



September 25, 2009

MEGAN J. BRENNAN  
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – Philadelphia District Post Office Financial Risk Audit  
(Report Number FF-AR-09-223)

This report presents the results of our audit of financial accountability in the Philadelphia Metropolitan District (Project Number 09BD015FF000). We conducted this audit at 13 judgmentally selected post offices, stations, and branches.<sup>1</sup> This audit was self-initiated and addresses financial risk based on factors evaluated by U.S. Postal Service Office of Inspector General (OIG) Performance and Results Information System (PARIS) models. See [Appendix A](#) for additional information about this audit.

## Conclusion

We identified 135 of 302 Philadelphia District post offices, stations, and branches with high-risk accounting activities based on our PARIS Cost and Controls model. Of 13 sites visited, we found 80 internal control and compliance issues related to stamp accountabilities, disbursements, and financial accounting and reporting. Further, we identified similar issues at eight randomly selected sites conducted in the Philadelphia Metropolitan District over the past 3 years in support of audits of the U.S. Postal Service's financial statements.

We attribute the internal control deficiencies to insufficient training, financial background, and oversight of the managers and supervisors responsible for implementing financial internal controls. As a result, Philadelphia District post offices, stations, and branches are at an increased risk of losing cash, accountable items, and revenue without detection; and misstating financial records. We identified \$945,487 in monetary and \$1,124,353 in non-monetary impact as a result of managers not effectively implementing internal controls.

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<sup>1</sup> We initially selected five sites to audit: [REDACTED]

[REDACTED] We expanded our audit to visit eight additional sites to review master trust accounts: [REDACTED]

## Internal Control Procedures Need Improvement

We found significant financial internal control weaknesses over stamp, money order, and cash accountability; disbursements; and financial accounting and reporting at five sites visited. For example, we found potential cash loss of \$86,666 at one station because management was not reconciling cash transfers. We also found that units recorded Business Reply Mail/Postage Due (BRM/PD) transactions in manual records, but did not record \$185,889 in withdrawals from BRM/PD accounts in the Point-of-Service (POS) system. Also, units did not reconcile their manual records<sup>2</sup> with Accounting Data Mart (ADM) reports on a monthly basis. Additionally, we identified 56 inactive accounts valued at \$52,433 that were not closed. In total, we identified 80 internal control deficiencies out of 161 control tests performed. The control tests performed addressed draft key controls identified by Postal Service.

We attributed the internal control deficiencies to financial managers' and supervisors' insufficient financial background and training. Also, while district management recently implemented district-wide monitoring of individual unit performance, we found the new procedures were incomplete and unit managers and supervisors were not sufficiently supervised. As a result, Philadelphia District post offices, stations, and branches have an increased risk of losing cash, accountable items, and revenue without detection; and misstating financial records.

See [Appendix B](#) for our detailed discussion of stamp, money order, and cash; disbursement; and financial accounting and reporting internal control deficiencies. [Appendix C](#) presents the results of our accountability examinations, and [Appendix D](#) presents the internal control deficiencies identified at each unit. [Appendix E](#) presents the detail of the monetary impact,<sup>3</sup> and [Appendix F](#) presents the detail of the non-monetary impact.<sup>4</sup>

We recommend the Vice President, Eastern Area Operations, direct the Manager, Philadelphia Metropolitan District, to:

1. Require employees to obtain finance-related training, such as the 10 "Field Finance Toolkit" training courses listed on the Accounting blue pages within 1 year of becoming a unit financial manager or supervisor. Also, the district should provide continuing financial training to managers in units with internal control deficiencies.
2. Improve district oversight of unit financial operations by including measurements in internal oversight documents for monitoring retail floor stamp stock levels and

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<sup>2</sup> Master trust accounts.

<sup>3</sup> The monetary impact includes recoverable revenue loss, recoverable questioned costs, and unsupported unrecoverable questioned costs.

<sup>4</sup> Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

counting unit cash reserves, and hold unit managers accountable for improving unit financial operations in measured areas.

3. Develop and implement an action plan with milestones that will implement the control deficiencies found.

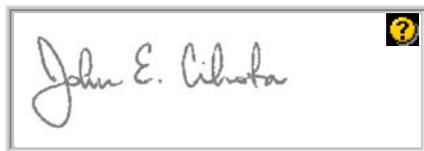
### Management's Comments

Management agreed with our findings and recommendations. Management stated there is a valid need for financial training and plans to provide a "hybrid" financial training class to Executive and Administrative Schedule (EAS) employees responsible for financial management of retail units by March 31, 2010. If the return on investment proves to be beneficial in Philadelphia, the Eastern Area will continue expanding the training to other districts. Additionally, management has begun producing excess retail floor stock reports and will add this measurement to the District Manager Financial Scorecard in fiscal year 2010. Furthermore, the Eastern Area issued a memorandum on September 18, 2009, to all District Managers expressing the importance of maintaining financial internal controls and holding managers accountable for compliance. Finally, the Philadelphia District Manager developed an action plan with milestones to address the issues identified in the report. The district plans to implement corrective actions by March 31, 2010. See [Appendix G](#) for management's comments in their entirety.

### Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report.

We appreciate the cooperation and courtesies provided by your staff. 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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Attachments

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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

Post offices are the initial level from which the Postal Service recognizes revenue from operations and include main offices, stations, and branches. 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.

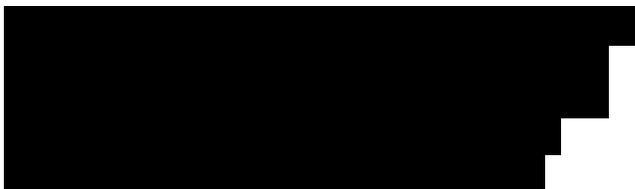
The Philadelphia Metropolitan District is in the Eastern Area and includes 302 post offices with POS system and Integrated Retail Terminal reporting technology. The district reported approximately \$1.5 billion of revenue in FY 2008, \$18 million of which was reported by the five units we audited.<sup>5</sup>

The OIG performs periodic financial risk assessments. Based on financial data in the Enterprise Data Warehouse, the OIG developed a PARIS Cost and Controls Model which ranks the Postal Service's 80 districts with respect to specific financial risk indicators.<sup>6</sup> We selected the Philadelphia Metro District because our model suggested the district was a high financial risk compared to others. For the first, second, and third quarters, FY 2009, data ranked this district as the 14th, 18th, and 3rd highest risk district, respectively.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to identify high-risk accounting activities and determine whether corresponding internal control procedures were in place and effective.

To accomplish our objectives, we audited the following five judgmentally selected units in the Philadelphia Metropolitan District. We selected the sites based on high stock levels, disbursements, and financial accounting and reporting items such as employee items and master trust.



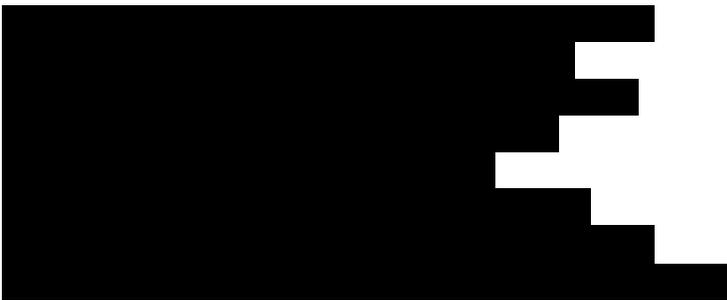
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<sup>5</sup> We obtained FY 2008 revenue for the Philadelphia Metropolitan District and the judgmentally selected units from the Financial Performance Report via ADM as of September 30, 2008.

<sup>6</sup> The risk indicators include: Revenue, Local Expenses, Refunds, Miscellaneous Expenses, Non-Local Purchases, Clerk Cash, Office Cash, Employee Items, Master Trust Accounts, Segmented Inventory Accountability Compliance, Stamp Stock Management, and Contract Postal Unit Management.

At each unit, we performed accountability examinations and evaluated whether the internal control structure over financial accounting and reporting, disbursements, and safeguarding of assets was implemented and functioning as designed. We also reviewed disbursement transactions generated for the May 2008 through May 2009 reporting period, and reviewed employee items and master trust transactions generated for the April and May 2009 audit period.

During the audit, we expanded our review at the following eight judgmentally selected units to evaluate BRM/PD master trust accounts. At each unit, we determined whether employees were managing and resolving audit differences or adjustments for trust accounts and compared their trust account balances to the ADM *Master Trust by Site* report as of July 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 also evaluated whether the internal control structures over stamp, money order, and cash accountability; disbursements; and financial accounting and reporting were implemented and functioning as designed. We conducted interviews with management and employees to assess their level of knowledge and involvement in the district and the units at these judgmentally selected Postal Service sites. We discussed with district management potential causes to the conditions identified, considering training, staffing, and oversight of Postal Service unit personnel and operations.

We conducted this performance audit from April through September 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on August 27, 2009, and included their comments where appropriate.

## PRIOR AUDIT COVERAGE

The OIG issued eight financial installation audit reports for the Philadelphia Metropolitan District within the past 3 years. The reports identified internal control and compliance issues such as cash and stamp accountability; improper, unsupported, or unapproved disbursements; inactive business reply mail; unsupported employee items; and unreconciled master trust accounts. Additionally, our report titled *Activation of the Philadelphia Processing and Distribution Center* identified some key activation steps management had not fully implemented. The reports made recommendations to address these issues, and management agreed to take corrective action.

| Report Title   | Report Number | Final Report Date | Monetary Impact | Non-Monetary Impact |
|--|---------------|-------------------|-----------------|---------------------|
| <i>FY 2006 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-06-166  | 5/17/06           | \$1,691         | -                   |
| <i>FY 2006 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-06-226  | 8/1/06            | \$1,286         | -                   |
| <i>FY 2006 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-06-263  | 8/31/06           | -               | -                   |
| <i>FY 2006 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-06-273  | 9/25/06           | -               | -                   |
| <i>FY 2007 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-07-123  | 3/19/07           | -               | \$4,133             |
| <i>FY 2007 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-07-165  | 5/23/07           | \$943           | -                   |
| <i>FY 2007 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-07-199  | 7/31/07           | \$22,080        | \$12,871            |
| <i>FY 2008 Financial Installation Audit – [REDACTED]</i>                 | FF-AR-08-162  | 4/18/08           | \$31,259        | \$618,865           |
| <i>Activation of the Philadelphia Processing and Distribution Center</i> | NO-AR-08-004  | 7/10/08           | -               | -                   |

## APPENDIX B: DETAILED ANALYSIS

### Internal Controls Need Improvement

We found significant financial internal control weaknesses over stamp, money order, and cash accountability; disbursements; and financial accounting and reporting at the sites we visited. In total, we identified 80 internal control deficiencies out of 161 control tests performed and attributed the deficiencies to financial managers' and supervisors' insufficient financial background and training. Also, while district management recently implemented district-wide monitoring of individual unit performance, we found the new procedures to be incomplete and unit managers and supervisors were not sufficiently supervised.

#### Stamp, Money Order and Cash Accountability

We examined controls over stamps, money orders, and cash at five units and determined they did not always adhere to the established controls and procedures. Although the five units had closed all inactive clerk cash retained as of June 2009, they did not conduct timely examinations of cash and stamps, account for obsolete money orders, and maintain the appropriate stamp stock levels. In addition, units did not always provide adequate security for stamp stock, money orders, and cash. Specifically:

- Five units maintained excess retail floor stock ranging from \$18,934 to \$172,190 (155 to 474 percent) over the required levels.<sup>7</sup> This condition occurred at the units because the managers were not fully aware of the requirements.

Maintaining excess retail floor stock may have contributed to three units having retail floor stock shortages totaling \$85,839.

- At the one station, our retail floor stock examination found a shortage of \$79,536. The Station Manager explained most of the shortage was due to a paperwork error. After the unit fixed the records, they recounted the stock and recorded a \$75,455 overage. The net shortage was \$4,081.
- At one station, the Manager stated the \$1,184 shortage may have been the result of his transferring stock in POS without properly physically transferring it.<sup>8</sup>
- At one station, the Supervisor stated the shortage of \$5,119 may have been due to the unit not including redeemed stock<sup>9</sup> when performing retail floor stock counts.<sup>10</sup>

<sup>7</sup> Handbook F-101, *Field Accounting Procedures* (FAP), January 2009, Section 14-2.3.

<sup>8</sup> We counted the [REDACTED] retail floor stock as \$35,956 and the record showed a \$37,140 balance. The unit attributes the shortage to a similar overage in the unit reserve.

<sup>9</sup> Stamp stock to be returned to the Stamp Distribution Office (SDO).

<sup>10</sup> We counted the [REDACTED] retail floor stock as \$205,434 and the record showed a \$210,553 balance.

We believe limiting the amount of retail floor stock may help prevent significant shortages in the future.

- The Philadelphia District improved their counts of Retail Associates' (RA) cash but did not always conduct counts of unit cash reserve.<sup>11</sup> The district used the FY 2009 District Manager Financial Control – Eastern Area scorecard to measure compliance with RA cash counts and met its target goal as of June 2009. Our audit confirmed unit managers conducted timely RA cash counts at four of five units on a monthly basis. However, the district did not ensure unit management conducted counts of unit cash reserve. According to our PARIS model, only 60 percent of the districts' units were in compliance with the Postal Service policy<sup>12</sup> as of June 2009. Management at three units visited did not conduct counts of unit cash reserve at the proper frequency. Unit managers were unaware their designated employees either did not conduct the counts or did not enter the count results into POS.

Not counting the unit cash reserve may have contributed to a \$5,119 shortage we identified at one station for which the Station Manager did not have an explanation. The unit cash reserve was assigned to four individuals; however, we were unable to physically locate two individuals' assigned cash. There were no records showing when the unit conducted the last unit cash counts before our visit, and the two employees who held the consigned credits cash were transferred to other units. As a result of our audit, the Station Manager issued letters of demand to those accountable for the unit cash reserve. Had the unit followed prescribed procedures, they may have detected or prevented the lost cash earlier.

- Two units did not account for 1,379 domestic and six international money orders valued at \$554,000 and 167 obsolete money orders valued at \$66,800.<sup>13</sup> Postal Service policy requires the Postmaster to maintain an accurate inventory of all accountable paper within the retail unit;<sup>14</sup> furthermore, the policy requires unit management to return obsolete money orders to the SDO for destruction.<sup>15</sup> Unit managers at the two stations stated they thought these money orders were part of OIG and Postal Inspection Service investigations. However, the units did not follow up with the investigators and continued to hold the unrecorded money orders. For example, at one station, management did not account for 167 obsolete money orders found in a sealed drawer belonging to a former employee. The employee left the Postal Service in 1998.

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<sup>11</sup> A unit cash reserve may be established to provide associates a resource for exchanging large bills for rolled coins and smaller denomination currency.

<sup>12</sup> FAP, Section 13-9.1.

<sup>13</sup> The OIG determined the average value of lost/stolen money orders is \$400.

<sup>14</sup> FAP, Section 11-3.1.

<sup>15</sup> FAP, Section 11-6.11.

See [Appendix C](#) for a summary of accountability examinations by unit. See [Appendix D](#) for a summary of findings by unit. See [Appendix E](#) for the monetary impact associated with unit cash and stock shortages and [Appendix F](#) for the non-monetary impact associated with excess stock and unrecorded money orders.

### Disbursements

We examined disbursement controls at five units and determined they did not always adhere to established controls and procedures. Units did not always follow the preferred payment methods hierarchy for local expenses, properly support or justify refund transactions, or research and resolve expenses items resulting from financial differences. Specifically:

- Three units have access to eBay and SmartPay credit cards; however, they did not use these preferred payment methods, as required,<sup>16</sup> for local disbursements made between May 2008 and May 2009. Unit management could not provide definitive answers as to why employees did not follow the procedures but stated the units made purchases for emergency situations or convenience.
- Five units could not provide any or sufficient supporting documentation for \$19,591 (45 percent) of the \$43,264 in disbursements reviewed. Units are required to complete Postal Service (PS) Forms 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts, for all refunds and to keep a copy of the form and supporting documentation on file. In addition, refunds must be certified and witnessed.<sup>17</sup> The district emphasized that proper completion of PS Forms 3533 was on the "Daily Responsibilities" checklist they provided but did not realize unit management was not always performing the task. For example, management at one station could not provide supporting documentation for \$9,951 (59 percent) of the \$16,966 in disbursements due to an inadequate filing system. Additionally, management at another station signed off daily on the checklist but only performed a cursory review of it.
- Five units did not research and resolve financial differences<sup>18</sup> totaling \$661,985. The differences ranged from \$838 to \$656,291. Units are required to research and resolve financial differences and maintain a system-generated record or log.<sup>19</sup> For example, we found a potential cash loss of \$86,666 at the [REDACTED] as a result of cash transfers for the period May 2008 through April 2009. Specifically, the district established a procedure where only the [REDACTED] would withdraw money from the bank in order to replenish change funds for all stations and branches. The [REDACTED] would record a cash transfer out, send the cash to the unit, and the unit would receive the cash and

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<sup>16</sup> FAP, Section 19-1.1.

<sup>17</sup> FAP, Section 21-1.

<sup>18</sup> Financial differences are unreconciled expense entries that must be researched and resolved in a timely manner.

<sup>19</sup> FAP, Section 8-1.2.

record a transfer in. Our high-level reconciliation found the [REDACTED] recorded \$86,666 more in transfers out than units recorded as transfers in.

The district stopped this practice in April 2009; however, the district never reconciled to determine which units did not account for money received, or whether money recorded as being transferred out actually left the [REDACTED]

Further, the units did not maintain a detailed record because management did not have an understanding of expenses related to differences in financial transactions and was not aware they needed to track all expenses on a log. Although the units have recently been receiving Narrowcast reports,<sup>20</sup> three of five unit managers stated they do not understand the reports. When unit personnel do not monitor, correct or recover financial differences, there is an increased risk they will lose funds and have inaccurate financial statements.

See [Appendix D](#) for a summary of findings by unit. See [Appendix E](#) for the monetary impact associated with these issues.

### [Financial Accounting and Reporting](#)

We examined financial accounting and reporting controls at 13 units and determined that units recorded BRM/PD transactions in manual records but did not record \$185,889 in withdrawals from BRM/PD accounts in the POS system. Also, units did not reconcile their manual records with ADM reports on a monthly basis. Specifically:

- Ten units did not reconcile the ADM master trust account balances with the balances they maintained. The BRM/PD trust accounts were out of balance by amounts ranging from negative \$1,582 to positive \$99,044. Units that maintain customer advance deposit trust accounts must reconcile their local customers' trust balances with the ADM balances at least once a month.<sup>21</sup> This condition occurred because BRM/PD Clerks and their Supervisors were not aware of requirements.
- Eight units recorded withdrawals locally on their PS Forms 25, Trust Fund Account, but did not record the transactions in the POS system. The POS procedures guide requires the clerk to record withdrawals in POS;<sup>22</sup> however, the clerks and unit managers did not know how to record the transactions in the system. For example, at one station, the BRM Clerk had not posted \$99,044 in withdrawals into POS for more than 2 years. At another station, the BRM Clerk did not have POS access and relied on the Supervisor to post withdrawals into

<sup>20</sup> A Narrowcast report is generated for expense items greater than \$500. The report is emailed to the postal retail unit, the district Finance Manager, the area Accounting Manager, and the area Finance Manager.

<sup>21</sup> FAP, Section 16-4.2.

<sup>22</sup> NCR R27.0, *POS ONE Procedures Guide*, Revised April 27, 2007 (V1.02).

the system for her. Both Clerks stated they did not have any training in this area but were asked to manage the master trust accounts. Units did not recognize \$185,899 in revenue as a result of not recording the withdrawals in POS.

- Seven units did not monitor master trust accounts for inactivity. Units are required to close BRM accounts inactive for 2 years and PD accounts inactive for 1 year. The unit must send cancellation notices to customers and allow them 10 days from the date of notice to respond. In addition, for account balances of \$25 or less, the unit should withdraw the balance from the customer's account and refund it to account identifier code (AIC) 126.<sup>23</sup> Managers at these seven units were not monitoring the BRM/PD accounts and were unaware the units had inactive accounts. At one station, the unit maintained a master trust account balance of \$7,584, which had been inactive since January 2006. In total, we identified 56 inactive accounts valued at \$52,433<sup>24</sup> that should be closed.

As a result of units not reconciling master trust accounts, recording BRM/PD withdrawals, or monitoring for inactivity, the Postal Service overstated liabilities and understated revenue by \$240,561. On July 29, 2009, the district instructed units to reconcile their customer trust accounts and resolve the differences and record BRM/PD withdrawals in the appropriate account identifier codes.

See [Appendix D](#) for a summary of discrepancies by unit. See [Appendix E](#) for the monetary impact and [Appendix F](#) for the non-monetary impact associated with master trust accounts.

### [Analysis of Causes](#)

We identified 80 internal control deficiencies out of 161 control tests<sup>25</sup> performed and attributed the deficiencies to financial managers' and supervisors' insufficient financial background and training. Also, while district management recently implemented district-wide monitoring of individual unit performance, we found the new procedures to be incomplete and unit managers and supervisors were not sufficiently supervised.

- Unit managers were not always aware of Postal Service internal control requirements. For example, managers at five units were not aware they exceeded retail floor stock limits. At 10 units, management was not aware they needed to reconcile the ADM master trust account balances with balances maintained by the unit on a monthly basis. Also, unit managers, when aware of the proper procedures, did not always place the appropriate level of attention required to ensure the effective implementation of internal control requirements.

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<sup>23</sup> FAP, Section 17-6.

<sup>24</sup> We identified 41 inactive accounts (valued at \$36,010) at the Main Office window.

<sup>25</sup> We performed 145 control tests at five units initially selected to include: Clerk Cash (four tests), Office Cash (four tests), Accountability Counts (five tests), Stamp Stock (five tests), Local Expenses (two tests), Refunds (two tests), Miscellaneous Expenses (two tests), Employee Items (two tests), Master Trust (two tests), and POS Roles (one test). We also performed 16 tests at eight additional sites to include Master Trust (two tests).

For example, at five units, managers were aware of the requirement for maintaining a detailed record for financial differences and ensuring timely clearance; however, they did not always make sure their unit complied with the requirement.

Furthermore, unit managers and supervisors had operational experience but did not have the necessary financial background and training. During our audit, we interviewed one Station Manager, one Postmaster, and five supervisors. They all stated their financial training had been primarily on-the-job and no one from the district had contacted them to recommend training. All five supervisors interviewed began their Postal Service careers as letter carriers, mail processing clerks, mail handlers, or RAs and were later promoted to supervisory positions. We discussed the issue with district management and confirmed there were no financial training requirements for employees who became managers or supervisors and, consequently, most received limited financial training.

- District management stated they have experienced significant turnover and many supervisors have less than 1 year of financial experience. Additionally, the district is temporarily filling many financial supervisory positions with inexperienced and untrained personnel. During our audit, we noted one supervisor had recently been promoted and never performed the retail floor stock and unit cash reserve counts. One Station Manager was getting ready to retire and the Supervisor at that unit only had experience conducting stamp stock counts. The district indicated that there are 461 EAS employees and postmasters in the Philadelphia Metropolitan District who could potentially be placed in financial manager or supervisor roles even though they may not have the necessary financial background and training.

The Postal Service developed the following 10 “Field Finance Toolkit” courses to help employees understand and perform their required financial duties and responsibilities:

- Customer Trust
- Daily Financial Reporting Basics
- Employee Items
- Field Unit Purchasing and Payment Process
- Financial Accountability Overview
- Financial Differences
- Financial Security
- Stamp Stock Management
- Timekeeping
- Unit 1412 Closeout

We believe that all managers and supervisors should take these courses within a year of becoming supervisors to build their financial competencies and become

familiar with resource materials they can use when performing their duties and responsibilities.

- The district used the FY 2009 District Manager Financial Control – Eastern Area scorecard to monitor financial activity. The scorecard indicated improvement in total stamp stock management, employee items, and RAs' cash counts. We confirmed this improvement during our audit tests.
  - Three of five units we examined were within the established overall stamp stock limit.
  - Four of five units we examined monitored the employee items and one unit took corrective action to clear the employee items after we discussed the issue with them.
  - Four of five units were counting RAs at the proper frequencies. In addition, all five units eliminated dormant RA cash credits during FY 2009.

However, the scorecard did not include a measure for excess retail floor stock or unit cash reserve count compliance, and we concluded units required improvement in these areas.

- All five units exceeded the retail floor stock level.
- Three of five units did not conduct counts of unit cash reserve at the proper frequency.

The district developed the "Daily Responsibilities" checklist and provided it to the units but did not realize management was not always performing all of the tasks on the checklist. For example, there are 12 items on the checklist which require unit managers to review supporting documentation for all entries included on the daily PS Form 1412, Daily Financial Report. We noted all five units did not actively track local expenses and refunds, one of the 12 items on the checklist. Although the district has initiated a process to identify and analyze risks associated with achieving management's objectives, we believe additional oversight and monitoring is needed to hold managers and supervisors accountable for administering their daily financial responsibilities.

In a previous OIG report,<sup>26</sup> we concluded the Philadelphia District was experiencing significant delayed mail, causing service degradation. The causes identified in the report were inadequate training and employee turnover, similar to the issues we found in our audit of financial activities.

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<sup>26</sup> *Activation of the Philadelphia Processing and Distribution Center* (Report Number NO-AR-08-004, dated July 10, 2008).

**APPENDIX C: ACCOUNTABILITY EXAMINATION SUMMARY**

This table presents the results of 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.

| Accountability     | [REDACTED] |         | [REDACTED]         |         | [REDACTED] |         | [REDACTED] |         | Lansdale Post Office |         | Total Value of All |         |
|--------------------|------------|---------|--------------------|---------|------------|---------|------------|---------|----------------------|---------|--------------------|---------|
|                    | Shortage   | Overage | Shortage           | Overage | Shortage   | Overage | Shortage   | Overage | Shortage             | Overage | Shortage           | Overage |
| Unit Reserve Stock | \$8        | -       | -                  | \$1,015 | -          | \$2,242 | -          | \$40    | -                    | \$1,490 | \$8                | \$4,787 |
| Unit Cash Reserve  | \$5,119    | -       | \$23 <sup>27</sup> | -       | \$23       | -       | -          | \$19    | -                    | \$6     | \$5,165            | \$25    |
| Retail Floor Stock | \$79,536   | -       | \$1,184            | -       | \$5,119    | -       | -          | \$2,292 | -                    | \$1,731 | \$85,839           | \$4,023 |
| Other Segment      | -          | -       | \$695              | -       | -          | -       | -          | -       | -                    | -       | \$695              | -       |

<sup>27</sup> We did not count the unit cash reserve at the unit because the unit could not locate it.

**APPENDIX D: CONTROL DEFICIENCIES**

This table presents the internal control deficiencies identified while implementing the full audit program at the five original sites judgmentally selected for audit.

| Internal Control Not Implemented  |   |   |   |                 |   | Number of units | Specific Actions Required  |
|---|---|---|---|-----------------|---|-----------------|--|
| <b>Stamp, Cash, and Money Order Accountability</b>  |   |   |   |                 |   |                 |  |
| 1. Maintain retail floor stock within authorized limit.   | X | X | X | X               | X | 5               | Reduce retail floor stock to the limit established by Postal Service policy.   |
| 2. Conduct timely examinations of unit reserve stamp stock.   | X | X | X | X               | X | 5               | Perform and document unit reserve examinations at proper frequencies. Additionally, count the unit reserve stamp stock when retail floor stock counts exceed the authorized inventory variance outlined in policy. |
| 3. Conduct timely examinations of retail floor stock.   | X | X |   | X               | X | 4               | Perform and document retail floor stock examinations at proper frequencies.  |
| 4. Adhere to the individual cash retained authorized limit.   | X | X | X | X               | X | 5               | Obtain approval to retain cash above authorized limits from district finance.  |
| 5. Adhere to the total unit authorized cash retained limit.   |   |   | X | X               | X | 3               | Reduce the unit cash retained to the authorized level or obtain authorization to increase the limit.   |
| 6. Document and maintain a file for PS Forms 3368-P, Accountability Examination Record, used to enter the results of accountability examinations performed. | X | X |   |                 | X | 3               | Post the results of accountable examinations on a PS Form 3368-P.  |
| 7. Maintain the total unit stamp stock within authorized limits.  |   |   |   | X <sup>28</sup> | X | 2               | Reduce stamp stock to authorized limits.   |

<sup>28</sup> During our audit, the unit took corrective action on this internal control deficiency.

**APPENDIX D: CONTROL DEFICIENCIES (continued)**

| Internal Control Not Implemented  |                 |                 |                 |  |   | Number of units | Specific Actions Required   |
|---|-----------------|-----------------|-----------------|--|---|-----------------|---|
| <b>Stamp, Cash, and Money Order Accountability</b>                        |                 |                 |                 |  |   |                 |   |
| 8. Perform examinations of the unit cash reserve at the proper frequency. | X               |                 | X               |  | X | 3               | Perform and document unit cash reserve examinations at proper frequencies. Additionally, post all counts into the POS system. |
| 9. Record (obsolete) money orders.  | X               | X               |                 |  |   | 2               | Record or return money orders to the SDO, as appropriate.   |
| 10. Safeguard cash  | X <sup>29</sup> | X <sup>30</sup> |                 |  |   | 2               | Record and secure all Postal Service funds.   |
| 11. Conduct an examination and close the vending credit.                  |                 | X               | X <sup>31</sup> |  |   | 2               | Close the vending credit in accordance with Postal Service policy.  |
| 12. Perform cash retained credit counts at the proper frequency.          |                 | X               |                 |  |   | 1               | Perform and document cash retained credit examinations at the required frequencies.   |
| 13. Properly secure retail floor stock.                                   | X <sup>32</sup> |                 |                 |  |   | 1               | Adequately secure accountable items in the unit.  |

<sup>29</sup> During the fieldwork, we opened a duffel bag and found \$224 in cash which the unit did not record on the unit's PS Form 1412.

<sup>30</sup> A former employee turned in her cash credit when she transferred to another unit in June 1999; however, the cash was neither deposited nor recorded on the unit's PS Form 1412.

<sup>31</sup> The unit did not know what to do with the cash totaling \$1,195 and just held it in the unit reserve.

<sup>32</sup> A day after the OIG conducted the retail floor stock count, one of the RAs informed the audit team that a window drawer contained floor stock. The Customer Service Supervisor did not know the drawer contained retail floor stock and did not have a duplicate key, as the drawers were never numbered or assigned and the keys were not issued.

**APPENDIX D: CONTROL DEFICIENCIES (continued)**

| Internal Control Not Implemented  |   |   |   |   |   | Number of units | Specific Actions Required   |
|---|---|---|---|---|---|-----------------|---|
| <b>Disbursements</b>  |   |   |   |   |   |                 |   |
| 14. Research and resolve expense items resulting from financial differences or maintain an individual detailed record to monitor the discrepancies (247/647). | X | X | X | X | X | 5               | Log financial differences and ensure timely offset by making annotations to identify status or date of offset.  |
| 15. Properly support or justify disbursements.  | X | X | X | X | X | 5               | Properly complete, review, and retain support documentation for disbursements.  |
| 16. Follow the preferred payment methods hierarchy for local expenses.  | X | X |   | X |   | 3               | Follow the preferred payment method hierarchy for local expenses in accordance with Postal Service policy.  |
| <b>Financial Accounting and Reporting</b>   |   |   |   |   |   |                 |   |
| 17. Reconcile ADM master trust account balances with balances maintained by the unit.   |   | X | X | X | X | 4               | Reconcile ADM master trust balances with balances maintained at the unit on a monthly basis.  |
| 18. Restrict access to Postal Service information resources to authorized employees by properly maintain employee roles in POS.                               | X | X |   | X |   | 3               | All three unit management took corrective action during the audit to limit POS system access; therefore, we are not requesting further action.            |
| 19. Post BRM/PD advance deposit withdrawals in POS.   |   | X |   | X |   | 2               | Enter amount withdrawn to AIC 114, Postage Due Invoices and offset to AIC 453, BRM/Postage Due Advance Deposit Withdrawal, <sup>33</sup> on PS Form 1412. |

<sup>33</sup> AIC 114 is for funds collected from BRM/PD with PS Form 3582-P, BRM/PD Invoice, and/or PS Form 3584, Postage Due Log. AIC 453 is for funds withdrawn from BRM/PD advance trust accounts with PS Form 3582-P to offset AIC 114, or customer written claims for withdrawal of funds.

**APPENDIX D: CONTROL DEFICIENCIES (continued)**

| Internal Control Not Implemented   |  |  |  |  |  | Number of units | Specific Actions Required   |
|--|---|--|---|---|---|-----------------|---|
| <b>Financial Accounting and Reporting</b>  |   |  |   |   |   |                 |   |
| 20. Close inactive BRM/PD accounts.  | X   |  | X   |   |   | 2               | Monitor advance deposit accounts for inactivity and close or refund account balances in accordance with Postal Service policy.  |
| 21. Reconcile employee item balances to local unit records and research and resolve any differences. Clear or initiate collection procedures identified on the POS Unresolved Employee Items Report. | X   |  |   |   |   | 1               | Monitor employee items as required, preparing a file for each one with all the appropriate documentation. In addition, maintain a master control for all unresolved employee items. |

**APPENDIX D: CONTROL DEFICIENCIES (continued)**

This table presents the internal control deficiencies identified while reviewing the controls over master trust accounts at eight additional units selected for audit.

| Internal Control Not Implemented  |   |   |   |   |   |   |   |   |  | Number of Units | Specific Action Required   |
|---|---|---|---|---|---|---|---|---|--|-----------------|--|
| <b>BRM/PD Master Trust Accounts</b>   |   |   |   |   |   |   |   |   |  |                 |  |
| 22. Reconcile the ADM master trust account balances with balances maintained by the unit. | X | X |   | X | X |   | X | X |  | 6               | Reconcile ADM master trust balances with balances maintained at the unit on a monthly basis.                                   |
| 23. Post BRM/PD advance deposit withdrawals in POS.                                       | X | X |   | X | X |   | X | X |  | 6               | Enter amount withdrawn to AIC 114 and offset to AIC 453 on PS Form 1412.   |
| 24. Close Inactive BRM/PD accounts.   | X | X | X | X |   | X |   |   |  | 5               | Monitor advance deposit accounts for inactivity and close or refund account balances in accordance with Postal Service policy. |

**APPENDIX E: MONETARY IMPACT SUMMARY**

These tables present the monetary impact identified during the audits of the units, rounded to the nearest dollar. The first table lists the results of implementing the full audit program at five sites we judgmentally selected for audit. The second table lists the results of our limited review of the master trust section of the audit program.

**Review of Stamps, Money Orders, Cash, Disbursements, and Financial Accounting and Reporting at Five Original Units**

| Reference  | Finding Description                             | Recoverable Revenue <sup>34</sup> | Questioned Costs                    |   |
|------------|---|-----------------------------------|-------------------------------------|---|
|            |   |                                   | Supported Recoverable <sup>35</sup> | Unsupported Unrecoverable <sup>36</sup> |
| [Redacted] |   |                                   |                                     |   |
| Appendix C | Retail floor stock shortage                     |                                   |                                     | \$4,081 <sup>37</sup>                   |
| Appendix C | Unit cash reserve shortage                      |                                   | \$5,119                             | -                                       |
| 10         | Undeposited cash                                | \$224                             |                                     |   |
| 14         | Unresolved financial differences (net shortage) |                                   | 86,666                              | 569,625                                 |
| 15         | Unsupported or improperly supported refunds     |                                   |                                     | 9,951                                   |
| 20         | Inactive advance deposit not closed             | 36,010                            |                                     |   |
| 21         | Unresolved employee items                       |                                   | \$6,888                             |   |
| [Redacted] |   |                                   |                                     |   |
| Appendix C | Philatelic credit shortage                      |                                   |                                     | 695                                     |
| 10         | Undeposited cash                                | 110                               |                                     |   |

<sup>34</sup> Revenue the agency has collected but which it should refund because postage or fees were paid in excess of the lawful rate.

<sup>35</sup> Recoverable costs that are unnecessary, unreasonable or an alleged violation of laws or regulations.

<sup>36</sup> Unrecoverable cost that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

<sup>37</sup> This figure represents the retail floor stock shortage of \$79,536 on June 3, 2009, less the retail floor stock overage of \$75,455 on July 1, 2009.

**APPENDIX E: MONETARY IMPACT SUMMARY (continued)**

| Reference         | Finding Description                                       | Recoverable Revenue <sup>38</sup> | Questioned Costs                    |   |
|-------------------|---|-----------------------------------|-------------------------------------|---|
|                   |   |                                   | Supported Recoverable <sup>39</sup> | Unsupported Unrecoverable <sup>40</sup> |
| 14                | Unresolved financial differences (net shortage)           |                                   |                                     | \$3,792                                 |
| 15                | Unsupported or improperly supported refunds               |                                   |                                     | 1,679                                   |
| 19                | BRM/PD advance deposit withdrawals were not posted in POS | \$36,918                          |                                     |   |
| <b>[REDACTED]</b> |   |                                   |                                     |   |
| Appendix C        | Retail floor stock shortage                               |                                   |                                     | 5,119                                   |
| 11                | Undeposited vending cash                                  | 1,195                             |                                     |   |
| 14                | Unresolved financial differences (net shortage)           |                                   |                                     | 838                                     |
| 15                | Unsupported or improperly supported refunds               |                                   |                                     | 2,706                                   |
| 20                | Inactive advance deposit not closed                       | 4,795                             |                                     |   |
| <b>[REDACTED]</b> |   |                                   |                                     |   |
| 15                | Unsupported or improperly supported refunds               |                                   |                                     | 2,878                                   |
| 19                | BRM/PD advance deposit withdrawals were not posted in POS | 34,948                            |                                     |   |
| <b>[REDACTED]</b> |   |                                   |                                     |   |
| 14                | Unresolved financial differences (net shortage)           |                                   |                                     | 1,064                                   |
| 15                | Unsupported or improperly supported refunds               |                                   |                                     | 2,296                                   |
| 17                | Negative advance deposit account                          |                                   |                                     | 1,582                                   |
|                   | <b>Subtotals</b>  | <b>\$114,200</b>                  | <b>\$98,673</b>                     | <b>\$606,306</b>                        |

<sup>38</sup> Revenue the agency has collected but which it should refund because postage or fees were paid in excess of the lawful rate.

<sup>39</sup> Recoverable costs that are unnecessary, unreasonable or an alleged violation of laws or regulations.

<sup>40</sup> Unrecoverable cost that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

**APPENDIX E: MONETARY IMPACT SUMMARY (continued)**

**Review of Master Trust Accounts at Eight Additional Units**

| Reference  | Finding Description                                       | Recoverable Revenue <sup>41</sup> | Questioned Costs                    |   |
|------------|---|-----------------------------------|-------------------------------------|---|
|            |   |                                   | Supported Recoverable <sup>42</sup> | Unsupported Unrecoverable <sup>43</sup> |
| [Redacted] |   |                                   |                                     |   |
| 23         | BRM/PD advance deposit withdrawals were not posted in POS | \$3,678                           |                                     |   |
| 24         | Inactive advance deposit not closed                       | 224                               |                                     |   |
| [Redacted] |   |                                   |                                     |   |
| 23         | BRM/PD advance deposit withdrawals were not posted in POS | 1,739                             |                                     |   |
| 24         | Inactive advance deposit not closed                       | 88                                |                                     |   |
| [Redacted] |   |                                   |                                     |   |
| 24         | Inactive advance deposit not closed                       | 7,584                             |                                     |   |
| [Redacted] |   |                                   |                                     |   |
| 22         | Negative advance deposit account                          | 657                               |                                     |   |
| 23         | BRM/PD advance deposit withdrawals were not posted in POS | 99,044                            |                                     |   |
| 24         | Inactive advance deposit not closed                       | 1,866                             |                                     |   |
| [Redacted] |   |                                   |                                     |   |
| 23         | BRM/PD advance deposit withdrawals were not posted in POS | 4,794                             |                                     |   |
| [Redacted] |   |                                   |                                     |   |
| 24         | Inactive advance deposit not closed                       | 1,866                             |                                     |   |

<sup>41</sup> Revenue the Postal Service has collected but which it should refund because postage or fees were paid in excess of the lawful rate.

<sup>42</sup> Recoverable costs that are unnecessary, unreasonable or an alleged violation of laws or regulations.

<sup>43</sup> Unrecoverable cost that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

**APPENDIX E: MONETARY IMPACT SUMMARY (continued)**

| Reference | Finding Description                                       | Recoverable Revenue <sup>44</sup> | Questioned Costs                    |   |
|-----------|---|-----------------------------------|-------------------------------------|---|
|           |   |                                   | Supported Recoverable <sup>45</sup> | Unsupported Unrecoverable <sup>46</sup> |
|           |   |                                   |                                     |   |
| 23        | BRM/PD advance deposit withdrawals were not posted in POS | 3,316                             |                                     |   |
|           |   |                                   |                                     |   |
| 23        | BRM/PD advance deposit withdrawals were not posted in POS | 1,452                             |                                     |   |
|           | <b>Subtotals</b>  | <b>\$126,308</b>                  |                                     |   |
|           | <b>Total \$945,487</b>                                    | <b>\$240,508</b>                  | <b>\$98,673</b>                     | <b>\$606,306</b>                        |

<sup>44</sup> Revenue the Postal Service has collected but which it should refund because postage or fees were paid in excess of the lawful rate.

<sup>45</sup> Recoverable costs that are unnecessary, unreasonable or an alleged violation of laws or regulations.

<sup>46</sup> Unrecoverable cost that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

**APPENDIX F: NON-MONETARY IMPACT SUMMARY**

This table presents the non-monetary impact identified during the audits of the five units, rounded to the nearest dollar.

| Reference  | Finding Description                         | Assets at Risk <sup>47</sup> | Accountable Items at Risk <sup>47</sup> |
|------------|---|------------------------------|---|
| [Redacted] |   |                              |   |
| 1          | Excess retail floor stock                   |                              | \$117,639                               |
| 9          | Unrecorded money orders                     |                              | 553,600                                 |
| 13         | Unsecured retail floor stock                |                              | 2,255                                   |
| [Redacted] |   |                              |   |
| 1          | Excess retail floor stock                   |                              | 18,934                                  |
| 9          | Unrecorded money orders                     |                              | 67,200                                  |
| [Redacted] |   |                              |   |
| 1          | Excess retail floor stock                   |                              | 172,190                                 |
| 5          | Excess unit cash retained                   | \$623                        |   |
| 17         | Master trust account balance not reconciled | 388                          |   |
| [Redacted] |   |                              |   |
| 1          | Excess retail floor stock                   |                              | 48,483                                  |
| 5          | Excess unit cash retained                   | 243                          |   |
| [Redacted] |   |                              |   |
| 1          | Excess retail floor stock                   |                              | 142,605                                 |
| 5          | Excess unit cash retained                   | 193                          |   |
|            | <b>Subtotals</b>                            | <b>\$1,447</b>               | <b>\$1,122,906</b>                      |
|            | <b>Total</b>                                | <b>\$1,124,353</b>           |   |

<sup>47</sup> Assets or accountable items (for example, cash, stamps, or money orders) that are at risk of loss because of inadequate internal controls.

**APPENDIX G: MANAGEMENT'S COMMENTS**

MEGAN J. BRENNAN  
VICE PRESIDENT, AREA OPERATIONS  
EASTERN AREA



September 18, 2009

MEMORANDUM FOR LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS

Subject: Philadelphia District Post Office Financial Risk Audit  
(Report Number FF-AR-09-Draft)

The Eastern Area has reviewed the subject Draft Audit Report (Report Number FF-AR-09-Draft) and is in agreement with the findings and recommendations. We have no Freedom of Information Act (FOIA) issues related to this audit.

**Recommendation #1** – Require employees to obtain finance-related training, such as the ten “Field Finance Toolkit” training courses listed on the Accounting blue pages within one year of becoming a unit financial manager or supervisor. Also, the district should provide continuing financial training to managers in units with internal control deficiencies.

**Response:**

The Eastern Area agrees with the recommendation. There is a valid need for financial training. The Philadelphia District Manager has committed to provide a “hybrid” financial training class to EAS employees responsible for financial management of retail units, based upon the ten “Field Finance Toolkit” courses recommended by the OIG. This will be completed by March 31, 2010. This training will be conducted on an as needed basis throughout the year for those managers in offices with significant internal control deficiencies.

If the return on investment proves to be beneficial in Philadelphia, the Eastern Area will continue expanding the training to other districts.

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**Recommendation #2** – Improve district oversight of unit financial operations by including measurements in internal oversight documents for monitoring retail floor stamp stock levels and counting unit cash reserves, and holding managers accountable for improving unit financial operations in measured areas.

**Response:**

The Eastern Area agrees with the recommendation. The Area has begun producing excess retail floor stock reports and has messaged the need to reduce excess floor stock in all districts. The Eastern Area will add this measurement to our District Manager Financial Scorecard in FY 2010. This will allow the appropriate focus to drive improvement throughout the year.

The Philadelphia District Manager has been instructed to monitor unit cash reserve counts in the Philadelphia District on a regular basis as specified in their action plan.

The Eastern Area Vice President issued a memo on September 18, 2009, to all District Managers expressing the importance of maintaining financial internal controls and holding managers accountable for compliance.

**Recommendation #3** – Develop and implement an action plan with milestones that will implement the control deficiencies found.

**Response:**

The Eastern Area agrees with the recommendation. The District Manager was instructed to develop and implement an action plan to correct the deficiencies and the plan is attached as an enclosure.

If you have any questions regarding this response please contact Mark Tappe, Eastern Area Accounting Manager, at (412) 494-2574.



Megan J. Brennan

Enclosure