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SUBJECT: Audit Report – Fiscal Year 2006 Financial Installation Audit – Post Offices, Stations, and Branches (Report Number FF-AR-07-094)

This report presents the results of our financial installation audit of post offices, stations, and branches for fiscal year (FY) 2006 (Project Number 06BD001FF000, formerly Project Number 06XD001FF000). We conducted this work in support of 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, in this report we discuss systemic issues related to cash and stamp accountability, money orders, safeguarding of assets, excess stock, employee items, and master trust accounts.

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 this report, we recommended the Vice President, Controller, in conjunction with the Vice President, Customer Service, modify Postal Service policy to establish a requirement to reconcile master trust accounts to the balances in the Accounting Data Mart (ADM) at non-PostalOne! offices. Management agreed with the recommendation and stated they will clarify the customer trust accounts reconciliation policy to indicate that post offices (PostalOne! and non-PostalOne!) are required to reconcile trust accounts balances from the PostalOne! System or manually maintain records with the balances in the ADM. The policy, which includes frequency of the reconciliation, will be incorporated in the new Field Accounting Procedures scheduled for publication in fiscal

year 2007. 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 Kevin Ellenberger, Director, Field Financial – East, or me at (703) 248-2100.



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EXECUTIVE SUMMARY

Introduction

This report summarizes the results of our audits of 112 post offices, stations, and branches for fiscal year (FY) 2006. We conducted our audits pursuant to the Postal Reorganization Act of 1970, which requires annual audits of the U.S. Postal Service's financial statements. The audits at each of the post offices, stations, and branches were unannounced.

The 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.

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, we identified internal control and compliance issues that were not material to the financial statements and did not affect the overall adequacy of internal controls necessary for a financial statement audit. Specifically, units did not always comply with stamp, cash, and money order procedures. We identified systemic issues related to accountability examinations, [REDACTED] and [REDACTED], safeguarding of assets, and excess stock. Additionally, units did not always monitor employee items and master trust accounts.

Summary of Recommendations

We made recommendations to district management addressing the findings at each installation. In this report, we recommended the Vice President, Controller, in conjunction with the Vice President, Customer Service, modify Postal Service policy to establish a requirement to reconcile master trust accounts to the balances in the Accounting Data Mart at non-PostalOne! offices.

Summary of Management's Comments

Management agreed with the recommendation and stated they will clarify the customer trust accounts reconciliation policy to indicate that post offices (PostalOne! and non-PostalOne!) are required to reconcile trust accounts balances from the PostalOne! System or manually maintain records with the balances in the Accounting Data Mart. The policy, which includes frequency of the reconciliation, will be

incorporated in the new Field Accounting Procedures
scheduled for publication in FY 2007.

**Overall Evaluation of
Management's
Comments**

Management's comments were responsive to our findings
and recommendation.

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 three levels of financial installations: revenue-generating units, which include post offices, contract postal units, and self-service and automated postal centers; business mail entry units; and stamp distribution offices. We conduct these audits in support of the overall audit of the U.S. Postal Service's financial statements.

Post offices are the initial level where the Postal Service recognizes revenue from operations and includes main offices, stations, and branches. The postmasters or installation heads are responsible for collecting all receipts to which the offices are entitled, accounting for all funds entrusted to them, and ensuring the offices meet all accounting objectives. Financial activities at these installations include, but are not limited to: post office box and caller services, money orders, business reply and postage due mail, and postage sales.

Handbook F-1, *Post Office Accounting Procedures*, November 1996 (updated with *Postal Bulletin* revisions through June 9, 2005), and the *Postmaster/Field Guide*, Version 5.0, provide the procedures postmasters and other installation heads must follow to meet the financial responsibilities of the installation. Management suspended updates to Handbook F-1 on August 18, 2005, and plans to issue a revised handbook in FY 2007.

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 conducted unannounced audit fieldwork from November 2005 through September 2006 at 112 post offices, stations, and

branches.¹ The 112 units reported \$464 million in revenue in FY 2005.

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 October 2005 through February 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 conclusions with management officials and included their comments where appropriate. We issued individual reports to management at each site.

Prior Audit Coverage

Prior to 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 FY 2000 and by the OIG from FYs 2001 through 2005 and reported the status of recommendations in these reports.

In addition, the OIG issued Management Advisory – *Fiscal Years 2003 and 2004 Protective Reviews Capping Report* (Report Number FT-MA-04-003, August 12, 2004). The review of 117 sites found personnel could strengthen controls over asset and postmaster accountability, revenue protection and expense minimization, employee and customer service, information systems security, and oversight by following established policies and procedures. Management agreed with the OIG recommendations and has taken or plans to take corrective actions that are responsive to the recommendations.

¹ Appendix A contains a listing of the 112 selected post offices. We used a statistical methodology to select 108 locations. Appendix C contains an explanation of the statistical selection methodology. We judgmentally selected four locations: [redacted] Post Office, [redacted], Massachusetts; [redacted] Station, [redacted], California; [redacted] Post, [redacted], Colorado; and the Processing and Distribution Center Window Unit, [redacted], California.

AUDIT RESULTS

Based on the items we reviewed at the 112 post offices, stations, and branches, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective at the units reviewed. However, we identified five locations where controls, overall, were not effective. Also, we identified an additional eight locations where major segments of post office internal controls were not effective. (See Appendix E.) Further, we identified various internal control and compliance issues at 104 of the 112 post offices audited. Appendix B presents a listing of each issue reported and the number of locations in which the issue occurred. This report contains a discussion of the most frequent findings we identified during our audits. These findings were in the areas of stamp and cash accountability, money orders, safeguarding of assets, excess stock, employee items, and master trust accounts.

We have included in this report an issue regarding master trust accounts. We found that policies regarding the reconciliation of these accounts were not complete.

Increased Compliance is Needed With Procedures for Stamps, Cash, and Money Orders

Units did not always comply with internal control procedures for stamps, cash, and money orders. Specifically, units did not follow procedures related to accountability examinations, [REDACTED], [REDACTED], safeguarding of assets, and retail floor stock. These internal control weaknesses may have contributed to cash and stamp shortages totaling \$208,890 and overages totaling \$151,253. (See Appendix D.)

Accountability Examinations

Units did not conduct timely examinations of accountabilities.² The primary cause was time constraints. If managers do not examine accountabilities in a timely manner, they reduce their ability to detect, trace, and recover shortages. Specifically, we reported management:

² Handbook F-1, *Post Office Accounting Procedures*, Chapter 4, November 1996 (updated with *Postal Bulletin* revisions through June 9, 2005).

- Did not count cash retained accountabilities at the required frequencies at 73 units.³
- Did not count the unit cash retained reserve accountability at the required frequencies at 41 units.

Employees at 38 units did not [REDACTED]. The primary cause was managers and employees were unaware of or did not fully understand all internal control requirements. When management does not [REDACTED], the Postal Service has an increased risk [REDACTED].

Units did not properly implement the [REDACTED] Program.⁴ The primary cause was managers and employees were unaware of or did not fully understand all internal control requirements. If management does not implement the program, there is an increased risk the Postal Service may not be able [REDACTED]. Specifically, we reported that employees:

- Did not issue [REDACTED] or maintain [REDACTED] at 62 units.
- Did not properly maintain the [REDACTED] [REDACTED] at 45 units.

Safeguarding of Assets Units did not always comply with procedures for safeguarding assets.⁵ This primarily occurred because there was not always sufficient management oversight and managers were not always aware of or did not fully understand the requirements. If managers do not secure accountabilities, they increase the Postal Service's risk that stamps, cash, or accountable paper could be stolen. Specifically, employees or supervisors:

- Did not properly prepare or use Postal Service (PS) Form 3977, Duplicate Key Envelope, at 49 units.

³ The Postal Service plans to publish a *Postal Bulletin* article eliminating the requirement to count cash credits at Segmented Inventory Accountability offices at least once every 2 weeks. Instead, postmasters, managers, and supervisors will perform counts no less frequently than once a month.

⁴ Management Instruction AS-220-1999-1, [REDACTED].

⁵ Handbook F-1, Chapter 4.

- Did not conduct annual key reviews at 44 units.
- Did not properly prepare bank deposits at 40 units.

Excess Stock	Units did not always comply with retail floor stock limits. Specifically, 51 units exceeded the 2-week postage sales limit. The primary cause was managers knowingly exceeded the stock limit. ⁶ When units exceed authorized stock limits, the Postal Service has an increased risk that stamps could be lost or stolen without detection.
Employee Items and Master Trust Accounts Needed Additional Monitoring	Units did not always comply with procedures for monitoring employee items and master trust accounts. The Postal Service has an increased risk that units will misstate assets and liabilities when they do not monitor these accounts. Specifically, employees or supervisors did not: <ul style="list-style-type: none">• Monitor or promptly clear employee items at 39 units. The units did not transfer \$35,479 in outstanding employee overages to a revenue account. In addition, the units did not clear \$161,227 in outstanding employee receivables.⁷ The primary cause was managers were unaware of or did not fully understand all requirements.• Reconcile master trust accounts maintained at 29 units to the balances in the Accounting Data Mart (ADM).⁸ We found differences of \$1,031,321 between unit maintained records and the ADM. Primarily, this condition occurred because of insufficient management oversight. Additionally, Postal Service policy does not require non-PostalOne! offices to reconcile these accounts.
Audit Comment	We addressed the issues related to stamps, cash, money orders, and employee items in individual unit level reports to district management. We did not identify any corrective actions required by U.S. Postal Service Headquarters regarding these issues. Consequently, we are not making

⁶ Handbook F-1, Chapter 4.

⁷ Handbook F-1, Chapter 5.

⁸ *PostalOne! Reconciliation Instructions for Balancing with SAFR (Standard Accounting For Retail), Reconciliation Process* (February 2005).

additional recommendations related to those items in this report.

Recommendation	We recommend the Vice President, Controller, in conjunction with the Vice President, Customer Service: 1. Modify Postal Service policy to establish a requirement to reconcile master trust accounts to the balances in the Accounting Data Mart at non-PostalOne! offices.
Management's Comments	Management agreed with the recommendation and stated they will clarify the customer trust accounts reconciliation policy to indicate that post offices (PostalOne! and non-PostalOne!) are required to reconcile trust accounts balances from the PostalOne! System or manually maintain records with the balances in the ADM. The policy, which includes frequency of the reconciliation, will be incorporated in the new Field Accounting Procedures scheduled for publication in FY 2007.
Evaluation of Management's Comments	Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the findings.

APPENDIX A. POST OFFICES, STATIONS, AND BRANCHES AUDITED AND REPORTS ISSUED NATIONWIDE

	Unit Name	Location	FY 2005 Revenue	OIG Report Number
1	Post Office	CA	\$1,816,951	FF-AR-07-003
2		, TX	\$1,780,527	FF-AR-06-201
3	Post Office	, MI	\$4,398,056	FF-AR-06-260
4	Post Office	, OH	\$394,685	FF-AR-06-077
5	Post Office ⁹	, MA	\$1,138,338	FF-AR-07-021
6	Post Office	, MO	\$464,606	FF-AR-06-224
7	Office Window	, MD	\$14,658,866	FF-AR-06-045
8	Post Office	, MI	\$2,819,378	FF-AR-06-270
9	Station	, TX	\$1,649,039	FF-AR-06-209
10	Station ⁹		\$1,541,937	FF-AR-06-228
11	Station	, PA	\$454,362	FF-AR-06-166
12	Post Office	, WI	\$280,264	FF-AR-06-262
13	Post Office	, MO	\$1,505,493	FF-AR-06-046
	Finance	, NY	\$1,531,565	FF-AR-06-075
14	Station			
15	Post Office	, TX	\$239,832	FF-AR-07-005
16	Post Office	, CO	\$1,940,941	FF-AR-06-183
17	Postal Store	, IL	\$20,620,861	FF-AR-06-250
18	Post Office	, OR	\$241,103	FF-AR-06-204
19	Post Office	, IL	\$166,777	FF-AR-06-024
	P&DC Window	, CA	\$4,071,980	FF-AR-07-016
20	Unit ⁹			
21	Post Office	, TX	\$1,551,390	FF-AR-06-168
22	Station	, TX	\$2,467,573	FF-AR-07-024
23	Station	, TX	\$1,477,579	FF-AR-07-007
24	Post Office	, TX	\$25,358,725	FF-AR-06-205
25	Post Office	, FL	\$1,285,929	FF-AR-06-154
26	Station	, CA	\$930,688	FF-AR-06-065
27	Station	, CO	\$16,861,759	FF-AR-06-186
28	General Mail Facility	, CO	\$15,972,204	FF-AR-07-001
29	Branch	, CA	\$2,061,465	FF-AR-06-111
30	Station	, AZ	\$1,468,507	FF-AR-06-132
31	Post Office	, MN	\$7,134,943	FF-AR-07-002
32	Post Office	, IL	\$23,544,308	FF-AR-06-180
33	Post Office ⁹	, CO	\$1,518,933	FF-AR-06-020
34	Station	, CA	\$800,237	FF-AR-06-064
35	Post Office	, NY	\$15,667,964	FF-AR-06-235
36	Office Window	, NC	\$1,517,805	FF-AR-06-125
37	Branch	, FL	\$1,403,354	FF-AR-06-179
38	Post Office	, MT	\$620,418	FF-AR-06-187
39	Post Office	CT	\$241,875	FF-AR-06-088
40	Station	, IL	\$1,580,853	FF-AR-06-133
41	Branch	, CO	\$6,439,965	FF-AR-06-108
42	Post Office	, AL	\$188,935	FF-AR-06-023

⁹ We judgmentally selected this location.

	Unit Name	Location	FY 2005 Revenue	OIG Report Number
43	Post Office	, AL	\$865,425	FF-AR-06-025
44	Branch	, OH	\$2,384,529	FF-AR-06-245
45	Post Office	, ME	\$186,344	FF-AR-06-232
46	Post Office	, CT	\$21,749,800	FF-AR-06-230
47	Post Office	, OH	\$2,205,017	FF-AR-06-239
48	Post Office	, MI	\$2,162,055	FF-AR-06-278
49	Post Office	, PA	\$174,108	FF-AR-06-249
50	Station	, AL	\$1,156,587	FF-AR-06-164
51	Post Office	, NY	\$905,540	FF-AR-06-257
52	Post Office	, OH	\$154,504	FF-AR-06-079
53	Post Office	, IL	\$3,761,390	FF-AR-06-131
54	Post Office	, MN	\$1,476,244	FF-AR-07-008
55	Post Office	, PA	\$580,111	FF-AR-06-054
56	Station	, CA	\$1,953,843	FF-AR-06-252
57	Post Office	, AR	\$2,165,684	FF-AR-06-244
58	Branch	, NY	\$1,631,697	FF-AR-06-124
59	Post Office	, CA	\$2,214,704	FF-AR-06-136
60	Post Office	, OH	\$577,407	FF-AR-06-047
61	Post Office	, TX	\$4,588,900	FF-AR-06-097
62	Post Office	, ND	\$989,532	FF-AR-06-241
63	Post Office	, NJ	\$1,583,964	FF-AR-06-109
64	Post Office	, NC	\$272,285	FF-AR-06-194
65	Station	, AL	\$2,181,710	FF-AR-06-169
66	Post Office	, PA	\$256,557	FF-AR-06-263
67	Post Office	, NY	\$1,227,211	FF-AR-06-265
68	Post Office	, WI	\$2,442,997	FF-AR-06-177
69	Office Window	, CA	\$25,837,060	FF-AR-06-100
70	Post Office	, CA	\$2,541,913	FF-AR-06-089
71	Finance Station	, HI	\$1,574,036	FF-AR-06-261
72	Station	, CO	\$1,475,208	FF-AR-06-264
73	Station	, NY	\$933,440	FF-AR-06-185
74	Post Office	, NY	\$29,820,052	FF-AR-07-010
75	Post Office	, DE	\$3,105,922	FF-AR-07-013
76	Post Office	, IL	\$3,317,190	FF-AR-06-280
77	Office	, CA	\$18,008,799	FF-AR-06-200
78	Post Office	, NV	\$255,403	FF-AR-06-259
79	Station	, NY	\$700,097	FF-AR-06-145
80	Post Office	, CA	\$700,719	FF-AR-06-152
81	Post Office	, CA	\$5,187,938	FF-AR-06-220
82	Post Office	, PA	\$162,870	FF-AR-06-273
83	Post Office	, TX	\$1,926,749	FF-AR-06-215
84	Post Office	, MI	\$4,195,273	FF-AR-06-138
85	Post Office	, NM	\$648,641	FF-AR-06-274
86	Post Office	, UT	\$25,514,665	FF-AR-06-066
87	General Mail Facility	, TX	\$13,226,204	FF-AR-06-103
88	P&DC Window Unit	, CA	\$20,279,155	FF-AR-06-148
89	Post Office	, NY	\$1,710,023	FF-AR-06-149
90	Post Office	, CA	\$447,831	FF-AR-06-237
91	Post Office	, OK	\$1,207,322	FF-AR-06-271
92	Branch	, FL	\$2,735,199	FF-AR-06-068

	Unit Name	Location	FY 2005 Revenue	OIG Report Number
93	Station	, IN	\$516,511	FF-AR-06-092
94	Post Office	, MA	\$606,744	FF-AR-06-051
95	Post Office	, MA	\$626,950	FF-AR-06-049
96	Post Office	, PA	\$445,020	FF-AR-06-226
97	Station	, PA	\$1,740,618	FF-AR-06-213
98	Post Office	, IL	\$656,344	FF-AR-06-055
99	Station	, FL	\$833,010	FF-AR-06-106
100	Window Unit	, FL	\$27,367,134	FF-AR-06-211
101	Post Office	, IN	\$622,894	FF-AR-06-227
102	Postal Store	, CA	\$1,880,940	FF-AR-06-272
103	Branch	, OR	\$2,927,885	FF-AR-06-243
104	Post Office	, GA	\$397,443	FF-AR-06-028
105	Post Office	, PA	\$184,057	FF-AR-06-269
106	Post Office	, CA	\$2,419,665	FF-AR-06-174
107	Post Office	, MI	\$559,679	FF-AR-07-009
108	Post Office	, NC	\$662,724	FF-AR-06-116
109	Post Office	, WI	\$2,184,051	FF-AR-06-044
110	Station	, LA	\$1,604,310	FF-AR-06-277
111	Post Office	, ME	\$366,289	FF-AR-06-254
112	Post Office	, AR	\$227,709	FF-AR-06-033

APPENDIX B. FINDINGS REPORTED FOR THE 108 STATISTICALLY SELECTED POST OFFICES, STATIONS, AND BRANCHES AUDITED NATIONWIDE¹⁰

Finding Description	Number of Sites With Findings
The unit did not conduct timely examinations of cash retained accountabilities.	73
The unit reserve custodian did not properly issue or maintain [REDACTED].	62
The unit allowed retail floor stock to exceed the 2-week postage sales limit.	51
The unit did not properly maintain duplicate key envelopes and lists.	49
The unit did not properly maintain or secure the [REDACTED].	45
The unit did not verify or document, at least annually, that an employee's accountability keys did not open another's accountability.	44
The unit did not conduct timely examinations of cash reserve accountabilities.	41
The unit did not properly prepare bank deposits.	40
The unit did not monitor employee items or promptly clear them.	39
The unit did not [REDACTED].	38
The unit did not document credit examination results on Postal Service (PS) Form 3294, Cash and Stamp Stock Count and Summary, or retain the forms.	35
The unit did not properly secure cash, stamps, money order stock, and accountable items.	35
The unit did not close inactive credits.	33
The unit did not document credit examination results on PS Form 3368, Stamp Credit Examination Record.	30
The unit did not properly document, execute, or record internal stock transfers.	30
The unit did not place [REDACTED] during nonbusiness hours.	29
The unit did not monitor and resolve financial differences.	29
The unit did not monitor or reconcile master trust account balances.	29
The unit did not properly monitor advance deposit accounts for inactivity.	29
The unit did not have adequate documentation to support payroll transactions.	27
The unit did not conduct timely examinations of vending accountabilities.	24
The unit did not conduct timely examinations of unit reserve stamp accountabilities.	22
The unit did not update the [REDACTED] list.	21
The unit did not monitor post office box overflow.	20
The total office accountability exceeded the 3-month stamp stock limit.	18
The unit did not verify disbursement transactions were supported.	17
The unit did not use PS Form 3369, Consigned Credit Receipt, when assigning accountabilities.	15
The unit did not properly secure retail floor stock.	14
The unit allowed the cash reserve to exceed the authorized limit.	14

¹⁰ We did not include judgmentally selected locations in order to allow us to statistically project the number of units having internal control deficiencies.

Finding Description	Number of Sites With Findings
The unit did not follow proper vending procedures.	13
The unit did not properly operate the postage validation imprinter or make adjusting entries.	13
The unit did not ensure the credit cardholder reviewed, signed and dated, and forwarded the International Merchant Purchase Authorization Card (IMPAC) statements to the credit card approving official within 5 working days.	13
The unit did not properly follow closeout procedures.	12
The unit did not ensure Voyager transactions were supported with receipts.	12
The unit did not verify that locks and combinations were changed.	11
The unit did not always post overages and shortages.	11
The unit did not properly close or block post office boxes of customers who did not pay their fees.	11
The IMPAC credit card approving official did not review documentation for accuracy and proper use of the credit card, and sign within 5 working days of receiving the report.	11
The unit did not prevent sales associates from exceeding the authorized cash retained limit.	10
The unit did not conduct timely examinations of retail floor stock accountabilities.	9
The unit did not limit employees' access to the unit cash reserve.	9
The unit did not ensure business reply mail revenue was collected.	9
The unit did not keep the Web Box Activity Tracking System (WebBATS) up-to-date.	9
The unit did not adequately separate post office box duties.	9
The unit did not properly document, execute, or record external stock transfers.	8
The unit did not restrict access to Postal Service information resources to authorized employees.	8
The unit did not witness and sign accountability examinations, as required.	6
Unit management did not ensure that contract station accountability did not exceed the bond limit.	6
The unit did not adequately separate duties.	6
The unit did not remit all funds.	6
The unit did not secure the [REDACTED].	6
The unit did not audit money orders during accountability examinations.	5
Unit management did not monitor contract postal unit procedures.	5
The unit did not conduct or document money order examinations.	4
The unit did not prevent employees from storing personal funds with Postal Service funds.	4
The unit did not accurately record post office box and caller service transactions.	4
The unit did not reconcile monthly Voyager purchases.	4
The unit did not properly assign Voyager PINs.	4
The unit did not ensure IMPAC transactions were supported with receipts.	4
The unit did not conduct timely examinations of individual stamp credits.	3
The unit sold money orders out of sequence.	3

Finding Description	Number of Sites With Findings
The unit did not follow proper consignment procedures.	3
The unit did not use an approved payment method to disburse Postal Service funds.	3
The unit did not collect caller service fees from customers with caller service.	3
The unit did not conduct timely examinations of mobile and rural carrier accountabilities.	2
The unit allowed the philatelic credit to exceed the maximum philatelic stock level of \$125,000.	2
The unit did not keep automated postal center stamp stock in a storage repository separate from other credits of the post office.	2
Unit management did not control the use of PS Forms 1096, Cash Receipt.	2
The unit permitted customers to mail or receive returned pieces without maintaining a sufficient advance deposit account balance.	2
The unit did not process postage refunds and exchanges properly.	2
The unit did not record all financial transactions.	2
The unit did not remove obsolete items from inventory.	1
The vending technician did not maintain individual sub-accounts for each vending machine and for the stamp stock and cash kept in the safe.	1
The unit allowed multiple employees to share a stamp credit.	1
The unit did not prevent employees from storing personal belongings in retail work areas.	1
The unit did not properly record receipts or disbursement accounts.	1
The unit did not follow administrative procedures related to post office boxes.	1
The unit did not accurately record payroll transactions.	1
The IMPAC cardholder did not obtain authorization for a purchase or purchased a prohibited item.	1
The unit did not destroy the IMPAC credit card when the cardholder transferred.	1
The unit did not secure Voyager cards.	1
The unit did not secure IMPAC.	1

APPENDIX C. SAMPLING METHODOLOGY

In support of the objectives, the audit team employed a stratified random sample of post offices, stations, and branches (units). The sample design allows statistical projection of the number of units having the types of internal control deficiencies that were the subject of the audit. We made separate projections for each category with internal control deficiencies. The audit universe consisted of 16,025 units with revenues above \$100,000.

We sampled 108 units as a stratified attributes design further allocated to each of three revenue-based strata. The sample size of 108 is equivalent to that required to achieve a 5 percent risk of over-reliance (Beta Risk) and a tolerable error rate of 5 percent allowing for one error for compliance testing.

We calculated the point estimate of the total number of deviations, as well as the associated confidence interval. Based on the sample results, we project the following with a 95 confidence level:

Finding	Statistical Projections		
	Lower Limit	Upper Limit	Point Estimate
The unit did not conduct timely examinations of cash retained accountabilities.	10,367 (64.69%)	13,681 (85.37%)	12,024 (75.03%)
The unit did not issue [REDACTED].	6,931 (43.25%)	10,742 (67.04%)	8,837 (55.14%)
Units did not comply with retail floor stock limits.	4,686 (29.24%)	8,398 (52.4%)	6,542 (40.82%)
The unit did not properly maintain duplicate key envelopes and lists.	5,588 (34.87%)	9,404 (58.68%)	7,496 (46.78%)
The unit did not properly maintain or secure the [REDACTED].	4,803 (29.97%)	8,552 (53.36%)	6,677 (41.67%)
The unit did not verify or document, at least annually, that an employee's accountability keys did not open another's accountability.	5,467 (34.12%)	9,287 (57.95%)	7,377 (46.04%)
The unit did not conduct timely examinations of cash reserve accountabilities.	4,295 (26.80%)	7,965 (49.70%)	6,130 (38.25%)
The unit did not properly prepare bank deposits.	4,736 (29.55%)	8,509 (53.10%)	6,623 (41.33%)
The unit did not monitor employee items or properly clear them.	2,685 (16.75%)	5,935 (37.03%)	4,310 (26.89%)
The unit did not [REDACTED].	3,848 (24.1%)	7,510 (46.87%)	5,679 (35.44%)

**APPENDIX D. SUMMARY OF ACCOUNTABILITY EXAMINATIONS FOR
THE 108 STATISTICALLY SELECTED POST OFFICES, STATIONS,
AND BRANCHES AUDITED NATIONWIDE**

Accountability Type	Number Examined	Total Value	Shortages		Overages	
			Amount	Percentage	Amount	Percentage
Retail Associates' Cash Retained Credits	1,183	\$160,640	\$1,998	1.24	\$7,367	4.59
Unit Cash Reserve	143	112,422	1,202	1.07	5,181	4.61
Unit Reserve Stock	110	30,924,429	132,446	0.43	12,501	0.04
Retail Floor Stock	102	7,928,395	40,632	0.51	110,176	1.39
Vending Credits	80	1,016,855	17,211	1.69	3,592	0.35
Individual Stamp Credits	32	2,304,138	14,328	0.62	11,534	0.50
Rural Carrier Stamp Credits	30	3,464	127	3.67	345	9.96
Mobile Units	11	128,739	907	0.70	170	0.13
Stamps by Mail Credits	4	276,803	39	0.01	387	0.14
Totals	1,695	\$42,855,885	\$208,890	0.49	\$151,253	0.35

APPENDIX E. SITES WHERE INTERNAL CONTROLS WERE NOT IN PLACE AND EFFECTIVE

Unit Name	Location	Overall Controls	Stamp, Cash, and Money Order Accountability Controls	Financial Accounting and Reporting Controls	Post Office Box and Caller Services Controls	Payroll Controls	Voyager (eFleet) and IMPAC Controls
██████████ Post Office	██████████, CA		X				
██████████ Station	██████████, TX	X	X	X	X	X	X
██████████ Post Office	██████████, MI			X			
██████████ Station	██████████, NY	X	X	X	X		
██████████ Station	██████████, TX	X	X	X	X		X
██████████ Station	██████████, CA		X				
██████████ Station	██████████, IL	X	X	X	X	X	X
██████████ Post Office	██████████, TX		X				
██████████ Station	██████████, CO		X				
██████████ Post Office	██████████, CA	X	X	X			
██████████ Post Office	██████████, OK			X			
██████████ Station	██████████, PA		X				
██████████ Postal Store	██████████, CA		X	X			
Totals		5	11	8	4	2	3

APPENDIX F. MANAGEMENT'S COMMENTS

LYNN MALCOLM
Vice President, Controller



February 5, 2007

KIM STROUD

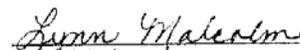
SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2006 Financial Installation Audit – Post Offices,
Stations, and Branches
(Report Number FF-AR-07-DRAFT)

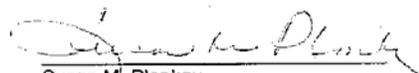
We have received and reviewed your January 5 draft audit report. Management's response to the recommendation in the report is attached.

The subject audit report and this response contain information sensitive in nature that, if released, could possibly be exploited and cause substantial harm to the Postal Service. Therefore, this information 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) 268-3262.

Thank you for providing this report.


Lynn Malcolm
Vice President, Controller


Susan M. Plonkey
Vice President, Customer Service


Kathy Ainsworth
Acting Vice President, Delivery and Retail

Attachment

cc: William P. Galligan
H. Glen Walker
E. Lynn Smith
Frederick J. Hintenach
Stephen Nickerson
Pritha N. Mehra
Steven R. Phelps

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Fiscal Year 2006 Financial Installation Audit – Post Office, Stations, and Branches
Management Response

Recommendation 1:

We recommend that the Vice President, Controller, in conjunction with the Vice President, Customer Service:

Modify Postal Service policy to establish a requirement to reconcile master trust accounts to the balances in the Accounting Data mart at non-PostalOne! offices.

Response:

The current policy in Handbook F-1, *Post Office Accounting Handbook*, section 512.4 "Reporting Customer Permit Account Activity" states that Post Offices verify the customer account total in the Accounting Data Mart (ADM). Additionally a memo signed by Acting Vice President Finance, Vice President Service and Market Development, and Acting Vice President Delivery and Retail on July 2, 2004, emphasized the roles and responsibility of Marketing, Operations, and Finance in safeguarding customers advance deposits including timely reconciliation of customer trust fund balances to ADM by Marketing and Operations.

We agree with the recommendation to clarify the customer trust accounts reconciliation policy to indicate that post offices (PostalOne and Non-PostalOne) are required to reconcile trust accounts balances from PostalOne System or manually maintained records with the balances in ADM. The policy which includes frequency of the reconciliation will be incorporated in the new Field Accounting Procedures (FAP) scheduled for publication in FY2007.