August 6, 2009

ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Rio Grande District – Vending Operations Risk
(Report Number FF-AR-09-205)

This report presents the results of our audit of the vending operations risk in the Rio Grande District (Project Number 09BD013FF000). We conducted this audit at 10 post offices, stations, and branches (units). This audit was self-initiated and addresses vending operation risk based on factors evaluated by a U.S. Postal Service Office of Inspector General (OIG) vending risk model. See Appendix A for additional information about this audit.

Conclusion

Based on items we reviewed, internal controls over vending were not in place and effective at six of the 10 units audited. These conditions are attributable primarily to insufficient managerial oversight of vending operations at the units. As a result, the U.S. Postal Service is at an increased risk of losing cash and accountable items without detection, and financial records could be misstated.

Vending Controls Were Not Followed

Management at six units did not conduct a final credit examination and close vending credits totaling $185,244. Also, five units did not return vending stamp stock to the Stamp Distribution Office (SDO) for destruction. In addition, five units did not make final deposits of vending cash totaling $9,241. Further, we noted other internal control and compliance issues. See Appendix B for our detailed analysis of the findings, Appendix C for the results of our accountability examinations, and Appendix D for the internal control deficiencies for each unit.

We believe these conditions are attributable primarily to insufficient managerial oversight of vending operations. For example, the supervisors at three stations stated that they had other duties that were higher priority than vending operations. A supervisor at another station stated it was an oversight that the vending credit was not closed, and another supervisor stated he was unaware the vending credit was still open. In addition, the District Finance Manager agreed there was insufficient District oversight over vending operations. During our audit, the District Finance Manager stated the

District would accelerate the removal of vending machines and the destruction of vending stamp stock.

We judgmentally selected the 10 units based on the OIG vending model[1] and, as such, we did not determine whether controls over vending operations at other units in the Rio Grande District are in place and effective. However, we are concerned that the issues identified could be indicative of similar issues at other units within the District. For example, in addition to the 10 units we audited, the vending model shows as of March 27, 2009, there were vending stamp stock balances totaling $100,043 at 19 additional units in the Rio Grande District that had no sales activity. In addition, separate from this audit, we performed randomly selected audits of four post offices in the Rio Grande District over the last 3 years in which we reported vending accountability issues in two of the audits.

Unless unit management adheres to vending accountability and vending closing procedures, the Postal Service is at an increased risk of losing cash and accountable items without detection, and financial records could be misstated. Appendix E shows our $6,128 monetary impact for unrecoverable unsupported questioned costs[2] and $9,241[3] in recoverable revenue loss. Appendix F shows our $185,244[4] non-monetary impact for accountable items at risk. We will report the monetary and non-monetary impacts in our *Semiannual Report to Congress.*

We recommend the Vice President, Southwest Area, direct Rio Grande District Management to:

1. Develop and implement an action plan with milestones, to address the vending accountability issues at each of the units identified in this report, as well as for all units within the District.

Management's Comments

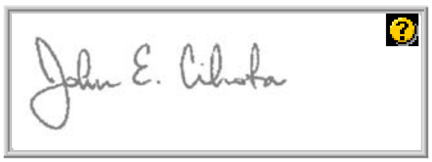
Management agreed with the findings, recommendation, and the monetary impact. Management disagreed, however, with the non-monetary impact for accountable items at risk. Management stated all vending stock was secured and awaiting a call from the Stamp Destruction Committee. Management provided an action plan with milestones to address the issues identified in the report. They plan to implement corrective actions by August 15, 2009. See Appendix G for management's comments in their entirely.

[1] For additional information on the vending model, see Appendix A.
[2] Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.
[3] Revenue that can be collected for goods delivered or services rendered.
[4] Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report. However, the OIG disagrees with management's assertion that all stock was secure. Six units did not complete a credit examination of the servicing employees and close the accountabilities when vending operations ceased. As a result, there is no assurance that the amount of stock secured in the safes at that time was the same amount that we counted during our audit.

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.



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Stamp vending machines were a quick, easy, convenient alternative for stamp purchases when the vending program began. However, aging equipment, inadequate supply of repair parts, and the high cost of specialized vending stock, along with customer dissatisfaction with dollar coins in change, machine malfunctions, and failure to accept credit and debit cards, have made the machines obsolete.[5] Therefore, the Postal Service implemented a program in October 2006 to phase out approximately 5,900 stamp vending machines each year from post offices and retail locations across the country until the nearly 23,000 machines that were in service are removed by 2010. In fiscal year (FY) 2007, vending generated $393 million in revenue, while FY 2008 revenue was $227 million. As of October 1, 2008, 61 districts have approximately 4,600 vending machines. The Rio Grande District had 187 machines.

The OIG performs periodic financial risk assessments. Based on financial data in the Enterprise Data Warehouse, the OIG developed a vending model that ranked the Postal Service's 80 districts with respect to financial risks associated with vending operations. We selected the Rio Grande District because the model, as of the end of March 2009, ranked the District fourth in financial risk compared with others around the country. As of the end of May 2009, the District's ranking had improved to 11th.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether internal controls over vending operations in the Rio Grande District are in place and effective.

To accomplish our objective, we conducted limited scope financial audits of vending operations at 10 judgmentally selected Rio Grande District units. We selected the following units for audit based on the dollar value of stamp stock at units with no sales and stock activity. The 10 units reported approximately $15.6 million of revenue in FY 2008. The units included:

- [redacted], Austin, TX
- [redacted], Austin, TX
- [redacted], Cedar Park, TX
- [redacted] Austin, TX
- [redacted], Round Rock, TX[6]

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[5] In addition to the vending program, the Postal Service implemented an automated postal center (APC) program in April 2004 to give customers convenient access to Postal Service products and services. APC units are kiosks where customers can ship packages, buy stamps, and verify ZIP Codes.

[6] Although the model indicated the sale of two books of Forever Stamps, we included this site in our sample because there were no vending equipment postage sales, and a March 2009 Web Vending Activity Reporting System report listed the vending machine as inactive.

- [redacted], Lago Vista, TX
- [redacted], Round Rock, TX
- [redacted], Austin, TX
- [redacted] , Austin, TX
- [redacted], Austin, TX

We reviewed stamp stock balance documentation at each unit and conducted counts of the vending accountability at the units with open vending credits. In addition, we reviewed security and closing procedures, and reviewed documentation for financial differences related to vending. We reviewed transactions generated for the November 29, 2008, through April 3, 2009, reporting period, FY 2009.

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 used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed supervisors and employees and observed operations at these judgmentally selected Postal Service sites. We interviewed Southwest Area and Rio Grande District officials to determine which procedures are in place to monitor vending closing procedures.

We conducted this audit from April through August 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on June 24, 2009. and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG issued the following financial audit reports, which included vending accountability issues, for units in the Rio Grande District within the past 3 years. Management agreed with our findings and recommendations in each report.

Report Title	Report Number	Final Report Date	Monetary Impact	Non-Monetary Impact	Report Results
FY 2008 Financial Installation Audit – [redacted] Main Post Offfice	FF-AR-08-031	11/27/07	$1,064	$8,972	We reported that the unit had not transfered the vending accountability [redacted]. In addition, the unit was using funds collected from the vending machine to provide change to support window operations.
FY 2007 Financial Installation Audit – [redacted] Post Office	FF-AR-07-149	4/23/07	-	-	We reported that the unit was not transfering the vending accountability [redacted] In addition, the unit was not documenting vending reimbursements for customers claims for losses of money and/or stamps.
FY 2007 Financial Installation Audit – [redacted] Station	FF-AR-07-092	2/13/07	$16,186	$39,688	We reported the unit was not transfering the vending accountability [redacted] In addition, the unit accumulated $15,014 of cash and coins from two machines without making the required deposit of funds.
FY 2006 Financial Installation Audit – [redacted] Self-Service Postal Center	FF-AR-06-268	9/26/06	-	-	We reported the unit was not completing PS Forms 5445 for customers claims of losses for money and/or stamps. In addition, the unit was accepting handwritten notes from customers requesting reimbursements and was issuing stamp stock instead of cash reimbursements.

APPENDIX B: DETAILED ANALYSIS

Vending Controls Were Not Followed

Management at six units did not adhere to controls and procedures over vending operations. Specifically, the units did not conduct final counts of vending accountabilities totaling $185,244, deposit $9,241 in vending cash, or send vending stamp stock to the SDO for destruction when the units closed the vending operations.

For four of the units in Austin – the [redacted] Stations – beginning in approximately October 2007, the District assigned the vending responsibilities to a Vending Technician who was responsible for all Self-Service Postal Centers (SSPC) in Austin.[7] When the Technician assumed his duties, management at each of the four units removed the vending stock and cash from the machines and placed the accountabilities in safes. The Technician used stock from his SSPC accountability to service the vending operations at the four units until January 2009, when that accountability was closed.

The [redacted] Station Manager stated he had informed the former Station Manager the vending accountability needed to be closed and routinely reminded her until she left the unit in December 2008. The former Station Manager stated that other duties had higher priority. The Supervisor, Customer Service, for Bluebonnet and the Town North Finance Stations stated that she was not properly trained on vending, and she also had other duties that were higher priority. The Chimney Corners Acting Station Manager stated he was unaware the vending accountability was still open.

At the other two units – [redacted] Station – when the machines were removed from service in February 2009, management did not conduct final credit examinations, close the vending accountabilities, deposit cash, or send vending stamp stock to the SDO for destruction. The Supervisor at [redacted] stated it was an oversight that he had not closed the vending credit, and the Supervisor at [redacted] stated she did not have time to prepare a final deposit and close the vending accountability.

In addition, there were other internal control and compliance issues related to vending at the units. While the vending operations at these six units have ceased, we noted that management at five of the units did not follow key vending policies and procedures while the vending accountabilities were active. For example, five units did not maintain PS Forms 3977, Duplicate Key, Combination, and Password Envelope, for vending safe combinations and keys. One unit did not transfer the vending accountability when a vending technician transferred to another unit, and another unit commingled the vending stock with another unit. Management at two of these units cited insufficient

[7] [redacted]

management oversight and training, and three units could not provide a cause for not following vending policies and procedures.

See Appendix D for a summary of findings by unit. See Appendix E and Appendix F for a summary of the monetary and non-monetary impacts, respectively, associated with not following vending procedures.

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APPENDIX C: ACCOUNTABILITY EXAMINATION SUMMARY

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

Unit Name	Total Value of Accountability	Total Value of All (out of tolerance)		Remarks
		Shortages	Overages	
[redacted]	$73,216	$6,123	$0	The unit posted the shortage in Account Identifier Code (AIC) 612, Vending Credit Shortage, and completed PS Form 571, Discrepancy of $100 or more in Financial Responsibility, on April 22, 2009.
[redacted]	53,859	0	15,049	The unit posted the overage in AIC 175, Postage Vending Machine Overage, and completed PS Form 571 on April 21, 2009.
[redacted]	7,428	0	628	The unit posted the overage in AIC 175 and completed PS Form 571 on April 22, 2009.
[redacted]	31,374	0	10,764	The unit posted the overage in AIC 175 and completed PS Form 571 on April 22, 2009.
[redacted]	7,865	0	424	The unit posted the overage in AIC 175 and completed PS Form 571 on April 25, 2009.
[redacted]	5,393	5	0	None.
[redacted]	8,116	8,116[8]	0	The unit posted the shortage in AIC 612 and completed PS Form 571 on April 29, 2009.
Total	**$187,251**	**$14,244**	**$26,865**	

[8] The vending clerk removed the vending stock from [redacted] Finance Station without closing the accountability and commingled it with her vending stock at [redacted]. We did not include this shortage in our monetary impact because it contributes to the overage at [redacted] Station.

APPENDIX D: AUDIT FINDINGS

Internal Control Deficiency[9] *The unit did not:*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	**Total**	**Criteria**
Conduct a final credit examination and close the vending credit when the SSPC technician took over vending duties at the unit.	X	X	-	X	-	X	4	Handbook F-101, *Field Accounting Procedures,* Section 14-1.2, January 2009
Conduct a final count and close the vending accountability when the machines were removed from service.	-	-	X	-	X	-	2	Handbook F-101, Section 14-1.2
Deposit cash from vending operations.	X	X	X	X	X	-	5	Handbook PO-102, *Self Service Vending Operational Marketing Program*, Section 571.1, May 1999 (updated through August 2007)
Return stamp stock to the SDO.	X	X	X	X	X	-	5	Handbook F-101, Section 14-1.2
Maintain PS Forms 3977.	X	X	-	X	X	X	5	Handbook F-101, Section 3-8.2.1
Transfer the vending accountability when the employee transferred to another unit.	-	-	-	X	-	-	1	Handbook PO-102, Section 611
Keep vending stock separate from another unit's vending stock.	-	X	-	-	-	X	2	Handbook PO-102, Section 561

[9] An "X" indicates the respective location where we identified the condition noted in the deficiency description.

APPENDIX E: MONETARY IMPACT SUMMARY

Finding Description	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Total	
							Unrecoverable Unsupported Questioned Cost[10]	Recoverable Revenue Loss[11]
Undeposited vending cash	$353	$6	$2,323	$1,932	$4,627	-	-	**$9,241**
Vending cash shortage	6,123	-	-	-	-	$5	**$6,128**	-
Totals	**$6,476**	**$6**	**$2,323**	**$1,932**	**$4,627**	**$5**	**$6,128**	**$9,241**

[10] Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.
[11] Revenue that can be collected for goods delivered or services rendered.

APPENDIX F: NON-MONETARY IMPACT SUMMARY

Accountable Items at Risk[12]						
Finding Description	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	**Total**
Final counts of vending accountabilities not conducted and vending stamp stock not sent to the SDO for destruction.	$66,740	$68,903	$40,205	$5,733	$3,663	**$185,244**

[12] Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

APPENDIX G: MANAGEMENT'S COMMENTS

Ellis A. Burgoyne
Vice President, Southwest Area Operations

UNITED STATES POSTAL SERVICE

July 28, 2009

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS
1735 NORTH LYNN STREET
ARLINGTON, VA 22209-2020

SUBJECT: Transmittal of Draft Audit Report – Rio Grande District – Vending Operations Risk (Report Number FF-AR-09-DRAFT)

Southwest Area agrees that internal controls over vending operations and vending closing procedures were not in place and effective in the Rio Grande District. We agree with the monetary impact of $ $6,128 due to the vending cash shortages and the monetary impact (Recoverable Revenue Loss) of $9,241 for the undeposited vending cash identified during the audit. We disagree with the non-monetary impact of $185,244 in accountable items at risk. Management at five units failed to conduct final credit examinations and close vending credits totaling $185,244. However, all stock at these offices was secured awaiting a call from the Stamp Destruction Committee.

Recommendation:

Develop and implement an action plan with milestones, to address the vending accountability issues at each of the units identified in this report, as well as for all units within the District.

Response:

The Area Finance Manager and the Area Manager, Customer Relations worked with the Rio Grande district to accelerate the removal of vending machines and the destruction of vending stamp stock. All vending equipment in the Rio Grande District was placed out of service as of June 18, 2009. As of July 25, 2009, all vending segments reflect a zero balance, except for the following:

Unit	Vending Stock Close Amount
[redacted]	$2,486.54
	0.58

The vending accountabilities in [redacted] will have a zero balance by August 15, 2009. Additionally, we have accelerated the removal of vending machines and the destruction of vending stock throughout the Area.

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We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act.

Should you have any questions regarding this response, please contact Mark Loop, Area Finance Manager at 214-819-8950.

Mark A Ray

for Ellis Burgoyne

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