



March 2, 2005

LYNN MALCOLM
VICE PRESIDENT, FINANCE, CONTROLLER

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SUBJECT: Audit Report - Fiscal Year 2004 Financial Installation
Audits – Self-Service Postal Centers (Report Number FF-AR-05-073)

This report presents the results of our financial installation audits of 15 statistically selected self-service postal centers for fiscal year 2004 (Project Number 04XD006FF000). We conducted this audit in support of the audit of the Postal Service's financial statements.

Based on the items we reviewed, financial transactions were reasonably and fairly presented in accounting records, and, generally, the internal controls we examined were in place and effective at 14 of the 15 self-service postal centers. However, there were internal control and compliance issues related to cash and stamp accountability, requests for vending machine reimbursements, and [REDACTED]. Also, for one self-service postal center, controls over cash and stamp accountability were not in place and effective.

We recommended management reinforce guidelines to self-service postal center personnel for requests for refunds from vending machines and for the purpose [REDACTED].

Management agreed with our recommendations and actions taken or planned address the issues in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, or need additional information, please contact Linda J. Libician-Welch or me at (703) 248-2300.

/s/ Colleen A. McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
for Field Operations

Attachments

cc: Richard J. Strasser, Jr.
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EXECUTIVE SUMMARY

Introduction

The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. We conduct these audits in support of the audit of the Postal Service's financial statements. This report summarizes the results of our audits at 15 statistically selected self-service postal centers for fiscal year 2004. The audits at each of the self-service postal centers were unannounced.

The overall objectives of our audits were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records, and whether internal controls were in place and effective at the 15 statistically selected self-service postal centers.

Results in Brief

Based on the items we reviewed, financial transactions were reasonably and fairly presented in accounting records, and, generally, the internal controls we examined were in place and effective at 14 of the 15 self-service postal centers. However, there were internal control and compliance issues related to cash and stamp accountability, requests for vending machine refunds, and [REDACTED]. Also, for one self-service postal center, controls over cash and stamp accountability were not in place and effective.

Summary of Recommendations

We recommended management reinforce guidelines to self-service postal center personnel for requests for refunds from vending machines and for the purpose [REDACTED].

We recently made recommendations addressing cash and stamp accountability issues in our Fiscal Year 2003 Financial Installation Audit – Self-Service Postal Centers, (Report Number FF-AR-04-232, dated July 19, 2004). Therefore, we did not make recommendations on these issues in this report. On September 15, 2004, the Acting Vice President Finance, Controller, and the Acting Vice President, Delivery and Retail, issued a memorandum to the Vice Presidents, Area Operations, addressing these issues.

**Summary of
Management’s
Comments**

Management agreed with each of our recommendations. A memorandum will be issued by March 31, 2005, reinforcing the guidelines for requests for refunds from self-service vending machines. A memorandum was issued on September 15, 2004, which reinforced the [REDACTED] policy. Management’s comments, in their entirety, are included in Appendix B of this report.

**Overall Evaluation of
Management’s
Comments**

Management’s actions taken or planned are responsive to the recommendations and should address the issues identified in the findings.

INTRODUCTION

Background

In fiscal year (FY) 2001, the Office of Inspector General (OIG) began conducting financial audits at financial installations, consisting of revenue generating units¹ and stamp distribution offices. We conduct these audits in support of the overall audit of the Postal Service financial statements.

The Self-Service Vending Program is one of the Postal Service's major programs. It was implemented in 1964 to increase operating efficiency and customer convenience. Self-service postal centers are postal units that use vending machines to provide postage stamps and other retail products and services. Machines are located in both Postal Service facilities and nonpostal sites such as shopping malls, college campuses, large office buildings, and housing complexes. Locations are added when the demand for services and products is beyond what can be reasonably handled by existing Postal Service facilities.

In FY 2004, the Postal Service began using automated postal centers to supplement existing vending machines. Automated postal centers are self-service kiosks that offer customers convenient access to Postal Service products by accepting debit and credit cards. We plan to address automated postal centers in our FY 2005 audit plan.

Handbook F-1, Post Office Accounting Procedures, November 1996 (updated with Postal Bulletin revisions through March 18, 2004), and Handbook PO-102, Self-Service Vending Operational and Marketing Program, May 1999 (updated with Postal Bulletin revisions through April 29, 2004), give procedures for unit operations and oversight.

Objectives, Scope, and Methodology

The overall objectives of our audit were to determine whether financial transactions of field operations were reasonably and fairly represented in the accounting records, and whether internal controls were in place and effective.

To accomplish our objectives, we conducted fieldwork during FY 2004. We statistically selected 15 self-service

¹ Includes post offices, contract postal units, self-service postal centers, and business mail entry units.

postal centers for review from a population of 736 units. (See Appendix A for sites selected.) These 15 units reported \$7.4 million in revenue in FY 2003. The audits at each of the self-service postal centers were unannounced. We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We also evaluated whether the internal control structure over financial reporting and safeguarding of assets was implemented and functioning as designed.

We conducted this audit from November 2003 through March 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments, where appropriate. We issued individual reports to management at each statistically selected site.

Prior Audit Coverage

Before FY 2001, the Postal Inspection Service conducted financial installation audits. We evaluated all findings reported by the Postal Inspection Service in individual site reports from FYs 1999 and 2000 and by the OIG in FYs 2001 through 2003 and reported the status of recommendations in the individual site reports.

In our summary report on self-service postal centers for FY 2003,² we reported management could reinforce procedures for stamp and cash accountability [REDACTED]. We also reported management could revise Handbook PO-102, Self-Service Vending Operational and Marketing Program, May 1999 (updated with Postal Bulletin revisions through December 25, 2003), to include specific procedures for machine servicing during periods of short-term absences that do not require emergency servicing.

Management issued a memorandum dated August 19, 2004, to Area Vice Presidents to reiterate the need for adherence to current policies and procedures for cash and stamp accountability. [REDACTED]

² Fiscal Year 2003 Financial Installation Audit – Self-Service Postal Centers (Report Number FF-AR-04-232, dated July 19, 2004).

[REDACTED]. However, management stated it would create a task force by September 15, 2004, to update and revise Handbook PO-102, Self-Service Vending Operational and Marketing Program, by December 31, 2004.

Because we completed most of our FY 2004 audits before management issued the August 19, 2004, memorandum, management's actions did not affect the self-service postal centers we audited. Therefore, we have not determined whether management's actions effectively addressed the issues identified in our FY 2003 report.

AUDIT RESULTS

Cash and Stamp Accountability Procedures Need Strengthening

While controls over cash and stamp accountability were generally in place and effective at 14 of the 15 self-service postal centers, self-service postal centers did not always adhere to cash and stamp accountability procedures. Also, for one self-service postal center, controls over cash and stamp accountability were generally not in place and effective.

Management and staff did not always conduct accountability examinations or report discrepancies to the Postal Inspection Service, and Technicians did not always transfer accountabilities during absences. Controls over cash and stamp stock, accountability keys, and duplicate key envelopes were not always functioning. Also, cash reserves were not always authorized and Postal Service (PS) Form 25, Trust Fund Account, was not always maintained, and cash reserves were not authorized. These weaknesses contributed to shortages at six units ranging from \$214 to \$8,399, totaling \$18,244, and overages at five units ranging from \$192 to \$9,292, totaling \$14,238.

Overall, management and staff did not ensure the controls established by the Postal Service were adequately functioning. In most instances, they were unaware of prescribed procedures. Until controls are functioning as prescribed, there is an increased risk of loss of assets and misstatement of financial transactions.

Accountability Examinations Were Not Always Conducted and Discrepancies Not Always Reported

At seven units, Supervisors did not conduct accountability examinations every four months, as required. Generally, the time between examinations varied between seven and ten months. Supervisors stated time constraints and other duties took priority and prevented them from conducting examinations at the required frequency. According to Handbook PO-102, Self-Service Vending Operational and Marketing Program, Section 61, May 1999 (updated with Postal Bulletin revisions through April 29, 2004), supervisory personnel must examine the self-service vending credit at least once every four months and document the reviews (*repeat finding*).

Furthermore, at three units, employees did not complete PS Form 571, Discrepancy of \$100 or More in Financial

Responsibility, to notify the Postal Inspection Service of discrepancies, as required by Handbook PO-102, Section 64. For example, one unit did not report an overage of more than \$9,200. In this instance, the Supervisor stated he did not understand the requirement (*repeat finding*).

If accountability examinations are not conducted as required, the financial records could be misstated. Further, cash, accountable paper, and other sensitive items could be lost without detection. When PS Forms 571 are not completed, the Postal Inspection Service is not made aware of discrepancies.

Accountabilities Were
Not Transferred During
Absences

At five units, Servicing Technicians did not transfer accountabilities to a replacement servicing employee during extended periods of absence, as required by Handbook PO-102, Section 611. According to the Technicians, they were unaware of the requirement and the required staff was not available. If accountabilities are not transferred to a replacement employee, management cannot establish accountability over inventory (*repeat finding*).

Cash and Stamp Stock
Not Always Secured

Employees at nine self-service postal centers did not always follow prescribed security procedures for cash and stamp stock. Specifically:

- At eight units, Servicing Technicians improperly stored cash and stamps [REDACTED]. According to Handbook PO-102, Section 561, cash and stamps not loaded in self-service vending equipment must not be stored [REDACTED].
[REDACTED]
- At three units, Servicing Technicians did not secure stamp stock and cash [REDACTED].
[REDACTED]. Generally, Technicians stated they were not aware of the requirement (*repeat finding*).
- At one unit, the Servicing Technician left stamp stock and cash inside a locked van, but did not conceal the

stamp stock and cash from public view, as required by Handbook F-1, Sections 416.1.1 and 422.1.1. The technician stated he was not aware of the requirement (*repeat finding*).

If prescribed security procedures are not followed, the Postal Service has an increased risk of losing assets.

Controls Over Key Accountability and Duplicate Key Envelopes Need Improvement	<p>Unit management did not adhere to procedures for key accountability, including examination, maintenance, and verification. Specifically:</p> <ul style="list-style-type: none">• At seven units, Supervisors did not perform the annual examination of locks and keys for the Servicing Technician, as required by Handbook F-1, 426.2.8, November 1996 (updated with Postal Bulletin revisions through March 18, 2004) (<i>repeat finding</i>).• Nine units did not maintain or verify PS Form 2018, Duplicate Key, PIN and Combination Inventory, or PS Form 3977, Duplicate Key Envelope. Handbook PO-102, Section 562, and Handbook F-1, Section 372, respectively, provide instructions for maintaining these forms (<i>repeat finding</i>).
<p>Generally, personnel stated they were not aware of the requirements. If units do not follow procedures for examination, maintenance, and verification, the Postal Service has an increased risk of unauthorized access to vending accountability and loss of assets.</p>	
Cash Reserve Not Always Authorized	<p>Four units did not either have an authorized cash reserve from the District Finance Manager or maintain PS Form 3369-P, Consigned Credit Receipt, on file, as required by Handbook PO-102, Section 54. Generally, Supervisors stated they were not aware of the requirement. If the District Finance Manager does not authorize cash reserves, there is an increased risk the reserve may be incorrect (<i>repeat finding</i>).</p>
PS Form 25 Was Not Always Used	<p>At five units, the Servicing Technician did not maintain a separate subaccount record for each vending machine using PS Form 25, Trust Fund Account, as required by Handbook PO-102, Section 552. Generally, Technicians stated they were not aware of the requirement. If Technicians</p>

do not maintain separate PS Forms 25 for each vending machine, there is an increased risk that an equipment malfunction or theft from a machine may not be detected (*repeat finding*).

Vending Reimbursement Request Guidelines Were Not Always Followed	<p>At four units, Servicing Technicians and Supervisors did not always follow vending reimbursement guidelines. Specifically:</p> <ul style="list-style-type: none">• At two units, PS Form 5445, Stamp Vending Machine Reimbursement Request, was not used to document customer requests for refunds from vending machines.• At three units, reimbursement requests were not paid by cash or a no-fee postal money order.• At one unit, a supervisor did not authorize refunds over \$20. <p>Handbook PO-102, Sections 81 and 82, gives guidelines for handling requests for vending machine reimbursements. Technicians gave convenience as the reason for not adhering to the procedures. If units do not follow the refund guidelines, the Postal Service cannot determine whether the correct amounts are being refunded.</p>
Recommendation	<p>We recommend the Vice President, Finance, Controller, and the Vice President, Delivery and Retail:</p> <ol style="list-style-type: none">1. Reinforce guidelines for requests for refunds from self-service vending machines.
Management's Comments	<p>Management agreed with the recommendation and stated a memorandum will be issued by March 31, 2005, to reinforce the guidelines for refunds for self-service vending machines.</p>
Evaluation of Management's Comments	<p>Management's comments are responsive to the recommendation and actions planned should address the issues identified in our finding.</p>

**Program Procedures
Were Not Always
Followed**

Eight of the fifteen self-service postal centers did not follow [REDACTED] procedures. Specifically:

- Servicing Technicians at eight units did not carry [REDACTED] in cash bags while servicing the machines (*repeat finding*).
- At four units, management did not issue the [REDACTED] to the Servicing Technicians (*repeat finding*).

[REDACTED]. Generally, management and the Servicing Technicians stated they were unaware of the bait money order requirements. Consequently, the Postal Service has an increased risk that stolen items may not be traceable.

The [REDACTED] issues were also identified in our FY 2003 report. Management agreed with our recommendation in that report and stated a memorandum would be issued to every manager of vending servicing personnel by September 15, 2004, to address the correct procedures for [REDACTED]. Furthermore, Postal Service areas would be advised to institute a policy of unannounced spot checks by managers of self-service postal centers at least once each quarter to ensure [REDACTED] are being used appropriately. However, the September 15, 2004, memorandum addressed cash and stamp accountability, but did not address [REDACTED].

Recommendation

We recommend the Vice President, Delivery and Retail:

2. Reinforce to self-service postal centers the purpose and procedures [REDACTED].

**Management's
Comments**

Management agreed with the recommendation and stated a memorandum was issued on September 15, 2004, which reinforced the [REDACTED] policy.

**Evaluation of
Management's
Comments**

Management's comments are responsive to the recommendation and actions taken should address the issues identified in our finding.

APPENDIX A. SITES VISITED

Self-Service Postal Centers	Location
██████████	██████████, California
██████████	██████████, Illinois
██	██████████, California
██████████	██████████, Florida
██████████████████	██████████, Florida
██████████	██████████, Nevada
██████████████	██████████, California
██████████	██████████, Ohio
██████████████	██████████, Tennessee
██████████	██████████, Texas
██████████████████	██
██████████████	██████████, Louisiana
██████████████	██████████, Arizona
██████████████████	██████████████████, Colorado
██████████████	██████████, South Dakota

APPENDIX B. MANAGEMENT’S COMMENTS



COLLEEN A. McANTEE

SUBJECT: Transmittal of Draft Audit Report—Fiscal Year 2004 Financial Installation Audits
Self-Service Postal Centers (Report Number FF-AR-05-DRAFT)

This is in response to the January 21 memorandum and subject audit report. Attached are comments on refunds for self-service vending machines and [REDACTED]

The subject audit report contains information related to the bait money order program. This should be classified as restricted and exempt from disclosure, under the Freedom of Information Act.

If you have any questions, please call Gladys Zamora at (202) 268-3282 or Debra Chin at (202) 268-5117.

Thank you for providing this report.


Lynn Malcolm
(A) Vice President
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**Management Response to Office of Inspector General Audit Report
Fiscal Year 2004 Financial Installation Audits
Self-Service Postal Centers
(Report Number FF-AR-05-DRAFT)**

As requested, we are responding to your January 21, 2005, memorandum and subject audit report. The audit report indicates that a task force was to be created in September 2004 and the PO-102 was to be updated by December 31, 2004. The task force was created in September 2004. In order to allow adequate review by labor and the unions of the proposed changes in policy for machine servicing during periods of short-term absences that do not require emergency servicing, the date for final publication is June 3, 2005.

Vending Reimbursement Requests

We recommend the Acting Vice President, Finance, Controller, and the Vice President, Delivery and Retail:

- 1. Reinforce guidelines for requests for refunds from self-service vending machines.**

Management agrees with the recommendation. The Vice President, Delivery and Retail will issue a memorandum to reinforce the guidelines for requests for refunds from self-service vending machines. This memorandum will be issued by March 31, 2005.

████████████████████
We recommend the Vice President, Delivery and Retail:

- 2. Reinforce to self-service postal centers the purpose and procedures for carrying ██████████**

Management agrees with the recommendation. The report indicates that management issued a memorandum dated August 19, 2004, to reiterate the need for adherence to current policies but that the memorandum did not address ██████████ issues identified in the summary report. A separate memorandum was issued on September 15, 2004, which reinforced ██████████ policy. That memorandum was jointly signed by the Acting Vice President, Finance, Controller, the Acting Vice President, Delivery and Retail, the Senior Vice President, Government Relations, and the Vice President, Service and Market Development. The memorandum specifically refers to Management instruction AS-220-1999-1 as indicated in the audit report. We have attached a copy of the September 15, 2004, memorandum as information.