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SUBJECT: Audit Report – Fiscal Year 2006 Financial Installation Audit – Contract
Postal Units (Report Number FF-AR-07-075)

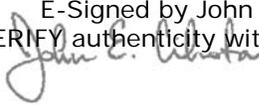
This report presents the results of our audits of 16 statistically selected contract postal units (CPU) during fiscal year 2006 (Project Number 06BD003FF000, formerly Project Number 06XD003FF000). We conducted the audits to support the audit of the U.S. Postal Service financial statements.

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, the CPUs had internal control and compliance issues related to cash and stamp accountability, [REDACTED], and the [REDACTED].¹

We made recommendations to district management addressing the findings at each unit. 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. The Postal Service reviewed a draft of this report and chose not to respond since there were no recommendations.

¹ In this report, we discuss only those findings reported at three or more CPUs. Appendix B is a summary of all findings reported to district management.

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.

E-Signed by John Cihota 
VERIFY authenticity with Approve!


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EXECUTIVE SUMMARY

Introduction

This report summarizes the results of our audits of 16 statistically selected contract postal units (CPU) for fiscal year 2006. We conducted these audits in support of the annual audit of the U.S. Postal Service financial statements, which is required by the Postal Reorganization Act of 1970. The audits at each of the CPUs were unannounced.

Our overall objectives 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 16 statistically selected CPUs.

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, the CPUs had internal control and compliance issues related to cash and stamp accountability, [REDACTED], and the [REDACTED].² Appendix B gives details of the findings for all 16 CPU audits, and Appendix C shows the results of our accountability examinations at each CPU.

We made recommendations to district management addressing the findings at each unit. 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. Therefore, we are not making recommendations in this report. The Postal Service reviewed a draft of this report and chose not to respond since there were no recommendations.

² In this report, we discuss only those findings reported at three or more CPUs.

INTRODUCTION

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 and stamp distribution offices. Revenue-generating units include post offices, contract postal units (CPU), self-service and automated postal centers, and business mail entry units. These audits are conducted in support of the overall audit of the U.S. Postal Service financial statements.

A CPU is a post office located inside a retail establishment and operated by the retailer's employees. CPUs provide postal services to remote, underserved, and seasonal locations where traditional post offices are not available or are overburdened. The units operate under contract to the Postal Service and provide postal services to the public, which can include mail acceptance, postage sales, other postal products and services, and Postal Service money orders.

Generally, the contractor must provide a surety bond³ from an approved source in an amount sufficient to cover the value of all stamp stock, cash, and the value of postage on the meters.⁴ The contracting officer's representative (COR) should monitor the CPU's accountability regularly to ensure it does not exceed the current bond amount.

CORs assist the contractors and maintain the CPU administrative file. In addition, CORs are required to conduct quarterly performance reviews and annual financial examinations,⁵ including a review of the contractor's bond to ensure that it has been paid, is current, and reflects the CPU's current accountability.

The following publications, along with the unit's contract agreement, establish procedures for CPU unit operations and oversight:

³ A bond is not required for performance-based contracts with a [REDACTED].

⁴ Publication 156, *Postal Service Guide to CPUs*, Section 5-7.23, August 2005.

⁵ Financial examinations are not conducted at units with a [REDACTED].

- Handbook F-1, *Post Office Accountability Procedures*, November 1996 (updated with *Postal Bulletin* revisions through June 9, 2005).⁶
- Publication 116, *Contract Postal Units Operations Guide*, August 2002.
- Publication 156, *Postal Service Employee Guide to Contract Postal Units*, August 2005.
- *Postmaster/Field Guide* Version 5.0, July 2006.
- *Postal Operations Manual*, Issue 9, July 2002.
- Management Instruction, AS-220-1999-1, [REDACTED].

**Objectives, Scope,
and Methodology**

Our overall objectives 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.

To accomplish these objectives, we performed fieldwork at the 16 statistically selected CPUs⁷ from November 2005 through August 2006.⁸ (See Appendix A for a list of units and OIG Report Numbers.) The audits performed at each unit were unannounced. We performed accountability examinations on the cash, stamp stock, and money orders maintained at the units. We observed the unit's closeout procedures and preparation of the bank deposits.

We conducted this audit from November 2005 through January 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and

⁶ Management suspended updates to the Handbook F-1 on August 18, 2005, and plans to issue a revised handbook in FY 2007.

⁷ Our sampling universe did not include units using [REDACTED]. These units pay in advance for their stamps, metered postage, and supplies. Consequently, these units do not require bonding; completion of Postal Service (PS) Form 1412, Daily Financial Report; financial audits; or separation of funds; and do not sell postal money orders or offer post office box services. [REDACTED].

⁸ These 16 units reported revenue of \$2.7 million in FY 2005.

conclusions with management officials and included their comments where appropriate. We issued individual reports to management at each unit.

Prior Audit Coverage

The OIG issued a report entitled *Fiscal Year 2004 Financial Installation Audit – Contract Postal Units* (Report Number FF-AR-05-100, dated March 31, 2005). The report disclosed internal control and compliance issues related to accountability over cash and stamps, safeguarding assets, [REDACTED], and provisions of the Bank Secrecy Act. We recommended management reinforce instructions to CORs regarding accountability — specifically, maintaining excess cash and safeguarding assets at CPUs — to improve compliance with Postal Service procedures. Management agreed with our findings and recommendations.

AUDIT RESULTS

Contract Postal Units

We conducted audits at 16 statistically selected CPUs. 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, the CPUs had internal control and compliance issues related to cash and stamp accountability, [REDACTED], and the [REDACTED].⁹

Cash and Stamp Accountability

Employees of the CPU, host post office, and the COR did not always follow policies and procedures for cash and stamp accountability. Specifically:

- CPU employees at six units did not follow procedures for preparing the bank deposit.¹⁰ Employees stated they were either unaware of or did not fully understand the requirements for preparing the deposit. Not following the procedures increases the risk of loss of funds and the misstatement of assets in the financial statements.
- CPU employees at four units did not secure stamps or cash during nonbusiness hours.¹¹ At three of the four units, employees stated they were unaware of the requirements or did not fully understand them. At the other unit, employees stated they overlooked the requirements and forgot to secure stamps and cash as required. When assets are not safeguarded as prescribed, there is an increased risk that cash and stamps could be lost or stolen.
- At three units, the COR and host post office employees did not perform the annual cash and stamp accountability examinations. At two of those units management cited time constraints or said that other duties took priority. At the third unit, management stated

⁹ In this report, we discuss only those findings reported at three or more CPUs. See Appendix B for a summary of all findings reported to district management.

¹⁰ Handbook F-1, *Post Office Accounting Procedures*, Section 333.2.7, November 1996 (updated with *Postal Bulletin* revisions through June 9, 2005).

¹¹ Publication 116, *Contract Postal Unit Operations Guide*, Section 1-4.5, August 2002.

they had conducted the examinations, but could not locate any supporting documentation. When management does not follow cash and stamp accountability procedures, there is an increased risk of loss of cash, stamps, or other sensitive items.

[REDACTED]

CPU employees did not always follow policies and procedures for [REDACTED]. Specifically, CPU employees at three units did not adequately [REDACTED] during nonbusiness hours.¹² Employees stated they were unaware of the requirements for [REDACTED] or did not fully understand them. If unit employees do not [REDACTED], the Postal Service has an increased risk that the [REDACTED].

[REDACTED]

Employees of CPUs and host post offices did not always follow policies and procedures to implement fully the [REDACTED].¹³ Specifically:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Contractors and host post office employees said they did not fully implement the [REDACTED] because they were not aware of the requirements or did not fully understand them. When policies and procedures for the

¹² Handbook F-1, Section 422.13.

¹³ Management Instruction, AS-220-1999-1, [REDACTED].

████████████████████ are not followed, there is an increased risk the Postal Service will lose cash, and investigative leads could be lost or delayed.

Audit Comment

We made recommendations to district management addressing the findings¹⁴ 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 Postal Service Headquarters regarding these issues. Therefore, we are not making additional recommendations in this report.

**Management's
Comment**

The Postal Service reviewed a draft of this report and chose not to respond since there were no recommendations.

¹⁴ Individual reports addressed the issues discussed in this report and the issues identified in Appendix B.

APPENDIX A. CONTRACT POSTAL UNITS AUDITED

This table presents the 16 CPUs statistically selected for audit.

	Unit Name	Location	FY 2005 Revenue ¹⁵	OIG Report Number
1.		, PA	\$101,907	FF-AR-06-195
2.		, WY	174,264	FF-AR-06-221
3.		, NV	308,039	FF-AR-06-214
4.		, NY	325,791	FF-AR-06-144
5.		, OK	403,920	FF-AR-06-158
6.		, AZ	449,366	FF-AR-06-157
7.		, FL	127,491	FF-AR-06-151
8.		, MN	183,111	FF-AR-06-171
9.		, MN	41,005	FF-AR-06-255
10.		, VA	54,614	FF-AR-06-199
11.		, TX	44,021	FF-AR-06-238
12.		, ME	39,412	FF-AR-06-240
13.	¹⁶	, OH	11,280	FF-AR-06-173
14.		, PA	8,683	FF-AR-06-189
15.		, GA	141,060	FF-AR-06-067
16.		, WA	412,498	FF-AR-06-095

¹⁵ As reported in the *Standard Accounting for Retail*.

¹⁶ Community Post Office (CPO) is a contract unit that provides postal services in small communities where an independent post office has been discontinued.

APPENDIX B. AUDIT FINDINGS REPORTED AT CONTRACT POSTAL UNITS

In FY 2006, the OIG issued 16 CPU reports. This table provides a summary of results.¹⁷

Description of Finding	[REDACTED]													
Unit did not follow procedures for preparing the bank deposit.			X	X		X	X			X			X	6
Unit personnel did not secure stamps and cash during nonbusiness hours.	X					X	X			X				4
Unit did not conduct annual accountability examinations.			X						X				X	3
Unit employees did not adequately secure [REDACTED] during non-business hours.	X			X			X							3
CPU employees did not implement the [REDACTED] during nonbusiness hours.							X		X				X	3
CPU employees could not locate the [REDACTED] that had been issued to them.	X	X								X				3
The host post office did not issue [REDACTED] to CPU employees.			X	X				X						3
The host post office did not maintain an up-to-date [REDACTED].		X		X	X									3
The unit's surety bond had expired.					X				X					2
CPU training records were not documented or maintained.					X				X					2
The host post office did not [REDACTED].	X												X	2
The CPU inappropriately had a Postal Service-owned Self-Service Postal Center (vending machine).	X								X					2
CPU employees did not receive the required training.				X						X				2
The unit did not document accountability examinations on Postal Service Form 3368-P, Credit Examination Record.					X									1
The unit's cash retained exceeded authorized limits.							X							1
Unit personnel did not adequately secure the keys to the stamp stock.			X											1

¹⁷ Three audit reports did not report any findings: [REDACTED], [REDACTED], [REDACTED], and [REDACTED].

Description of Finding														
Unit employees did not include all Postal Service funds in the daily deposit.	X													1
Cash and stamp accountability exceeded the surety bond amount.	X													1
Employees commingled non-Postal Service funds with Postal Service funds.	X													1
The host post office did not monitor or clear the CPU's financial differences.			X											1
The host post office did not enter the CPU's financial data into the Electronic Money Order Voucher System in a timely manner.			X											1
CPU employees did not submit [REDACTED].					X									1
The host post office did not [REDACTED].										X				1
The host post office did not always record post office box rental fees in WebBATS. ¹⁸					X									1
CPU employees charged customers incorrect fees for post office box rental.											X			1
CPU employees did not properly manage closed post office boxes.									X					1
The host post office did not distribute the bad check listing to the CPU.	X													1
The CPU did not maintain a bad check register.	X													1
The host post office did not perform quarterly reviews.								X						1
The COR had not received COR training.									X					1

¹⁸ Web Box Activity Tracking System.

APPENDIX C. ACCOUNTABILITY EXAMINATION SUMMARY

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

Unit Name	Total Value of Accountability Shown on PS Form 1412	Total Value of All	
		Shortages	Overages
	\$16,755	\$658	\$0
	6,428	0	66
	20,795	0	0
	13,866	74	0
	46,376	0	1,651
	13,378	52	0
	27,020	2,484	0
	4,177	0	12
	1,822	2	0
	14,549	375	0
	1,319	3	0
	11,385	0	51
	2,047	0	1
	595	456	0
	9,507	5	0
	1,160	0	138
Total	\$191,179	\$4,109	\$1,919