passwords for default accounts. Testers were unaware of the issues until the OIG brought them to their attention. As a result, the integrity of the SOX control test was compromised.

Management agreed with our issues and took corrective actions.

### **What the OIG Recommended**

Since the Postal Service took immediate corrective action on the issues identified, we did not make any recommendations.

# Transmittal Letter

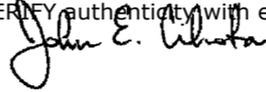


OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

March 16, 2017

**MEMORANDUM FOR:** MAURAA. MCNERNEY  
VICE PRESIDENT, CONTROLLER

JEFFREY C. JOHNSON  
VICE PRESIDENT, INFORMATION TECHNOLOGY

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop  


**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
For Finance, Pricing and Investments

**SUBJECT:** Audit Report – Fiscal Year 2016 Postal Service Selected  
Financial Activities and Accounting Records  
(Report Number FT-AR-17-006)

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Washington, D.C. Headquarters and the Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2016 (Project Number 16BM006FT000).

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

Attachment

cc: Corporate Audit and Response Management

# Table of Contents

Cover	
Highlights.....	1
Background.....	1
What the OIG Found.....	1
What the OIG Recommended.....	2
Transmittal Letter.....	3
Findings.....	5
Introduction.....	5
Summary.....	6
Control Testing.....	6
Recommendations.....	8
Management’s Comments.....	8
Evaluation of Management’s Comments.....	8
Appendices.....	9
Appendix A: Additional Information.....	10
Background.....	10
Objectives, Scope, and Methodology.....	10
Prior Audit Coverage.....	13
Appendix B: Management’s Comments.....	14
Contact Information.....	16

# Findings

**SOX was enacted to strengthen public confidence in the accuracy and reliability of financial reporting.**

## Introduction

This report presents the results of our audit of selected financial activities and accounting records at U.S. Postal Service Headquarters (HQ) and Accounting Services in Eagan, MN; San Mateo, CA; and St. Louis, MO, for the fiscal year ending September 30, 2016 (Project Number 16BM006FT000).

The objectives of the audit were to determine whether the Postal Service:

- Fairly stated accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively.
- Properly tested, documented, and reported its examination of selected key financial reporting controls<sup>1</sup> related to HQ and Accounting Services.
- Properly tested, documented, and reported its examination of information technology (IT) general controls for the financially significant applications and their underlying infrastructure.

The Postal Reorganization Act of 1970,<sup>2</sup> as amended, requires annual audits of the Postal Service's financial statements. In addition, the Postal Accountability and Enhancement Act of 2006<sup>3</sup> requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX).<sup>4</sup> SOX was enacted to strengthen public confidence in the accuracy and reliability of financial reporting. Section 404 of SOX requires management to report the scope and adequacy of its internal control structure and procedures for financial reporting and assess the effectiveness of such internal controls and procedures.

- The IT testing team is responsible for testing IT platforms<sup>5</sup> and applications that support in-scope<sup>6</sup> business processes.
- Business Testing evaluates the effectiveness of all other internal controls within the financial processes.

The U.S. Postal Service Board of Governors (Board) contracted with an independent public accounting (IPA) firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts and processes. The U.S. Postal Service Office of Inspector General (OIG) coordinated audit work with the IPA firm to ensure adequate coverage. See [Appendix A](#) for additional information about this audit.

<sup>1</sup> A key control is designed to prevent or detect financial statement misstatements.

<sup>2</sup> Public Law 91-375, enacted August 12, 1970.

<sup>3</sup> Public Law 109-435, enacted December 20, 2006.

<sup>4</sup> Public Law 107-204, enacted July 30, 2002.

<sup>5</sup> A platform is any hardware or software used to host an application or service.

<sup>6</sup> Processes that the IT Compliance Management Office earmarks for review in the applicable fiscal year.



***We found accounting transactions were fairly stated in the general ledger and selected key controls surrounding those transactions were operating effectively.***

## Summary

During our audit of selected financial activities and accounting records at HQ and three Accounting Services, we found accounting transactions were fairly stated in the general ledger and selected key controls surrounding those transactions were operating effectively. In addition, we found the Postal Service properly tested, documented, and reported selected financial controls.

We did not propose any adjustments or identify any issues or control deficiencies<sup>7</sup> that were material to the financial statements or that would affect the overall adequacy of internal controls.<sup>8</sup>

Further, general controls for the financially significant applications and their underlying infrastructure were properly documented and reported. However, the IT testing team did not always properly test controls for account approvals,<sup>9</sup> change approvals,<sup>10</sup> default accounts,<sup>11</sup> and patch management.<sup>12</sup> Specifically, the IT testing team did not always select samples from the correct universe and tested default passwords incorrectly when testing the electronic data interchange (EDI)<sup>13</sup> default accounts.<sup>14</sup> Testers were unaware of the issues until the OIG brought them to their attention. As a result, the integrity of the SOX control test was compromised.

Management agreed with our issues and took corrective action. Therefore, we did not make any recommendations.

## Control Testing

The IT testing team did not properly test controls for account approvals, change approvals, default accounts, and patch management in 30 of the 70 systems we tested. Specifically, the IT testing team:

- Did not consider the complete universe of user accounts when testing the account provisioning<sup>15</sup> control for one system.<sup>16</sup> This occurred because the script<sup>17</sup> the Postal Service used to obtain the universe contained an error, and the IT testing team did not validate the universe before testing. As a result, 50 accounts were not tested initially. After the OIG requested evidence of universe validation, the IT testing team took corrective action and obtained a complete universe from the Postal Service. After testing the 50 missing accounts, the tester found a deficiency and changed the result of the test from pass to fail.

<sup>7</sup> A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or timely detect and correct misstatements.

<sup>8</sup> The IPA firm identified other control deficiencies that affected the Postal Service financial statements but were not in the scope of our audit and are not contained in this report.

<sup>9</sup> Master Control 07.ACCTPROV.Acct\_Approval states User and Special account creation (service, shared, vendor default) for in-scope applications and platforms (operating system, database, infrastructure) occur only upon proper authorization by a manager and functional system coordinator for the resource where applicable. Ownership for special accounts is assigned to custodians as part of this registration.

<sup>10</sup> Master Control APGN.CR\_Approval (*Change Request Approvals*) states that changes released to the production environment are approved by the required stakeholders in accordance with change management policy and procedures.

<sup>11</sup> Master Control .07.EDI.Default\_Acct\_PW\_Chg states EDI application default accounts have been disabled, removed, or their passwords changed from the default values.

<sup>12</sup> Master Control 07.MNFR.Patch\_Mgmt. Mainframe states notifications for the base operating system are evaluated and implemented based on management assessment results.

<sup>13</sup> EDI allows data to be transferred from one computer system to another.

<sup>14</sup> Default accounts are vendor-provided standard pre-configured usernames and passwords that allow devices to be accessed during their initial setup.

<sup>15</sup> User account provisioning is a business process for creating and managing access to resources in an IT system.

<sup>16</sup> The Solution for Enterprise Asset Management System is an Oracle web-based application designed to improve inventory tracking and visibility; implement forecasting and automatic replenishment capabilities; and standardize asset tracking and maintenance/repair functions.

<sup>17</sup> A script is a list of commands that can be executed without user interaction.

- Included standard change requests<sup>18</sup> in the universe for 27 of 45 systems<sup>19</sup> even though the change approval control required testing of only non-standard change requests.<sup>20</sup> The testing team was unaware of this error until the OIG brought it to the team's attention. This compromised the integrity of the control testing. Once this issue was identified, the testing team excluded standard change requests from the universe for testing the remaining 18 of 45 systems.<sup>21</sup>
- Entered the incorrect passwords for default accounts when testing the control to ensure the electronic data interchange passwords were changed as required. The IT testing team entered default passwords without regard to case sensitivity. The IT testing team retested the control using the correct case-sensitive default passwords, and confirmed the control was effective.
- Excluded two of 50 emails from the universe when testing the mainframe patch management control. The tester did not include all the system names that were listed on the patch management emails when obtaining the test sample. Therefore, the tester overlooked two emails. Once this issue was brought to the IT team's attention, it included the two emails in the universe for an additional test sample, and determined no further testing was needed.

The IT testing team was unaware of the issues described above until the OIG brought them to the team's attention.<sup>22</sup> Since management took corrective actions, we are not making any recommendations.

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18 Standard changes are for a pre-existing and repetitive function such as reprinting a report. The change does not affect production applications.

19 OIG retested 45 systems for the change approval control.

20 Testers did not perform a required step written in the ServiceNow Self-Service guide. The step requires that the "filter" command be used to remove standard change requests.

21 The IPA firm performed its own independent test of the change request approval control for 27 applications that had been improperly tested.

22 Using an incomplete universe or incorrect data increases the risk that the testing is not reliable.

# Recommendations

Management agreed with our issues and took corrective action. Therefore, we did not make any recommendations.

## Management's Comments

Although there were no recommendations, management took exception with some statements in this report. Management noted that the OIG was acting in a direct assist capacity in support of the IPA firm's integrated audit. In addition, the IPA firm assessed the IT testing performed by SOX management, under the applicable professional auditing standards, and concluded it could use the IT testing as audit evidence under a "reliance model."

Further, management stated the OIG did not communicate the findings in this report as reportable issues during weekly management coordination meetings. Finally, management stated the findings within this report did not alter the IPA firm's conclusion on the effectiveness of the IT controls that support the IT environment or their assertion on the effectiveness of internal controls over financial reporting as a whole. Therefore, the integrity of their IT control testing was not compromised.

See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

Although the report does not contain recommendations, the OIG considers management's comments responsive to the findings in this report. Although the OIG was conducting this audit in support of the IPA firm's integrated audit, as an independent organization from the Postal Service, we independently report control deficiencies identified as part of our assist work. Reporting deficiencies is consistent with the process the OIG has followed in prior years for the financial statement and IT control testing.

We communicated all control deficiencies to management during the course of the audit, allowing the IT testing team to take corrective action prior to fiscal year-end. The corrective action taken by the Postal Service in response to our discussions assisted the IPA firm in relying on the testing performed by the IT testing team. Further, for one deficiency we identified, the IPA firm performed its own independent testing to confirm the OIG's issue prior to the IT testing team adjusting its sampling methodology, allowing the the IPA firm to rely on the IT testing team's testing.

Individually, the deficiencies included in this report did not alter the IPA firm's conclusion on the effectiveness of internal controls over financial reporting. However, issues identified by the OIG and corrective actions taken by the Postal Service in response to the deficiencies identified were evaluated and considered by the IPA firm, along with other internal control tests performed during the course of the integrated audit, in reaching its conclusion on the effectiveness of internal controls over financial reporting.

Although weekly meetings were specifically established to discuss the concerns identified during our IT testing, the OIG agrees communication can always be improved. During our FY 2017 audit, the OIG will hold separate meetings with IT SOX management to discuss OIG reportable issues.

# Appendices

*Click on the appendix title  
to the right to navigate  
to the section content.*

Appendix A: Additional Information.....	10
Background .....	10
Objectives, Scope, and Methodology .....	10
Prior Audit Coverage.....	13
Appendix B: Management’s Comments .....	14

## Appendix A: Additional Information

### Background

The HQ Finance group establishes accounting policies and provides guidelines for recording and reporting Postal Service financial transactions. The three Accounting Services function as large, centralized accounting centers. The Eagan Accounting Services processes payroll and disbursements, maintains the general ledger, reconciles sales and banking data, and maintains cash and receivable accounts. The San Mateo Accounting Services is responsible for accounts payable,<sup>23</sup> centralized postage payments,<sup>24</sup> capital property, motor vehicles, and supply inventory. The St. Louis Accounting Services is responsible for the accounting of money orders, real property, transportation, international mail, field sales, and accounts payable.<sup>25</sup>

The SOX Compliance testing teams<sup>26</sup> test components of the financial processes to support management's annual and quarterly SOX certifications.

- The SOX IT testing team tests IT platforms and applications that support in-scope business processes. The team develops and manages the annual documentation, testing, remediation, reporting, and certification requirements to meet and sustain IT SOX compliance for all SOX in-scope systems.
- The Business testing team evaluates the effectiveness of all other internal controls within the financial processes. These include day-to-day activities that impact the Postal Service's financial processes, such as those related to payroll, procurement, and revenue.

The testing teams follow a written test plan outlining the steps and evidence necessary to evaluate each control's effectiveness.

In addition to the overall opinions on the Postal Service's financial statements and internal controls over financial reporting, the Board's IPA firm issued a separate report on its consideration of the Postal Service's internal controls and its test of compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report was to describe the scope of testing of internal controls over financial reporting and compliance and the results of that testing, not to provide an opinion on internal controls over financial reporting or on compliance.<sup>27</sup>

### Objectives, Scope, and Methodology

The objectives of the audit were to determine whether the Postal Service:

- Fairly stated accounting transactions in the general ledger and whether selected key controls surrounding those transactions were operating effectively.
- Properly tested, documented, and reported its examination of selected key financial reporting controls at Accounting Services and Postal Service Headquarters.

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<sup>23</sup> Includes accounting for miscellaneous disbursements, commercial credit cards, and HQ and field office payables.

<sup>24</sup> The Centralized Account Processing System is an electronic postage payment system that gives business mailers a way to pay postage at multiple post offices through a centralized account.

<sup>25</sup> Includes accounting for rents and leases, contract stations, uniform allowance, indemnity claims, tort claims, and travel.

<sup>26</sup> The Postal Service contracts with Deloitte to test controls on behalf of the IT testing team and Business testing team.

<sup>27</sup> In addition to the IPA firm's work, these reports encompass work the OIG performed at HQ and the three Accounting Services sites.

- Properly tested, documented, and reported its examination of general controls for the financially significant applications and their underlying infrastructure.

To achieve our objectives, we assessed internal controls, independently tested transactions, and verified account balances. In addition, we re-performed and evaluated selected key financial reporting and general controls of the testing teams' work for financially significant applications and their underlying infrastructure. We held discussions with the Postal Service and IPA firm representatives, and reviewed auditors' audit documentation. We also monitored corrective action taken on issues open from prior years' reviews and performed assessments as appropriate.

We conducted this audit from December 2015 through March 2017<sup>28</sup> in accordance with the standards of the Public Company Accounting Oversight Board and the standards applicable to financial audits contained in Government Auditing Standards issued by the comptroller general of the U.S. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our judgment, appropriate for supporting the overall audit opinion on 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 audit objectives. An audit also requires a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of audit procedures to be performed. The evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

We supported the IPA firm in obtaining reasonable assurance about whether the financial statements were free of material misstatements (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 the Public Company Accounting Oversight Board and Government Auditing Standards may not detect a material misstatement. However, 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 on February 6, 2017, and included their comments where appropriate.

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

- Employee Personnel Action History.
- eTravel.
- Injury Compensation Performance Analysis System.
- Payroll Systems.
- Program Cost Tracking System (PCTS).
- Systems Applications and Products (SAP) in Human Capital Management.
- Workers' Compensation Master File.

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<sup>28</sup> The scope of our audit was October 1, 2015, through September 30, 2016.

To assess the reliability of these systems' data, we performed specific internal control and transaction tests, including tracing selected financial information to supporting source records. For example, we traced PCTS invoice labor rates to Postal Service contract documentation. We determined the data were sufficiently reliable for the purposes of this report. We considered other computer generated data in conducting our tests; however, the scope of the testing did not require us to validate the computer-generated data. These systems include but are not limited to:

- Accounting Enterprise Data Warehouse reporting.
- Centralized Account Processing System.
- Contract Authoring Management System.
- Electronic Facilities Management System.
- Foreign Post Settlement System.
- Fuel Asset Management System.
- Money Order System.
- National Accounting Oracle Financial Application – Oracle Accounts Payable System.
- Property and Equipment Accounting System.
- Solution for Enterprise Asset Management.
- Transportation Contracting Support System.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2015 Postal Service Selected Financial Activities and Accounting Records</i>	<p>Determine whether:</p> <ul style="list-style-type: none"> <li>Accounting transactions were fairly stated in the general ledger and selected key controls were operating effectively.</li> <li>The Postal Service properly tested, documented, and reported its examination of selected key financial reporting controls related to HQ and Accounting Services.</li> </ul>	FT-AR-16-005	3/14/2016	None
<i>Fiscal Year 2014 Postal Service Selected Financial Activities and Accounting Records</i>	<p>Determine whether:</p> <ul style="list-style-type: none"> <li>Accounting transactions were fairly stated, and selected controls were designed and operating effectively.</li> <li>Account balances followed the Postal Service's general classification of accounts consistent with the previous year.</li> <li>The Postal Service complied with laws and regulations having a direct and material effect on the financial statements taken as a whole.</li> </ul>	FT-AR-15-006	4/20/2015	None
<i>Fiscal Year 2014 Information Technology Internal Controls</i>	Evaluate and test key infrastructure-level internal controls over information systems (SOX in-scope financial reporting systems only)	FT-AR-15-005	3/30/2015	None

## Appendix B: Management's Comments

### OIG AUDIT - MANAGEMENT RESPONSE

03/1/2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Fiscal Year 2016 Postal Service Selected Financial Activities and Accounting Records (Report Number FT-AR-17-DRAFT) Project Number, 16BM006FT000

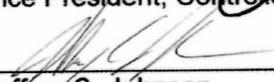
Although no recommendations were included and Management response is not required, Management takes exception with the statements within this report.

It should be noted that Management conveyed its concerns during the Exit Conference that was held on February 6, 2017, and verbally discussed the points of disagreement with the Office of Inspector General (OIG). OIG was acting under the direction of the Independent Public Accounting (IPA) firm in a direct assist capacity in support of the IPA firm's integrated audit. It should also be noted that the IPA firm assessed the IT testing performed by SOX Management under the applicable professional auditing standards and concluded it could use the SOX Management IT testing as audit evidence under a "reliance model." Additionally, the OIG did not communicate findings stated within the report as reportable issues during weekly management coordination meetings (which included the OIG, IT Compliance Management, SOX Management, IPA firm Management, and Management's IT testing leads), or raise concerns to Management prior to issuance of the draft report. Management would appreciate greater collaboration and more timely notification of issues identified by the OIG, and would recommend the aforementioned meeting be utilized as the forum to do so.

In summary, the findings noted within the report did not alter Management's conclusion on the effectiveness of internal controls that support the IT environment, nor did the findings alter Management's assertion on the effectiveness of Internal Controls over Financial Reporting (ICFR) as a whole. Therefore, the integrity of Management's IT control testing was not compromised.

OIG AUDIT - MANAGEMENT RESPONSE

  
\_\_\_\_\_  
Maura A. McNerney  
Vice President, Controller

  
\_\_\_\_\_  
Jeffrey C. Johnson  
Vice President, Information Technology

cc: *John E. Cihota, Deputy Assistant Inspector General*  
*Ramona Richmond, Inspector General*  
*Manager, Corporate Audit Response Management*



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Arlington, VA 22209-2020  
(703) 248-2100