



AUDIT REPORT

Postage Validation Imprinter Voids and Nonsaleable Stock - Los Angeles, CA, LAX Airport Finance Station

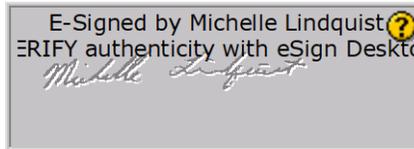
November 25, 2019





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MEMORANDUM FOR: ROBERT REYNOSA
MANAGER, LOS ANGELES DISTRICT



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Postage Validation Imprinter Voids and
Nonsaleable Stock - Los Angeles, CA, LAX Airport Finance
Station (Report Number 19-045-R20)

This report presents the results of our audit of the Postage Validation Imprinter Voids and Nonsaleable Stock - Los Angeles, CA, LAX Airport Finance Station.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dianna Smith, Operational Manager, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Background

This report presents the results of our self-initiated audit of Postage Validation Imprinter Voids and Nonsaleable Stock – LAX Airport Finance Station. The LAX Airport Finance Station is located in the Los Angeles District of the Pacific Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified LAX Airport Finance Station had high amounts of refunds recorded to account identifier code (AIC)¹ 509, *Voided Postage Validation Imprinter Labels*. The LAX Airport Finance Station had a total of \$21,586 voided PVI label refunds for fiscal year (FY) 2019, Quarter (Q) 3, an increase from the amounts in FY 2019, Qs 1 and 2 of \$5,998 and \$5,428, respectively. For the same period, FY 2018, there was an increase of \$15,647 or 263 percent in FY 2019. Further, LAX Airport Finance Station had 5.7 percent of the district total of AIC 509 refunds for FY 2019, Q 3, and an April total of \$13,721, the highest month total for any unit in FY 2019. Further, as of August 31, 2019, LAX Airport Finance Station had the highest amount of AIC 509 refunds for the Los Angeles District.

Nonsaleable inventory includes obsolete stock that is removed from sale, defective stock including any partial packages of stamps, stamped envelopes or postal cards, and damaged stock. The stamp stock custodian must check the *Postal Bulletin* to know when to withdraw specific stamps and stamped paper items from sale and to return obsolete items to Stamp Fulfillment Services based on the unit's scheduled return cycle.

Objective, Scope and Methodology

The objective of this audit was to determine if nonsaleable stamp stock is properly accounted for and managed and whether voided PVI labels were properly supported and processed at the Los Angeles, CA, LAX Airport Finance Station.

To accomplish our objective, we judgmentally sampled all label refunds in excess of \$50 and analyzed supporting documentation between April 1 and June 30, 2019 (67 of 1,583 PVI transactions). We also interviewed unit manager and other personnel responsible for the oversight and processing of voided PVI label refunds. We reviewed nonsaleable records, including the documentation supporting submittal for destruction of nonsaleable items throughout the year as well as the inventory for Unit Reserve Stock and interviewed unit management.

¹ The AIC consists of three digits. It is used to classify financial transactions to the proper general ledger account.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).² We did not test the validity of controls over this system; however, we verified the accuracy of the data by reviewing related documentation, tracing selected information to supporting source records, and interviewing knowledgeable Postal Service employees. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from October through November 2019, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 4, 2019, and included their comments where appropriate.

Finding #1: Postage Validation Imprinter Label Refunds

We reviewed nonsaleable stamp stock to determine if it was properly accounted for and managed and whether PVI labels were properly voided and processed. We did not identify any issues with nonsaleable stamp stock documentation. All nonsaleable stamp stock had been properly returned and the internal controls were in place and effective. In addition, refunds for voided PVI labels were properly issued and processed. However, they were not always properly supported. Further, we observed accountable items that were kept unsecured.

We identified six of 67 transactions totaling \$482, or 9 percent of the PVI label refunds reviewed over \$50, had no label attached to the Retail Systems Software (RSS)³ receipt and did not have a witness signature.

Postal Service policy states when a PVI label is not available, a witness is required for the supporting documentation.⁴ Unit personnel stated they did not obtain a witness in order to keep the customer line moving. In addition, unit management stated the increase in voided PVI labels was due to the wrong paper size being ordered for the printers. According to unit management, once the new paper was received in June, it corrected the problem. The reason this unit was the highest in the district is because they are one of the largest units in the district, and the problem impacted them to a greater degree.

² A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

³ The primary hardware and software system used to conduct retail sales transactions at post offices.

⁴ Handbook F-101, *Field Accounting Procedures* (DRAFT), May 2017, Section 21-4.1.1.d.

These refunds can indicate fraud. For example, a clerk might affix labels to mail in lieu of stamps and then process a refund to obtain funds.⁵ If unit management does not ensure a witness signature is obtained, there is increased risk of issuing unauthorized refunds.

Recommendation #1: We recommend the District Manager, Los Angeles District, direct unit management at the LAX Airport Finance Station to reiterate to appropriate unit personnel the policy for supporting voided postage validation imprinter label refunds.

Finding #2: Safeguarding of Assets

Although outside the scope of the audit, we observed accountable items were not always properly secured at the unit. Prior to the opening of the retail unit, we noted:

- Nine out of 10 retail stations had unlocked drawers containing stamps. In addition, one of the nine unlocked drawers with stamps also contained cash totaling \$116 and 225 blank domestic money orders (see [Figure 1](#) and [Figure 2](#)).

Figure 1. Unsecured stamps in drawer



Source: Photo taken by OIG Auditor during fieldwork.

⁵ *Monitoring Post Office Operational Risk in the Eastern Area*, (Report Number [DP-AR-14-004](#), dated August 27, 2014).

Figure 2. Unsecured money and money orders in drawer



Source: Photo taken by OIG Auditor during fieldwork.

- A rolling cart located on the retail floor had an unlocked compartment containing an unlocked lockbox containing stamps and cash totaling \$36 (see [Figure 3](#)).

Figure 3. Unlocked cash box in unlocked mobile unit



Source: Photo taken by OIG Auditor during fieldwork.

- Additionally, behind the retail counters, an unsecured shelf of lost and found items included numerous lost keys, seven wallets, \$15 cash, identification cards, and credit cards.

Postal Service policy states the manager or supervisor must provide adequate security for all accountable items, which include postal funds and stamp stock. Stamps and other accountable items must be protected at all times. They may be stored in a locked drawer or cabinet for short periods during the day.⁶ At all other times, they must be stored in the main vault or security container that affords the best available security.⁷ In addition, the postmaster should make sure the articles in lost and found are not lost or damaged.⁸

According to a unit manager, this situation occurred due to oversight by unit personnel and agreed security of the items needed to be improved. If controls over accountable items are not followed, there is an increased risk of undetected theft and lost revenue.

The manager stated she would speak with the associates regarding the need to remove and lock items at their stations at the end of each day. She also stated she would take corrective action to clean-up the retail area that afternoon. On the following day, we noted, except for one drawer containing stamps, the other drawers had been cleaned out, the lockbox was gone, and the lost and found counter had been cleared. Therefore, we are not making a recommendation on this issue.

Management's Comments

Management agreed with the finding and recommendation. Regarding recommendation 1, District Finance will prepare a stand-up talk to be administered by LAX Finance Station management to improve the PVI refund process at the unit. The talk will incorporate the relevant requirements and be posted in the retail area for future reference. In addition, a representative from the district retail office will review voided PVI label transactions processed after the date of the stand-up talk to ensure outlined procedures are being followed by sales and service associates. The implementation date is December 31, 2019.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective action should resolve the issue identified in the report. The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation should not be

⁶ F-101, (DRAFT), Section 3-1.

⁷ F-101, (DRAFT), Section 3-3.2.

⁸ Postal Operations Manual, POM Issue 9, August 2019, Section 125.5.

closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A. Management's Comments

DISTRICT MANAGER
LOS ANGELES DISTRICT



November 19, 2019

Lazerick Poland
Acting Director, Audit Operations

SUBJECT: Postage Validation Imprinter Voids and Nonsaleable Stock
Los Angeles, CA, LAX Airport Finance
(Project Number 19-045, dated November 6, 2019)

Management has reviewed the results of the Postage Validation Imprinter Voids and Nonsaleable Stock Audit at the Los Angeles, CA, LAX Airport Finance and realize that there is an opportunity for improvement as it relates to the voided PVI labels process and documentation at the Los Angeles, CA, LAX Airport Finance Station.

Recommendation #1:

The Manager, Los Angeles District, direct unit management at the LAX Airport Finance Station to reiterate to appropriate unit personnel the policy for supporting voided postage validation imprinter label refunds

Management Response/Action Plan:

Management Agrees

A strategy to improve the voided postage validation imprinter (PVI) label refund process and ensure proper documentation of these transactions will be implemented. Over the next month, District Finance will prepare a stand-up talk to be administered by Airport Finance Station Management. The stand-up talk titled "Postage Validation Imprinter Voids" will incorporate Section 21-4.1.1.d. of Handbook F-101, *Field Accounting Procedures* (DRAFT), May, 2017 and will target Airport Finance Station Supervisors and their Sales and Services Associates (SSAs). The permanent posting of the "Postage Validation Imprinter Voids" stand-up at the retail window will serve as a reminder of this policy.

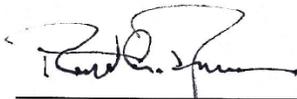
Additionally, a representative from the District Retail office will review the voided PVI label transactions processed after the date of the stand-up talk to ensure the SSAs are following the outlined procedure and documenting the transactions correctly.

Target Implementation Date:

December 2019

Responsible Official:

Postmaster – Los Angeles Post Office
Station Manager - LAX Airport Finance Station
Manager, Finance – Los Angeles District
Manager, Retail – Los Angeles District



Robert A. Reynosa
District Manager
Los Angeles District

cc: Kevin L. McAdams, VP Delivery Operations
Larry P. Munoz, Pacific Area Vice President
[REDACTED] Manager Corporate Audit and Response Management
[REDACTED] Manager Accounting Pacific Area
Joe Zapata, Postmaster, Los Angeles