



AUDIT REPORT

No Sale Transactions – Brooklyn, NY, New Lots Station

July 24, 2018



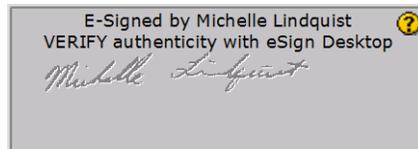
Report Number FCS-FM-18-021



July 24, 2018

MEMORANDUM FOR: MAURA A. MCDEVITT
VICE PRESIDENT, CONTROLLER

KELLY M. SIGMON
VICE PRESIDENT, RETAIL & CUSTOMER SERVICE
OPERATIONS



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – No Sale Transactions – Brooklyn, NY, New
Lots Station (Report Number FCS-FM-18-021)

This report presents the results of our audit of the No Sale Transactions – Brooklyn, NY, New Lots Station (Project Number 18BFM018FCS000).

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

Attachment

cc: Postmaster General
Corporate Audit and Response Management

Background

This report presents the results of our self-initiated audit of No Sale Transactions – Brooklyn, NY, New Lots Station (Project Number 18BFM018FCS000). The Brooklyn New Lots Station is in the Triboro District of the Northeast Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

No Sale Transactions should be relatively rare because they are used to open the retail associate's (RA) cash drawer when no transaction occurs, typically to exchange higher value currency for lower value currency dominations. The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified the Brooklyn, NY, New Lots Station with 2,135 No Sale Transactions from January 1 to March 31, 2018. This represented 9 percent of the unit's total retail transactions and was one of the top 10 units in the Triboro District with the highest number of No Sale Transactions for fiscal year 2018 Quarter 2.¹ Excessive No Sale Transactions allows unnecessary exposure to the contents of the Retail Systems Software (RSS)² terminal drawer, which contains cash, checks, credit card information, stamps, and money orders.

Objective, Scope, and Methodology

The objective of this audit was to determine whether No Sale Transactions are monitored and managed effectively at the Brooklyn, NY, New Lots Station.

To determine whether No Sale Transactions were monitored and managed effectively, we extracted and analyzed Enterprise Data Warehouse (EDW)³ system data for the 2,135 No Sale Transactions recorded at the Brooklyn, NY, New Lots Station between January 1 and March 31, 2018. We reviewed the unit's records and conducted interviews of personnel and Postal Service management.

We relied on computer-generated data from the EDW system. 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 personnel. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from May through July 2018, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable

¹ Quarter 2 is January 1 to March 31.

² The primary hardware and software system used to conduct retail sales transactions at post offices.

³ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

basis for our findings and conclusions based on our objective. We discussed our observations and conclusions with management on July 3, 2018, and included their comments where appropriate.

Finding #1: No Sale Transactions

Unit management did not monitor and manage the 2,135 No Sale Transactions recorded at the unit. The unit manager stated she was not aware of the number of times the RAs selected the No Sales Transaction key⁴ on the RSS terminal because this was not a category that required monitoring. According to area officials, the Northeast Area Accounting Office conducted a Postal Retail Unit (PRU) Review at New Lots Station in August 2017. Area officials stated the review showed No Sale Transactions were not being monitored and managed. The unit manager was instructed to monitor these types of transactions; however, there was no follow-up communication after the issuance of the PRU Review report to show actions taken or planned to mitigate the risks. Even though the area officials suggested the unit monitor these transactions, our audit confirmed there was no monitoring conducted.

The Postal Service currently has the RSS *Line Item Void and No Sales Report* which provides information such as the employee identification number and the number of times each employee selected the No Sale key by date. However, the Postal Service does not have a policy that requires unit management to generate or review the report. The Committee of Sponsoring Organizations of the Treadway Committee⁵ framework requires risk to be controlled to provide assurance that financial transactions are reviewed and occurring as planned to mitigate risk. A best practice for management to mitigate financial risk is to review No Sale financial transactions that exceed expectations.⁶

Cash is an easily negotiated liquid asset. Credit and debit card information is vulnerable to exploitation and misuse as well. Without proper monitoring of No Sale Transactions, the Postal Service has increased risk of theft of funds, credit or debit card information and stamp stock.

Recommendation #1: We recommend the Vice President, Controller, in coordination with the Vice President, Retail and Customer Service Operations, implement an organization-wide policy requiring Postal Service retail units to monitor and manage No Sale Transactions.

⁴ The No Sale Transaction key, when pressed, opens the cash drawer which contains cash, checks, credit card information, stamps, and money orders.

⁵ Model that has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

⁶ Expectation is a suggested amount of normal activity.

Management's Comments

Management stated they agreed with the finding but disagreed with the recommendation. They added that there is no requirement for the manager to monitor these types of transactions. Management believes the current controls currently in place to protect the accountable assets are sufficient and operating properly.

Management noted the OIG did not provide a link to a risk of loss and No Sale Transactions. In addition, organization-wide controls with respect to cash counts and stamp stock counts currently in place, are tested annually, and found to be operating effectively. Further, management believes the risk of loss appears to be immaterial and burdening the field with additional controls is not cost-effective. Management also noted the OIG previously reported⁷ that stamp stock accountability controls were adequately designed and operating effectively. Therefore, management does not plan to take corrective action.

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

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to the recommendation in the report. We agree there is no requirement to monitor no sale transactions. That was the basis for the recommendation – to develop a Postal Service-wide policy to monitor. We agree, too, that internal controls over stamp stock accountabilities used by the Office of the Controller and headquarters organizations have helped reduce financial control risks at retail units. However, it is clear that compensating controls established and tested annually by the Postal Service were not effective here, as the amount of No Sale transactions were significantly higher than normal.

We continue to believe controls to monitor and manage No Sale Transactions needs to be implemented at a Postal Service-wide level. As discussed at the exit conference, the unit had a financial retail floor stock shortage of \$3,127 during our scope period. The OIG was unable to specifically link the stock shortage to No Sale Transactions because the unit's retail floor stock and other assets were left unsecured throughout the day and the shortage might have been the result of theft. In addition, Postal Service does not have individual accountability for retail floor stock. These issues were outside the scope of our audit; however, had office management been monitoring No Sale transactions, these issues could have been identified before we arrived for the audit. (We referred those specific issues to the OIG's Office of Investigations.)

Subsequent to the issuance of the draft report, we found the unit had financial retail floor stock shortages totaling \$5,724 during four of the five most recent retail floor stock counts, and none of those shortages were reported to the OIG. as required. Further, a recent OIG investigation of No Sale Transactions resulted in an employee's admission of using the No Sale key to disguise the theft of about \$23,000. Additional monitoring of

⁷ Stamp Stock Accountability Controls (Report Number [FCS-FM-18-013](#), dated April 17, 2018).

No Sale transactions would act as a compensating control to those controls that are not working at specific offices. As noted in the report, the Postal Service already has a report showing No Sale transaction activity. We believe management can further mitigate its financial risk by reviewing No Sale financial transactions that exceed expectations.

The Postal Service's response that reviewing this report is not cost-effective is unfounded. A periodic review of the report already developed by the Postal Service to determine whether No Sale transactions are reasonable in a unit would take a few minutes, preventing potentially significant (relative to the local office) revenue, cash, or stamp stock losses. We have identified other units with high volumes of No Sale transactions and plan to do additional work in this area as risk mitigation is needed. However, we will close this recommendation upon issuance and revisit this after conducting additional audits.

Appendix A: Management's Comments



July 18, 2018

MICHELLE LINDQUIST
DIRECTOR, FINANCIAL CONTROLS

SUBJECT: No Sales Transactions – Brooklyn, NY, New Lots Station
FCS FM-18-DRAFT

Management does not disagree with the finding that unit management did not monitor and manage No Sales Transactions recorded at the unit, however there is no requirement for the unit management to do so. The OIG was unable to provide a link between a risk of loss and No Sales Transactions at the unit and therefore management believes that the current controls which are in place to protect the accountable assets are sufficient. In fact, the OIG issued a report in April 2018 noting that the controls around stamp stock accountability were adequately designed and operating properly. The Postal Service has six automated controls which monitor unit activity and numerous other manual controls, all of which are designed and operating properly.

Recommendation 1:

We recommend the Vice President, Controller, in coordination with the Vice President, Retail and Customer Service Operations, implement an organization-wide policy requiring Postal Service units to monitor and manage No Sales Transactions.

Management Response/Action Plan:

Management disagrees with the recommendation as the OIG has provided no evidence and admitted they have no way to link any issues noted at the unit to No Sales Transactions. Further, organization-wide controls already exist with respect to cash counts and stamp stock counts. These controls are tested annually and have been found to be operating effectively. Therefore, the risk of loss appears to be immaterial and burdening the field with additional controls is not cost-effective.

Target Implementation Date:

N/A

Responsible Official:

N/A



Maura A. McDevitt
Vice President, Controller



Kelly M. Sigmon
Vice President, Retail & Customer Service Operations

cc: *Manager, Corporate Audit Response Management*