



OFFICE OF INSPECTOR GENERAL

Washington, DC 20268-0001

DATE: June 3, 2008

TO: Dan Blair, Chairman

FROM: Jack Callender, Inspector General

SUBJECT: Transmittal of Final Audit Report – Internal Controls Over
Miscellaneous Receipts
Report Number AR-08-01A-02

This report presents the results of our audit of the Postal Regulatory Commission's (PRC) internal controls over miscellaneous receipts. We initiated this audit after identifying receipts deposited to PRC's parking fund during another audit.¹ Our audit of internal controls over miscellaneous receipts covered December 2002 through March 2008.

Miscellaneous receipts included rebates, refunds, and other various proceeds. For purposes of this audit, miscellaneous receipts did not include payments from employees participating in the PRC's subsidized parking program, nor does it include any imprest fund activity or transactions of the special activities fund.

We found internal controls over receipts and checking accounts to be inadequate. We could find no means that identified amounts due the PRC, and there was no process established for ensuring collection of amounts due. In addition, two individuals were responsible for all duties related to two separate checking accounts containing miscellaneous receipts. These receipts consisted of amounts collected in prior fiscal years, making them unavailable for current expenses. We will report these amounts as funds put to better use totaling \$200,658.74. We also noted that increased management oversight over receipts and the checking accounts is needed.

We appreciate the cooperation and courtesies provided by your staff during our audit. If you have any questions, please contact me at 202-789-6817.

cc: Vice Chairman Mark Acton
Commissioner Ruth Goldway
Commissioner Tony Hammond

¹ *Imprest Fund Audit*, Report No. AR-08-01A-01, March 31, 2008.

POSTAL REGULATORY COMMISSION

OFFICE OF INSPECTOR GENERAL



FINAL AUDIT REPORT

INTERNAL CONTROLS OVER MISCELLANEOUS RECEIPTS

Audit Report AR-08-01A-02

June 3, 2008

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Introduction

Background

Miscellaneous receipts include rebates from purchases, refunds, and various other amounts due the Postal Regulatory Commission (PRC). For purposes of this audit, miscellaneous receipts did not include payments from employees participating in the PRC's subsidized parking program, nor does it include any imprest fund activity or transactions of the special activities fund.¹

Some miscellaneous receipts were deposited to a checking account maintained at SunTrust Bank². This account is primarily used to collect payments from employees who park in the office building garage and remit those payments to the Postal Service. Employees may participate in a program whereby they share parking expense in the garage with the PRC. Remittances from participants currently total around \$2,000 per month. This account is also used to receive replenishments for the PRC's imprest fund.

Other miscellaneous receipts were deposited to a checking account at Chevy Chase Bank. This account was opened on April 25, 2006, and closed on March 26, 2008.

Records of both accounts were maintained by their respective custodians at PRC headquarters at 901 New York Avenue, NW, Washington, DC. Until recently, management had not decided as to the disposition of those receipts. There were no written policies governing miscellaneous receipts or the funds themselves; however, written policy exists governing PRC's subsidized parking program.

Objectives, Scope, and Methodology

The objectives of this audit were to determine whether internal controls over the PRC's miscellaneous receipts were adequate and effective, and to determine whether the funds in the parking fund checking account at SunTrust Bank were excessive. During the course of our audit, we expanded the objective to determine the nature of amounts deposited to the Chevy Chase Bank checking account.

The audit covered receipts deposited to the SunTrust parking fund from December 14, 2002 through March 31, 2008, and to the Chevy Chase account from its inception on April 25, 2006 until it was closed on March 26, 2008.³

The audit included various measures taken to understand the procedures and controls involving miscellaneous receipts and the related checking accounts. Our audit procedures included:

¹ This account was used to collect monies from employees for special events, such as an employee retirement celebration.

² The parking fund consisted of a checking account at this bank and did not contain cash on hand, except for employee payments that were held for deposit.

³ We selected a five-year look back as a reasonable period for reviewing the history of the activity; probing further back in time might not be cost justified.

- Examining transactions and balances on bank statements for propriety and reasonableness,
- Evaluating the adequacy of documentation supporting deposits and withdrawals from the checking accounts,
- Reviewing related policies for adequacy and clarity,
- Inquiring with management personnel with respect to policies and procedures and checking account activity, and
- Assessing internal controls.

We conducted this audit from March to May 2008 in accordance with generally accepted government auditing standards. Our tests of controls were limited to those necessary to achieve our audit objectives.

Prior Audit Coverage

There have been no audits of controls over miscellaneous receipts of the Postal Rate Commission and the Postal Regulatory Commission in the last five years. In addition, there have been no audits of bank accounts associated with holding miscellaneous receipts in the last five years.

Results

Internal controls over miscellaneous receipts were inadequate. There were few procedures in place to ensure amounts due the PRC were actually received and processed. Various deposits to PRC checking accounts lacked supporting documentation and could not be explained.

We determined the parking fund's balance of \$8,609.05 on March 31, 2008, included \$8,692.22 of unidentified net miscellaneous receipts deposited in the last five years into an account at SunTrust Bank. These deposits were unrelated to the account's main purposes. We also found an account at Chevy Chase Bank with a balance of \$191,966.52, including \$6,579.00 transferred from the SunTrust account, as of March 26, 2008. Some of these deposits have remained idle for more than four years.

Controls Over Miscellaneous Receipts Were Inadequate

The PRC has no written policy or procedures with respect to miscellaneous receipts. We found no structured process in place identifying amounts due, when they were due, and determining disposition when amounts were received.

Responsibility for certain receipts, including larger ones⁴ rested with one individual who determined the handling of receipts. Other receipts were accepted by an administrative assistant and sent to the parking fund custodian. The custodian was directed to deposit those amounts to the parking fund account at SunTrust Bank.

⁴ The largest receipt was deposited in March 2007 for \$81,788.27.

GAO's *Standards for Internal Control in the Federal Government*, November 1999, states internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets. It states internal control needs to be clearly documented and for the documentation to be readily available. It further states the documentation should appear in management directives, administrative policies, or operating manuals.

As a result of the inadequate controls over miscellaneous receipts, there was no assurance that amounts due the PRC were actually received and processed by the PRC. Also, receipts in the checking accounts accumulated without management's awareness and were at increasing risk for misuse. This condition existed because PRC had no written policies and procedures governing the proper handling of miscellaneous receipts.

RECOMMENDATIONS

We recommend the Chief Administrative Officer:

1. Establish and communicate written policies and procedures for miscellaneous receipts to ensure amounts due are received and promptly processed.
2. Periodically review processes in place to ensure compliance.

MANAGEMENT'S COMMENTS

Management agreed with our recommendations, and stated that the PRC has now established a procedure for depositing future miscellaneous receipts into an appropriate PRC or Postal Service account. Management also committed to implement policies and procedures for proper handling of future receipts. Procedures will include quarterly reviews to ensure they are followed and meet the PRC's needs. Management expects to implement the new policies and procedures by July 31, 2008.

EVALUATION OF MANAGEMENT'S COMMENTS

Management's comments are responsive to the recommendations, and the actions taken and planned should correct the issues identified.

Miscellaneous Receipts Remained Idle

The parking fund checking account's balance as of March 31, 2008, was \$8,609.05⁵. We examined bank statements back to December 14, 2002, and found activity that included deposits of miscellaneous receipts netting to \$8,692.22. Management was unable to provide documentation or an explanation for most of these deposits.

⁵ Reimbursements to the fund of \$227.53 and \$479.00 as a result of imprest fund replenishments are due as of March 31, 2008.

During our audit of the parking fund maintained at SunTrust Bank, we discovered another PRC checking account at Chevy Chase Bank. The account was closed during our examination, and the balance at the time of our discovery was \$191,966.52. Our audit determined the account opened on April 25, 2006. The balance consisted of five deposits and no debits, with the last deposit made on October 17, 2007. See Appendix I for a schedule of miscellaneous deposits to both accounts.

Good business practices require funds be managed to earn interest or be available for other business uses. Management provided minimal oversight over the parking fund checking account and stated that they believed the temporary holding account at Chevy Chase Bank had been closed in 2007. Consequently, the funds were at increasing risk of misuse and were not available for other PRC purposes. However, based on our audit, management initiated action that closed the Chevy Chase account and directed funds totaling \$191,966.52 to the Postal Service Fund.

RECOMMENDATION

We recommend the Chief Administrative Officer:

3. Properly dispose of excess funds totaling \$8,692.22 currently held in the parking fund checking account.

MANAGEMENT'S COMMENTS

Management agreed with our recommendation, and expects to forward excess proceeds from the Parking Fund totaling \$8,692.22 to the Postal Service by May 31, 2008.

EVALUATION OF MANAGEMENT'S COMMENTS

Management's comments are responsive to the recommendations, and the actions taken and planned should correct the issues identified.

**MISCELLANEOUS RECEIPTS ACTIVITY
IN CHECKING ACCOUNTS**

Deposits and Withdrawals for SunTrust Account

<u>Date</u>	<u>Amount</u>
06-13-03	\$ 9.64
07-09-03	10.00
09-05-03	36.20
11-13-03	56.00
02-10-04	1,100.00
03-11-04	1,043.71
04-09-04	160.81
04-09-04	10.00
10-07-04	6,579.64
06-09-05	6,121.55
01-06-07	10.07
06-01-07	100.00
07-05-07	21.00
09-04-07	12.60

Less transferred to Chevy Chase Bank:

04-26-06	<u>6,579.00</u>
Net Deposits	\$ <u>8,692.22</u>

Deposits to Chevy Chase Account

<u>Date</u>	<u>Amount</u>
04-25-06	\$ 46,878.00 ⁶
05-10-06	1,595.00
10-11-06	61,679.03
03-01-07	81,788.27
10-17-07	26.22
Total Deposits	<u>\$191,966.52</u>
Total of Net Deposits to Both Accounts	<u>\$200,658.74</u>

⁶ Includes \$6579.00 transferred from Sun Trust Account.



Office of the Secretary and
Administration

May 28, 2008

Mr. Jack Callender
Inspector General
Postal Regulatory Commission
901 New York Avenue, NW
Suite 230
Washington, DC 20268

RE: Internal Controls Over Miscellaneous Receipts, Report Number AR-08-01A-02

Dear Jack:

Thank you for the opportunity to review your May 8, 2008 draft of the Internal Controls Over Miscellaneous Receipts audit report, AR-08-01A-02.

Management has reviewed the report and concurs with the three recommendations put forward. The Commission has now had discussions with the appropriate U.S. Postal Service officials and established a procedure that will allow the Commission to deposit any such future miscellaneous income into the appropriate Commission or USPS account on a regular and "as needed" basis.

Additionally, the Commission has begun to draft written policies and procedures for the proper handling of this type of income in the future. These procedures will include quarterly reviews to ensure they are followed and remain sufficient to meet the needs of the Commission. It is anticipated that we will be able to put these new policies and procedures into effect by July 31, 2008.

Please be advised in addressing recommendation three, the excess funds of \$8,692.22, contained in the Commission's Parking Fund will be disposed of, by depositing into the U.S. Postal Service Fund, by May 31, 2008.

The Commission appreciates your efforts and assistance in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven W. Williams".

Steven W. Williams
Director and Secretary