



January 25, 2007

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SUBJECT: Audit Report – Fiscal Year 2006 Financial Installation Audit – Automated Postal Centers (Report Number FF-AR-07-073)

This report presents the results of our audits of 14 judgmentally selected automated postal centers (APC) during fiscal year (FY) 2006 (Project Number 06BD004FF000).<sup>1</sup> We conducted the audits at the request of U.S. Postal Service Headquarters and to support the audit of the U.S. Postal Service's financial statements.

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, there were internal control and compliance issues related to stamp security and accountability procedures.<sup>2</sup> In addition, we identified issues related to current Postal Service guidance that does not require training of employees after initial APC deployment and does not require designation of APC back-up employees.

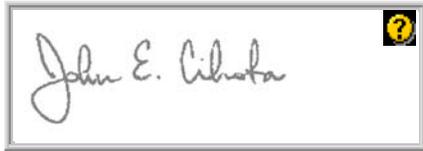
We made recommendations to district management addressing the findings at each installation. District management's comments were responsive to our findings and recommendations, and the actions taken or planned should correct the issues identified at these installations. In addition, we discussed with Postal Service management the issues related to training and designation of back-up employees. In response, management plans to include specific guidance on these issues in an APC handbook they will issue by January 31, 2007. Management chose not to respond to our draft report since there were no recommendations.

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<sup>1</sup> We performed two of the 14 audits during the first week of FY 2007, but are including this in our FY 2006 summary of APCs.

<sup>2</sup> This report discusses only the findings identified at five or more APCs. We present the detailed findings for all 14 APC audits in Appendix B.

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 Libician-Welch, Director, Field Financial – West, or me at (703) 248-2100.



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## EXECUTIVE SUMMARY

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### Introduction

This report summarizes the results of our audits of 14 judgmentally selected automated postal centers (APC) for fiscal year (FY) 2006. The Postal Reorganization Act of 1970 requires annual audits of the U.S. Postal Service's financial statements. We conduct these audits in support of the Postal Service's financial statements. The audits at each of the APCs 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 14 judgmentally selected APCs audited.

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### Results in Brief

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, there were internal control and compliance issues related to stamp security and accountability procedures.<sup>3</sup> In addition, we identified issues related to current Postal Service guidance that does not require training of employees after initial APC deployment and does not require designating APC back-up employees. We present the detailed findings for all 14 APC audits in Appendix B, and the results of our accountability examinations at each APC in Appendix C.

We made recommendations to district management addressing the findings at each installation. District management's comments were responsive to our findings and recommendations and the actions taken or planned should correct the issues identified at these installations.

In addition, we discussed with Postal Service Headquarters issues related to current Postal Service guidance that does not require training of employees after initial APC deployment and does not require designating back-up employees. In response, management plans to issue an

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<sup>3</sup> This report discusses only the findings identified at five or more APCs. We present the detailed findings for all 14 APC audits in Appendix B.

APC handbook by January 31, 2007, that will address these issues. Management chose not to respond to our draft report since there were no recommendations.

## INTRODUCTION

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### Background

Beginning with fiscal year (FY) 2001, the U.S. Postal Service Office of Inspector General (OIG) assumed responsibility from the Postal Inspection Service for conducting financial field audits at revenue-generating units, which include post offices, contract postal units, self-service and automated postal centers (APC); business mail entry units; and stamp distribution offices. We conduct these audits in support of the overall audit of the Postal Service's financial statements.

The Postal Service implemented the APC program in April 2004 to give customers convenient access to postal products and services and reduce their waiting time by diverting simple transactions that do not require assistance from a retail associate. APCs are customer-friendly kiosks where customers can ship packages, buy stamps, and verify ZIP Codes™. The centers allow retail associates to focus on more complex transactions and, therefore, are expected to generate more revenue for the Postal Service.

The following publications establish procedures for APC unit operations and oversight:

- Handbook F-1, *Post Office Accounting Procedures*, November 1996 (updated with *Postal Bulletin* revisions through June 9, 2005).<sup>4</sup>
- *Postmaster/Field Guide*, Version 5.0, July 2006.
- *Automated Postal Center Credit Exam Procedures*, July 28, 2005.
- *Automated Postal Center (APC) Key Procedures*, Version 2.0, Appendix 5.

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<sup>4</sup> Management suspended updates to Handbook F-1 on August 18, 2005, and plans to issue a revised handbook by January 31, 2007.

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**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 performed fieldwork at 14 judgmentally selected APCs<sup>5</sup> during FY 2006 and the first month of FY 2007. (See Appendix A for a list of units and OIG report numbers.) The audits performed at these units were unannounced. We conducted counts of the APC storage repository and kiosk inventories and reviewed all transactions generated for one reporting period related to financial accounting and reporting. We also inventoried keys and reviewed internal controls over key accountability.

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 2005 through January 2007 in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances. We discussed the results of our audit with management officials and included their comments where appropriate. We issued individual reports to management at each unit.

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**Prior Audit Coverage**

OIG issued a report titled *Fiscal Year 2005 Financial Installation Audit – Self-Service and Automated Postal Centers* (Report Number *FF-AR-06-127*, dated April 7, 2006). The report disclosed internal control and compliance issues related to cash and stamp accountability, security, refunds, spoiled variable rate labels, and rejected stamp stock. We did not make any recommendations.

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<sup>5</sup> These 14 units reported \$1.9 million in revenue in FY 2005.

## AUDIT RESULTS

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<b>Automated Postal Centers</b>	<p>We conducted audits at 14 judgmentally selected APCs. Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective. However, there were internal control and compliance issues related to stamp security and accountability procedures.<sup>6</sup> Most employees stated they were either unaware of or did not fully understand the requirements or were inadequately or not trained on APC accountability procedures. When employees do not follow security and accountability procedures, there is an increased risk of financial loss to the Postal Service. We noted the results of our accountability examinations in Appendix C.</p> <p>We also identified issues related to current Postal Service guidance that does not require training of employees after the initial APC deployment and does not require designating APC back-up employees. When employees are not trained, they are not able to adhere to required procedures. In addition, when management does not designate back-up employees, the unit could experience APC downtime and create customer dissatisfaction.</p>
<b>Stamp Security Procedures</b>	<p>The APC supervisors and/or service employees did not always follow prescribed policies and procedures related to stamp security. Specifically:</p> <ul style="list-style-type: none"><li>• At 10 APCs, supervisors did not maintain Postal Service (PS) Form 3977, Duplicate Key Inventory, envelopes to store the service employee and master keys.<sup>7</sup> As a result, employees at four APCs did not realize they were missing at least one service and/or master key.</li><li>• At nine APCs, supervisors or service employees did not check out and return keys daily and/or maintain a key log on PS Form 1627, General Purpose Ruled Form.<sup>8</sup></li></ul>

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<sup>6</sup> This report discusses only the findings identified at five or more APCs. We present the detailed findings for all 14 APC audits in Appendix B.

<sup>7</sup> *APC Key Procedures*, Version 2.0, Appendix, 5, page 1, item 4, U.S. Postal Service, July 23, 2004.

<sup>8</sup> *APC Key Procedures*, pages 1 and 2.

- At five APCs, supervisors and service employees conducted or attempted to conduct the credit examinations in the post office lobby rather than in a secure location.<sup>9</sup>
- At five APCs, supervisors did not secure APC stamp stock separate from other accountabilities. For example, four APCs stored their stamp stock with the unit reserve stock. Consequently, this improperly allowed employees other than the APC service employee access to the stock.<sup>10</sup>

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Stamp Accountability  
Procedures

The APC supervisors and/or service employees did not always follow established accountability policies and procedures governing stamp stock. Specifically:

- At eight APCs, supervisors and service employees either used an incorrect accountability form to document their credit examination results or did not use a form at all.<sup>11</sup>
- At eight APCs, supervisors did not complete or properly complete PS Form 3369, Consigned Credit Receipt, to accept responsibility, not liability, for the value of the APC inventory.<sup>12</sup>
- At six APCs, supervisors did not conduct credit examinations at the required frequency.<sup>13</sup> For example, employees at two APCs had only performed one examination since the Postal Service installed the APCs during calendar year 2004.

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<sup>9</sup> *Automated Postal Center Credit Exam Procedures*, Preparation for Count, bullet 7, July 28, 2005.

<sup>10</sup> *Automated Postal Center Credit Exam Procedures*, Security.

<sup>11</sup> *Automated Postal Center Credit Exam Procedures*, Preparation for Count.

<sup>12</sup> *Automated Postal Center Credit Exam Procedures*.

<sup>13</sup> *Automated Postal Center Credit Exam Procedures*, Frequency, bullets 1 and 2.

- At six APCs, supervisors and/or service employees did not keep PS Form 3533, Application and Voucher for Refund of Postage, Fees and Services, and other APC documents separate from other unit documentation.<sup>14</sup> Instead, the employees commingled the forms with the PS Form 1412, Daily Financial Report, or other Postal Service reference materials.

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Audit Comment	We made recommendations to district management addressing the findings at each installation. District management’s comments were responsive to our findings and recommendations and the actions taken or planned should correct the issues identified at these installations. We did not identify any corrective actions required by U.S. Postal Service Headquarters regarding these issues. Consequently, we are not making additional recommendations related to the issues in this report.
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Requirements For Training Needed Strengthening	<p>Postal Service guidance requires training for employees at the time of the initial APC deployment but does not require subsequent training.<sup>15</sup> As a result, when a new employee joins a unit and is assigned APC responsibilities, they are not aware of the required procedures.</p> <p>We included this issue in our individual installation reports and suggested management consider establishing a policy requiring district personnel to provide APC training to employees prior to their being assigned APC responsibilities. Management agreed and plans to include a requirement for training employees in a new APC handbook, which they plan to issue by January 31, 2007.<sup>16</sup> The handbook will include a chapter on how to select and train an APC employee. Management’s planned actions will address this issue; therefore, we are not making a recommendation.</p>
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<sup>14</sup> *Refunds and Exchanges*, page 2, December 15, 2004.

<sup>15</sup> *Automated Postal Center, Train-the-Trainer Course, Facilitator Guide*, Module 9, Retail Operations Course 41201-99, March 2004 (revised August 30).

<sup>16</sup> *APC Handbook (Draft), Selecting and Training APC Personnel*, Chapter 3, Section 3, page 1.

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Requirements For Designating Back-Up Employees Needed Strengthening	<p>Postal Service policy does not require units to have back-up employees responsible for APC activities. Therefore, an APC may not have employees available who are knowledgeable about APCs, as was the case at one unit we audited.</p> <p>We included this issue in the individual installation reports and suggested management consider revising the APC guidance to require units to designate back-up employees. Management agreed and plans to include a requirement in the APC handbook that a manager or postmaster have a minimum of four service employees trained for each APC. In addition, management plans to require all service employees and site supervisors to complete a training course before servicing an APC.<sup>17</sup> Management's planned actions will address these issues; therefore, we are not making a recommendation.</p>
Management's Comments	<p>Management chose not to respond to our draft report since there were no recommendations.</p>

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<sup>17</sup> APC Handbook (Draft), Selecting and Training APC Personnel, Chapter 3, Section 32, page 1.

**APPENDIX A**

**AUTOMATED POSTAL CENTERS AUDITED**

This table presents the 14 APCs judgmentally selected for audit.

	<b>Unit Name</b>	<b>Location</b>	<b>FY 2005 Revenue<sup>18</sup></b>	<b>OIG Report Number</b>
1.	Post Office	VA	\$114,069	FF-AR-07-017
2.	Post Office	VA	\$112,557	FF-AR-06-181
3.	Post Office	CA	\$209,787	FF-AR-06-021
4.	Post Office	TX	\$102,252	FF-AR-07-028
5.	Post Office	CA	\$282,831	FF-AR-06-017
6.	Station	CA	\$212,168	FF-AR-07-012
7.	Station	TX	\$222,517	FF-AR-07-025
8.	Post Office	RI	\$59,329	FF-AR-06-218
9.	Station	TX	\$106,787	FF-AR-06-029
10.	Post Office	CA	\$34,850	FF-AR-06-074
11.	Post Office	RI	\$183,639	FF-AR-07-006
12.	Post Office	CA	\$113,374	FF-AR-06-057
13.	Post Office	CA	\$161,232	FF-AR-07-015
14.	Post Office	MA	\$55,512	FF-AR-06-256

<sup>18</sup> FY 2005 revenue totaling \$1,970,904 was reported through the *Standard Accounting for Retail*.

## APPENDIX B

### FISCAL YEAR 2006 REPORTED AUDIT FINDINGS

In FY 2006, the OIG issued 14 APC audit reports. The table below provides a year-to-date summary of the results. The findings are listed for each site in the order of the most frequent findings.

Description of Findings	Number of APCs With Findings														
	Post Office, California	Station, Texas	Station, California	Post Office, California	Post Office, Rhode Island	Post Office, California	Station, Texas	Post Office, Virginia	Post Office, California	Post Office, Virginia	Post Office, Texas	Post Office, Rhode Island	Post Office, Massachusetts	Post Office, California	Number of APCs With Findings
Management and/or employees did not: Maintain PS Form 3977, Duplicate Key Inventory, envelopes for APC keys			X			X	X	X	X	X	X	X	X	X	10
Check out and return APC keys daily; maintain a key log		X	X		X			X	X	X		X	X	X	9
Use proper forms to record credit examinations		X	X		X	X	X	X		X				X	8
Complete or properly complete PS Form 3369, Consigned Credit Receipt	X	X	X	X		X	X			X	X				8
Conduct credit examinations at proper frequency		X		X	X						X	X		X	6
Keep PS Forms 3533, Application and Voucher for Refund of Postage, Fees and Services, in a folder separate from the daily documents	X	X	X								X		X	X	6
Conduct credit exams in secure location		X	X				X					X		X	5
Secure APC stock separate from other stock		X						X		X	X			X	5
Cancel or attach spoiled variable rate forms to PS Form 3533		X		X			X				X				4
Record transfer of redeemed stamp booklets to storage repository in APC							X				X			X	3

Description of Findings	Post Office, California	Station, Texas	Station, California	Post Office, California	Post Office, Rhode Island	Post Office, California	Station, Texas	Post Office, Virginia	Post Office, California	Post Office, Virginia	Post Office, Texas	Post Office, Rhode Island	Post Office, Massachusetts	Post Office, California	Number of APCs With Findings
Management and/or employees did not: Document the transfer of stock from the stamp distribution office		X										X	X		3
Print PS Form 1412, Daily Financial Report, on a daily basis		X								X					2
Complete the entire PS Form 3533												X		X	2
Follow prescribed refund procedures	X									X					2
Conduct one count exam; instead the exam was conducted by a self-service postal center technician and retail associate									X						1
List variable rate labels on PS Form 3294, Cash and Stamp Stock Count and Summary										X					1
Secure APC keys when not in use														X	1
Properly complete PS Form 3977														X	1
Secure APC stamp booklets							X								1
Return rejected stamp stock to the Stamp Distribution Office														X	1
Process refunds using retail window stock							X								1
Post credit examination results to the APC machine														X	1
Terminate individual computer logon identifications of inactive employees						X									1
Conduct a separate APC credit examination														X	1
Void stamp booklets or rejected variable rate postage labels			X												1

## APPENDIX C

### ACCOUNTABILITY EXAMINATION SUMMARY

This table presents the results of accountability examinations performed during the APC audits, rounded to the nearest dollar. Shortages and overages presented are the total value of all shortages and overages identified during the examination of each accountability.

Unit Name	Total Value of Accountability Per Clerk Balance Report	Total Value of All	
		Shortages	Overages
Post Office	\$40,874	\$0	\$7
Post Office	16,993	0	2,564
Post Office	35,837	54	0
Post Office	13,822	7	0
Post Office	10,210	0	7
Station	8,564	0	0
Station	34,244	180	0
Post Office	9,670	26	0
Station	7,246	33	0
Post Office	14,406	47	0
Post Office	3,356	0	7
Post Office	7,586	0	20
Post Office	1,923	0	0
Post Office	3,349	0	0
<b>Total</b>	<b>\$208,080</b>	<b>\$347</b>	<b>\$2,605</b>