



December 4, 2008

KATHY AINSWORTH  
VICE PRESIDENT, RETAIL OPERATIONS

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2008 Financial Installation Audits –  
Self-Service Postal Centers (Report Number FF-AR-09-034)

This report presents the results of our financial installation audits of Self-Service Postal Centers (SSPC) for fiscal year (FY) 2008 (Project Number 08BD005FF000). We conducted this work in support of the audit of the U.S. Postal Service's financial statements. See [Appendix A](#) for additional information about this audit.

## Conclusion

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 at all 13 units audited. However, we identified various internal control and compliance issues at these units relating to cash and stamp accountability and financial accounting and reporting. In this report, we discuss those conditions that occurred at four or more units. We also identified one procedural issue related to vending closure. Personnel stated the overall causes for the internal control weaknesses were inadequate supervisory oversight of unit operations and unit employees' unawareness of or noncompliance with Postal Service policies and procedures. When employees do not follow accountability procedures, the Postal Service has an increased risk of financial loss. [Appendix B](#) presents a list of the 13 sites and the audit reports issued. [Appendix C](#) and [Appendix D](#) present summaries of the accountability examinations conducted at each site and the issues reported at each unit, respectively.

We made recommendations to district management addressing the findings at each installation. District management's comments were responsive to our findings, recommendations, and \$2,245 in monetary and \$59,290 in non-monetary impacts.<sup>1</sup> The actions taken or planned should correct the issues identified at these installations.

<sup>1</sup> We claimed monetary and non-monetary impacts in each individual site report.

Our audit disclosed internal control deficiencies which may have contributed to vending shortages of \$5,421 and overages of \$10,000. Specifically, management and/or staff did not:

- Conduct accountability examinations at the proper frequency (four units).
- Properly maintain Postal Service (PS) Forms 3977, Duplicate Key, Combination and Password Envelopes (four units).
- Properly maintain PS Forms 25, Trust Fund Account, for each machine (four units).
- Research and resolve expense items resulting from financial differences (six units).

Except for the last issue above, we identified these issues in our FY 2005 and/or FY 2004 reports,<sup>2</sup> indicating continued unit-level noncompliance with prescribed internal control procedures. [Appendix D](#) provides a complete list of issues reported in all 3 fiscal years.

## Vending Closure

The Postal Service plans to phase out vending machines by 2010. However, Postal Service data shows 61 of the 80 districts still have a vending function. Unit management is required to perform certain financial procedures — such as conducting accountability examinations and transmitting sales — until they cease vending operations. Upon vending closure, a unit is to remove all cash, coins, and products from the vending machines; perform a final accountability examination; and close the accountability.

We are concerned that during the closure of the vending function, Postal Service assets could be at risk. During two of the 13 SSPC audits, units did not perform final vending cash and stamp stock accountability examinations prior to removing the vending machines from service. In addition, during recent financial audits of post offices,<sup>3</sup> we identified two instances in which management had not properly closed the accountability during closure. In one of those two cases, we identified a \$2,258 shortage for a vending machine the Postal Service closed in June 2008 but for which the unit had not transferred the stamp stock to the Stamp Distribution Office.

Because of our concerns about vending closure, the OIG is developing a risk model<sup>4</sup> to assess risks associated with SSPCs. While we have not finalized the model, we have noted units with stamp stock balances but no financial activity. During FY 2008, eight units had a current Stock Ledger Balance<sup>5</sup> but no transmission of PS Form 1412, Daily

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<sup>2</sup> The FY 2005 and 2004 reports are the two previous reports we issued for SSPCs. After FY 2005, we began auditing SSPCs every 3rd year, rotating them with Contract Postal Units and Stamp Distribution Offices.

<sup>3</sup> Bay Valley District Financial Accountability Audit (Project Number 08BG005FF000) and Sierra Coastal District Risk Based Financial Audit (Project Number 08BD017FF000).

<sup>4</sup> Continuous Auditing - SSPC (Project Number 09BO03FF000).

<sup>5</sup> The eight units had a stock ledger balance of \$215,483 as of September 30, 2008.

Financial Report, for the entire fiscal year. For the month of September 2008, 55 units had stock ledger balances totaling \$1.4 million but show no transmission of PS Form 1412 data.

We recommend the Vice President, Retail Operations, in conjunction with the Vice President, Controller:

1. Develop and implement an action plan with milestones to:

- Reduce or eliminate the reported deficiencies.
- Reinforce vending closure policy.

### Management's Comments

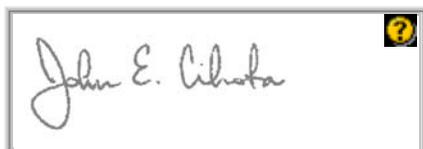
Management agreed with our finding and recommendation. By Quarter 2, FY 2009, management will develop an action plan to reduce or eliminate the recurring deficiencies and by Quarter 3, FY 2009, will implement this plan. We have included management's comments in their entirety in [Appendix E](#).

### Evaluation of Management's Comments

The OIG considers management's comments responsive to our recommendation and the corrective action should resolve the issues in the report.

The OIG considers the recommendation significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that it can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda Libician-Welch, Director, Field Financial – West, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small, square icon with a question mark.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

### Attachments

cc: H. Glen Walker  
J. Ron Poland  
Vincent H. DeVito, Jr.  
Katherine S. Banks

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The OIG conducts financial field audits at post offices, contract postal units, self-service and automated postal centers, business mail entry units, and stamp distribution offices. We conduct these audits in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements.

SSPCs are postal units that use vending machines to provide postage stamps and other retail products and services in post offices and commercial and off-site locations. The Postal Service implemented SSPCs in 1964 to increase operating efficiency and customer convenience. However, many factors have driven this traditional vending to obsolescence. In FY 2007, traditional vending generated \$393 million in revenue, while FY 2008 revenue declined to \$227 million.

The Postal Service has implemented a program to phase out stamp vending machines from post offices and retail locations across the country by 2010. As of October 1, 2008, 61 districts have approximately 4,600 vending machines.

Handbook PO-102, *Self-Service Vending Operational and Marketing Program*, dated May 1999 (updated with *Postal Bulletin* revisions through August 16, 2007), provides vending procedures for unit operations. The Postal Service also standardized unit procedures by issuing Handbook F-101, *Field Accounting Procedures*, dated July 2008. In addition, the Vending Field Operations website<sup>6</sup> provides information and procedures to aid in the vending machine removal process.

### 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 audits during FY 2008 at 13 judgmentally selected SSPCs based on revenue, shortages, and prior audit coverage. These 13 units reported approximately \$4 million in revenue in FY 2007. [Appendix B](#) lists the locations we audited.

We conducted this audit from October 2007 through December 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on the financial statements. Those standards also require us to consider the results of previous engagements and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. An audit also includes obtaining a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. We

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<sup>6</sup> [REDACTED]

supported the external auditors in obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with generally accepted government auditing standards may not detect a material misstatement. However, the external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention.

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 discussed our observations and conclusions with management officials on November 12, 2008, and included their comments where appropriate. Additionally, we provided individual reports to management at each judgmentally selected site.

### PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2004 Financial Installation Audit – Self-Service Postal Centers</i>	FF-AR-05-073	March 2, 2005	N/A	This report summarized various internal control and compliance issues at 15 SSPCs related to cash and stamp accountability, requests for vending machine reimbursements, and bait money orders. We recommended management reinforce guidelines to SSPC personnel for requests for refunds and procedures for carrying bait money orders.
<i>Fiscal Year 2005 Financial Installation Audit – Self-Service and Automated Postal Centers</i>	FF-AR-06-127	April 7, 2006	N/A	This report summarized various internal control and compliance issues at five SSPCs related to cash and stamp accountability, security, vending refunds, automated postal center refunds, spoiled variable rate labels, and rejected stamp stock. Because of the limited number of units audited and because we made recommendations in the individual reports, we did not make additional recommendations in this report.

**APPENDIX B: SELF-SERVICE POSTAL CENTERS AUDITED  
AND REPORTS ISSUED NATIONWIDE IN FY 2008**

Report Title, Number, and Date	Revenue	Monetary Impact	Non-Monetary Impact
[REDACTED]	\$330,108	-	-
[REDACTED]	372,317	-	-
[REDACTED]	28,448	-	-
[REDACTED]	239,000	-	\$12,852
[REDACTED]	613,886	\$1,293	-
[REDACTED]	559,054	-	19,695
[REDACTED]	517,343	-	4,512
[REDACTED]	116,209	-	22,231
[REDACTED]	870,854	-	-
[REDACTED]	259,091	-	-
[REDACTED]	492,243	952	-
[REDACTED]	98,568	-	-
<b>Totals</b>	<b>\$4,397,121</b>	<b>\$2,245</b>	<b>\$59,290</b>

<sup>7</sup> This report represents audits of the following two SSPCs: [REDACTED]; therefore, 13 SSPCs are included in this capping report.

**APPENDIX C: ACCOUNTABILITY EXAMINATION SUMMARY**

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

Unit Name	Number of Accountabilities Examined	Total Value of Accountability (Per Clerk's Balance Report)	Total Value of All (out of tolerance)	
			Shortages	Overages
████████████████████	8	\$89,316	-	\$87
████████████████	1	94,450	-	8,354
██████████████	1	18,243	-	299
████████████████████	1	12,852	-	986
██████████████████	13	53,339	\$256	-
██████████	8	105,035	828	-
████████████████████	1	84,284	-	274
██████████████	1	124,193	2,911	-
██████████████████	1	32,599	412	-
██████████	0 <sup>8</sup>	-	-	-
██████████████	10	52,952	-	-
████████████████████	14	153,429	952	-
████████████████████	1	13,091	62	-
<b>Total:</b>	<b>60</b>	<b>\$833,783</b>	<b>\$5,421</b>	<b>\$10,000</b>

<sup>8</sup> The ██████ SSPC closed in April 2008 and the remaining stock was returned to the Stamp Distribution Office. As a result, the audit team was unable to count the vending technician's accountability during the audit in August 2008.

**APPENDIX D: DETAILED ANALYSIS OF INTERNAL CONTROL DEFICIENCIES REPORTED IN FY 2008  
AND IN PREVIOUSLY ISSUED REPORTS**

Internal Control Deficiency <sup>9</sup> <i>Unit management did not:</i>														No. of Units Representing Repeat Findings by FY <sup>11</sup>		
	Number of Units with Findings <sup>10</sup>													2005	2004	
<b>Cash and Stamp Accountability</b>																
Conduct counts at the proper frequencies.		x			x						x	x		4	-	7
Properly maintain PS Forms 3977.					x		x				x	x		4	2	9
Have a cash reserve authorization letter from the Manager, District Finance, on file.			x					x				x		3	-	4
Properly maintain PS Form 3368-P, Stamp Credit Examination Record.					x						x	x		3	-	-
Properly transfer the vending accountability to a replacement technician after the former technician transferred to another department.		x										x		2	-	5
Properly store extra cash and stamp stock.							x					x		2	2	8
Properly secure cash collections while traveling between sites.			x									x		2	-	1

<sup>9</sup> The control deficiencies highlighted in gray are those that represent repeat conditions that we considered significant in previously issued reports.

<sup>10</sup> We discuss conditions occurring at four units or more in this capping report.

<sup>11</sup> In FYs 2005 and 2004, we conducted audits at five and 15 units, respectively. We discussed conditions occurring at two units or more in our FY 2005 capping report and on all conditions in our FY 2004 capping report.

Internal Control Deficiency <sup>12</sup> <i>Unit management did not:</i>														Number of Units with Findings <sup>13</sup>	No. of Units Representing Repeat Findings by FY <sup>14</sup>	
	2005	2004														
Conduct annual key verifications of all locks and keys at the unit.					x							x		2	2	7
Change the safe combination after the former technicians relinquished the accountability.		x										x		2	-	-
Maintain the vending credit separately from other consigned credits.						x	x							2	2	-
Ensure technicians carried bait money orders in the cash bags while servicing the machines.			x									x		2	-	8
Ensure replacement technician serviced vending machines in the presence of a witness and used contingency stock and funds.													x	1	-	-
Complete PS Forms 571, Discrepancy of \$100 or More in Financial Responsibility.												x		1	-	3
Compare and retain a copy of PS Form 17, Stamp Requisition/Stamp Return, for stamp stock returned to the Stamp Distribution Office.			x											1	-	-

<sup>12</sup> The control deficiencies highlighted in gray are those that represent repeat conditions that we considered significant in previously issued reports.

<sup>13</sup> We discuss conditions occurring at four units or more in this capping report.

<sup>14</sup> In FYs 2005 and 2004, we conducted audits at five and 15 units, respectively. We discussed conditions occurring at two units or more in our FY 2005 capping report and on all conditions in our FY 2004 capping report.

Internal Control Deficiency <sup>15</sup> <i>Unit management did not:</i>														No. of Units Representing Repeat Findings by FY <sup>17</sup>		
	Number of Units with Findings <sup>16</sup>														2005	2004
<b>Financial Accounting and Reporting</b>																
Research and resolve expense items resulting from financial differences.		x	x		x	x			x			x		6	-	-
Properly maintain PS Forms 25 for each vending machine.			x					x				x	x	4	-	5
Maintain a detailed individual record to monitor the discrepancies resulting from financial differences.		x			x							x		3	-	-
Deposit vending machine cash collections into the bank at the proper frequency.			x					x				x		3	-	-
Properly complete PS Form 5445, Stamp Vending Machine Reimbursement Request.					x							x		2	-	-
Properly clear or report employee items.					x				x					2	-	-
Use PS Form 5445 when completing a reimbursement request.												x		1	2	2

<sup>15</sup> The control deficiencies highlighted in gray are those that represent repeat conditions that we considered significant in previously issued reports.

<sup>16</sup> We discuss conditions occurring at four units or more in this capping report.

<sup>17</sup> In FYs 2005 and 2004, we conducted audits at five and 15 units, respectively. We discussed conditions occurring at two units or more in our FY 2005 capping report and on all conditions in our FY 2004 capping report.

## APPENDIX E: MANAGEMENT'S COMMENTS



November 24, 2008

LUCINE M. WILLIS

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2008 Financial Installation Audits – Self Service Postal Centers (Report Number FF-AR-09-DRAFT)

This letter is in response to Transmittal of Draft Audit Report – Fiscal Year 2008 Financial Installation Audits – Self Service Postal Centers (Report Number FF-AR-09-DRAFT) dated November 17, 2008. We acknowledge the findings in this report and agree to take the recommended action.

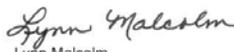
**Recommendation:** Develop and implement an action plan with milestones to:

- Reduce or eliminate the reported deficiencies.
- Reinforce vending closure policy.

**Management Response:** We agree with the recommendation. The Manager, Retail Service Equipment will work with Finance to develop and implement an action plan to reduce the internal control deficiencies identified in this audit – accountability, security, and resolution of expense items; as well as reinforcing vending closure policy. The action plan will be developed no later than Quarter 2, FY 2009 and will be implemented no later than Quarter 3, FY 2009.

There are no Freedom of Information Act (FOIA) issues relative to these concerns.

  
Kathy Ainsworth  
Vice President, Retail Operations

  
Lynn Malcolm  
Vice President, Controller

cc: Kathy Banks  
Manager, Corporate Audit & Response Management

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