



September 30, 2009

TIMOTHY C. HANEY
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2009 Connecticut District
Financial Risk Audit (Report Number FF-AR-09-225)

This report presents the results of our audit of financial risk at the Connecticut District (Project Number 09BD017FF000). We conducted this self-initiated audit at five judgmentally selected business mail entry units (BMEU) and three post offices to evaluate financial risk as identified by U.S. Postal Service Office of Inspector General (OIG) Performance and Results Information Systems (PARIS) models. See [Appendix A](#) for additional information about this audit.

Conclusion

District management did not effectively implement all required financial controls in the Connecticut District.¹ Specifically, we identified internal control and compliance issues at BMEUs related to entering postage statements, closing inactive accounts, and monitoring PostalOne! overrides. In addition, we identified units that were not complying with financial controls over stamp stock accountabilities, refunds, and financial differences. The issues identified at these units are similar to the issues identified at nine randomly selected audit sites² in the Connecticut District over the past 3 years. As a result, Connecticut District units are at an increased risk of losing cash, accountable items, and revenue without detection; and misstating financial records. We identified \$89,274 in monetary impact, recoverable revenue loss and unsupported unrecoverable questioned costs, and \$471,356 in non-monetary impact, revenue and accountable items at risk.

Accurate and Timely Entering Postage Statements

District management did not effectively manage the accurate and timely entry of postage statement data into the PostalOne! system. We reviewed 290 postage statements at five BMEUs and identified 38 statements entered into PostalOne! from 1 to 68 days after the date of mailing. District management monitored delayed

¹ We identified 44 of 82 BMEUs and 202 of 310 post offices with high-risk accounting activities in the Connecticut District.

² These audits were conducted in support of the Postal Service's financial statements.

statements weekly; however, they provided inconsistent guidance on recording mailing dates. This resulted in some statements being entered late that appeared to be entered on time. We consider \$108,941 as a non-monetary impact for revenue at risk³ (see [Appendix E](#)). See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

1. Provide clear and consistent guidance to business mail entry units on recording postage statements.

Closing Advance Deposit Accounts

District management did not effectively monitor and require units to close all cancelled and inactive advance deposit accounts. District management believed they were effectively monitoring advanced deposit accounts based upon data provided by the Northeast Area from the Headquarters Business Mail Acceptance (BMA) "Non-Active Permits Report." However, neither the area nor district reviewed the data to ensure all potentially inactive accounts were monitored. As a result, units did not close 47 cancelled and inactive accounts valued at \$26,260. We consider this amount recoverable revenue loss⁴ (see [Appendix D](#)). See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Northeast Area Operations, instruct the area Finance Manager and Connecticut District Manager to:

2. Evaluate inactive account data provided in the Non-Active Permits Report and ensure all data is used to monitor inactive accounts.

Monitoring PostalOne! System Overrides

District management did not monitor or manage the review of PostalOne! overrides. These control overrides occur when a BMEU clerk decides to continue processing a mailing although the mailing data entered does not conform to control parameters established in the system. District management did not realize four of five units were not always reviewing PostalOne! overrides. Through interviews and a review of unit records, we determined unit management did not always generate a daily override report and did not verify the appropriateness of all overrides. Three units never generated the report, nor conducted any reviews and, at one unit that reportedly reviewed overrides, the unit did not review all overrides because of the large volume; some overrides were routine, and the report did not contain descriptions for some overrides. Routine and inaccurate overrides hinder the supervisor's ability to effectively

³ Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services the Postal Service currently provides).

⁴ Revenue that can be collected for goods delivered or services rendered.

review and monitor all overrides. As a result, the U.S. Postal Service has reduced assurance that mailings meet standards for the rate claimed and proper postage is collected.

During our audit, we identified a systemic issue with PostalOne! overrides.⁵ We are not making a recommendation to address this system change. We will address this issue separately in our fiscal year (FY) 2009 Financial Installation Audit – BMEU report,⁶ which will summarize Postal Service-wide issues relating to BMEUs.

We recommend the Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

3. Require unit management to review PostalOne! control overrides and require the business mail entry Manager to establish a system to monitor compliance. Until Postal Service Headquarters resolves the system limitations, we suggest units place increased emphasis on reviewing high-risk overrides such as fees not paid, negative balances, and bypass verifications.

Complying with Post Office Financial Controls

District management did not effectively implement internal controls over post office retail operations. Specifically, we found the following financial control deficiencies:

- One of two⁷ units could not provide sufficient or supporting documentation for \$34,467 of \$288,008 refund expenses reviewed.
- Both units reviewed did not research and resolve financial differences, totaling \$28,547, or ensure the unit maintained an individual detailed record to monitor the discrepancies.
- All three units maintained excess stamp stock. Combined, the units maintained about \$394,000, which was more than the \$244,000 authorized.

This occurred because district management did not provide consistent oversight of units' compliance of post office internal control requirements. District management was aware that units were not maintaining stamp stock levels within authorized amounts; however, they did not effectively enforce compliance. Further, although district management was conducting selected site reviews for Sarbanes-Oxley (SOX) compliance requirements; the district was unaware these units were not complying with

⁵ PostalOne! requires clerks to process an override for some routine transactions that should not require overrides. During April 2009, there were 1,402 such override occurrences reported as "Minimum Piece/Pounds Not Met" in PostalOne! for the five sites reviewed. Most of these are for routine transactions related to manifest mailings and required destination sectional center facility origin trays claimed at the area distribution center/automated area distribution center rates.

⁶ Project Number 09BD002FF000 is associated with audits conducted in support of the audit of the U.S. Postal Service's financial statements.

⁷ We did not perform all tests at all three post offices. Rather, based on our evaluation of the PARIS model, we only reviewed the high risk activities associated with the specific post office. See [Appendix A](#) for more information.

internal controls over refunds and financial differences. Additionally, the district was not aware these unit managers did not know how to resolve financial differences. We identified \$63,014 of monetary impact for unrecoverable questioned costs⁸ (see [Appendix D](#)) and non monetary impact of \$362,415 for assets at risk⁹ (see [Appendix E](#)). See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

4. Provide oversight of units' compliance with controls over financial differences and refunds.
5. Enforce district-wide compliance with stock level requirements.

Management's Comments

Management generally agreed with all of our findings and recommendations; however, they did not fully agree with our conclusion that the Connecticut District did not effectively implement all required financial controls. Their response provided reasons for the issues we identified but with which they were not in full agreement, and provided details of systems or processes they have established to ensure compliance with financial controls. In response to the specific recommendations, the Connecticut District will reissue formal instructions and guidance on proper procedures for recording postage statements. Further, on August 12, 2009, the Northeast Area communicated directives on managing inactive accounts and monitoring appropriate data from reports. Also, the Northeast Area will monitor compliance with override controls through periodic unit reviews of the National BMEU Certification Application and instructions to monitor the override reports daily. Additionally, the Connecticut District will reiterate procedures for managing financial differences and documenting refund transactions to all units. Lastly, the Northeast Area issued a memorandum on July 28, 2009, establishing processes to reduce excess stock and instructed districts to be in compliance with all unit level stock policies by the end of FY 2009. See [Appendix F](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

⁸ Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations. These costs are also not supported by adequate documentation.

⁹ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

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.



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

BMEUs are established for authorized mailers to present business mailings. The Postal Service requires mailers to properly prepare all mailings, take them to an approved BMEU, and pay for them before they enter the mailstream, unless otherwise authorized by the Pricing and Classification Service Center located in New York, NY.

Post offices (units) are the initial level where the Postal Service recognizes revenue from operations and include main offices, stations, and branches. The postmasters or installation heads are responsible for collecting all receipts to which the offices are entitled, accounting for all funds entrusted to them and ensuring the offices meet all accounting objectives.

The PostalOne! system is the Postal Service's primary system for recording business mail and Periodicals transactions. It allows users to enter postage statements and other financial transactions and to retrieve reports necessary to manage the day-to-day business of their units. It also allows customers to submit postage statements and other information to the Postal Service through a web-based process.

This is an OIG-initiated audit to assess the financial accountability controls over business mail acceptance and post office operations at the Connecticut District, based on the PARIS BMEU Model and the Cost and Controls Model. These models use data from PostalOne! and the Enterprise Data Warehouse (EDW) to assign risk factors based on compliance and ranks the Postal Service's 80 districts.¹⁰

The Cost and Controls Model indicates that the Connecticut District is most at risk in the Northeast Area. The BMEU Risk Model identified approximately \$10 million of "at risk" transactions and inactive accounts, and the district ranked 14th nationally.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether internal controls were in place and effective over:

- postage statements,
- transaction overrides,
- inactive accounts,
- refunds,
- financial differences,
- stamp stock accountabilities, and
- employee items.

¹⁰ The Postal Service recently reorganized from 80 to 74 districts. The models use historical data for the 80 districts.

To accomplish our objective, we judgmentally selected five BMEUs and three post offices based on risks associated with postage statements, transaction overrides, inactive accounts, refunds, financial differences, stamp stock accountabilities, and employee items. We interviewed supervisors and employees and observed operations at the following sites in Connecticut:



At all five BMEU's, we reviewed permit imprint, periodicals, and Business Reply Mail/Postage Due accounts for inactivity and negative balances. We analyzed user overrides of controls in the PostalOne! system to determine their validity. For the April 2009 reporting period, we reviewed all of the postage statements entered late in PostalOne!, according to its own records, and randomly selected 252 from the remaining 7,117 permit imprint and periodical postage statements to determine whether postage statement data was entered timely.

At all three post offices, we performed accountability examinations (see [Appendix C](#)) and evaluated whether the internal control structure over financial accounting and reporting, stamp stock accountability, and employee items was implemented and functioning as designed. At two units, we reviewed financial differences and refunds generated for the June 2008 through May 2009 reporting period. We interviewed district management to determine what procedures the district had in place to monitor BMEU and post office financial risk factors.

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 structure over the preceding high-risk areas noted were implemented and functioning as designed.

We conducted this performance audit from May 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 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 September 3, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact
<i>FY 2009 Financial Installation Audit – Bridgeport Post Office, Bridgeport, CT</i>	FF-AR-09-102	2/24/2009	\$0
<i>FY 2009 Financial Installation Audit – Middletown Business Mail Entry Unit, Middletown, CT</i>	FF-AR-09-101	2/24/2009	\$0
<i>FY 2008 Financial Installation Audit – Norwich Business Mail Entry Unit, Norwich, CT</i>	FF-AR-08-268	8/20/2008	\$85,804
<i>FY 2008 Financial Installation Audit – Hartford Business Mail Entry Unit, Hartford, CT</i>	FF-AR-08-228	7/3/2008	\$40,474
<i>FY 2008 Financial Installation Audit – North Haven Post Office, North Haven, CT</i>	FF-AR-08-119	3/4/2008	\$17,193
<i>FY 2008 Financial Installation Audit – Madison Business Mail Entry Unit, Madison, CT</i>	FF-AR-08-082	1/28/2008	\$20,347
<i>FY 2007 Financial Installation Audit – Storrs Business Mail Entry Unit, Storrs, CT</i>	FF-AR-07-150	4/30/2007	\$0
<i>FY 2007 Financial Installation Audit – Willimantic Business Mail Entry Unit, Willimantic, CT</i>	FF-AR-07-072	1/23/2007	\$0
<i>FY 2007 Financial Installation Audit – Redding Ridge Post Office, Redding Ridge, CT</i>	FF-AR-07-053	1/8/2007	\$0

Management agreed with our findings, recommendations, and monetary impact in these prior audits; however, we identified repeat findings with controls over timely postage statement entry, inactive accounts, and excess accountabilities.

- In two of nine audits, we reported 153 postage statements entered into PostalOne! from 1 to 75 days late and reported monetary and non-monetary impact of \$18,314 and \$2,256, respectively.
- In five of nine audits, we reported inactive customer advance deposit accounts totaling \$131,828.
- In two of nine audits, we reported excess stock totaling \$113,300.

APPENDIX B: DETAILED ANALYSIS

Accurate and Timely Entering Postage Statements

District management did not effectively manage the accurate and timely entry of postage statement data in the PostalOne! system. We noted PostalOne! users at the sites we visited did not always record the date of mailing correctly in system records. Further, employees reversed transactions to change the mailing dates to match the processing dates to avoid delayed statements.

We reviewed 290 postage statements and identified 38 entered into PostalOne! from 1 to 68 days after the date of mailing. We consider \$108,941 as revenue at risk (see [Appendix E](#)). During our audit, we noted:

- As of April 2009, the Business Mail Acceptance Delayed Postage Statement reports indicated the district had 31 postage statements entered late. However, we found that 15 of those statements were entered on time. PostalOne! system problems prevented timely entry or unit employees did not change the mailing date when finalizing electronic postage statements. For example, when customers submit Postal Wizard¹¹ statements electronically in the system one day, but bring the mail to the unit the following day, acceptance personnel must update the date of mailing in PostalOne! to reflect the date the mail was verified and released for processing.¹²
- Management reports indicated that 7,117 permit imprint and Periodicals statements were entered on time. We examined a random sample of 252 statements and found 14 were entered late. Unit employees changed the date of mailing based on inconsistent guidance by district management to match the date the statement was processed in PostalOne!. For example, in three units, employees changed the mailing dates, although they verified and released the mail to operations days earlier.

Unit Name	Reported Late		Not Reported Late		Additional Late Statements
	Number of Statements Sampled	Number of Statements Input Timely	Number of Statements Sampled	Number of Statements Found Late	
[REDACTED]	10	0	50	5	0
[REDACTED]	10	6	60	0	6
[REDACTED]	8	8	60	1	0
[REDACTED]	2	1	60	8	0
[REDACTED]	1	0	22	0	1
Totals	31	15	252	14	7

¹¹ Postal Wizard provides mailers a secure method for entering postage statements electronically in PostalOne!.

¹² Handbook DM-109, *Business Mail Entry*, January 2009, Table 9-5.1, item 2.

Additionally, in two of nine financial installation audit reports issued for BMEU sites in the Connecticut District over the prior 3 years, we identified 153 postage statements entered into PostalOne! from 1 to 75 days late and reported monetary impact of \$18,314 and non-monetary impact of \$12,936.¹³

Through interview and review of unit records, we found that Connecticut District management uses data from the Business Mail Acceptance website to monitor the timely entry of postage statements into PostalOne! weekly. District management is required to review timely postage statement entry procedures with unit management monthly.¹⁴ While SOX messaging and newsletters communicated the need to enter postage statement data timely, employees reported they received inconsistent guidance from district management on how to record the mailing dates in PostalOne! to be in compliance with SOX. We believe the reports Connecticut District managers used to gauge compliance might not be a reliable indicator of performance.

Closing Advance Deposit Accounts

District management did not effectively monitor and require units to close all cancelled and inactive advance deposit accounts.¹⁵ District management believed they were effectively monitoring advanced deposit accounts based upon data provided by the Northeast Area from the BMA Non-Active Permits report.¹⁶ This report contains 35 columns of data relating to inactive accounts. The area and district monitored a column labeled "Inactive, Cancelled, Denied, or Deleted." However, another column was labeled "Active," and it contains accounts that are considered active by Headquarters BMA but not having any mailing activity during the past 2 years. The Postal Service defines inactive accounts as an account for which no mailing activity occurred for 2 years, and these accounts should be closed. The area did not instruct the district to review those accounts with no activity during the past 24 months, because the BMA reports did not clearly identify them as inactive accounts in the weekly updates sent to the area managers.

The BMA report identified 1,040 "Inactive, Cancelled, Denied, or Deleted" accounts for the Northeast Area as of April 30, 2009. Of those, there were 92 inactive accounts, valued at \$3,660, identified for the Connecticut District. However, there were 10,785 "Active" accounts, valued at \$2,006,030, that did not have mailing activity during the past 2 years in the Northeast Area as of April 2009. Of those, the report noted 1,180 accounts,¹⁷ valued at \$284,547, in the Connecticut District.

¹³ [REDACTED]

¹⁴ Handbook DM-109, Exhibit 1-1, page 2, Revenue Protection Responsibilities, item 12.

¹⁵ Handbook F-101, *Field Accounting Procedures*, July 2009, Sections 16-7 and 17-6, and Handbook DM-109, Table 1-1.

¹⁶ The Non-Active Accounts report is obtained from the BMA website and is based on PostalOne! data.

¹⁷ This number may include some accounts that may not be inactive (for example, periodicals accounts that have not mailed in more than 24 months at the original entry unit).

**Inactive Accounts Data provided from the BMA
Report As of April 2009**

Northeast Area	Number of Inactive Accounts	Compliance Rate¹⁸	Book Value (thousands)
Information provided to Districts	1,040	99%	\$181
BMA Report	10,785	85%	\$2,006
Connecticut District			
Information provided to District	92	99%	\$4
BMA Report	1,180	89%	\$285

As a result of not effectively monitoring inactive accounts, we determined that the three BMEUs examined did not close 47 cancelled and inactive accounts totaling \$26,260.¹⁹ We consider this amount to be monetary impact, categorized as recoverable revenue loss.

Since our audit visits, the units closed 31 of the 47 cancelled and inactive advanced deposit accounts.

Complying with Post Office Financial Controls

District management did not effectively implement internal controls over post office retail operations. This occurred because district management did not:

- Enforce compliance with maintaining stamp stock levels within authorized amounts, although they were aware the units were not following the requirements.
- Provide oversight and was unaware these units were not complying with controls over financial differences and refunds.

We did find district management was monitoring employee items and working with units to resolve and clear all outstanding items greater than 120 days.

The district monitored and notified units of excess stock; however, they did not develop procedures to ensure units reduced stock levels.²⁰ The following table identifies the number of units with excess stock in the Connecticut District.

¹⁸ Measures the percentage of active, versus inactive, accounts in the district.

¹⁹ This includes \$10,494 refunded to Account Identifier Code (AIC) 126, Miscellaneous Non-Postal Revenue, and \$15,766 for 16 inactive accounts without resolution.

²⁰ Handbook F-101, Sections 11-3.4 and 14-2.3.

Connecticut District Stock Ledger Summary for May 2009

Stock Type	Units with Accountability	Units with Excess Stock	Percent of Units over Stock Limits	Excess Stock (in millions)
Unit Stock	329 ²¹	144	44	\$2.57
Retail Floor	230	183	80	\$2.56

At the three units we examined, managers stated that they were aware they exceeded retail floor or unit reserve stock limits. However, unit management at all three units chose not to reduce stock accountabilities because they believed it would adversely impact customer service. Further, district management did not enforce policy because they were focused on improving compliance with other financial controls such as employee items. The following table details excess stock identified at the three units we reviewed.

Excess Stock

Unit Name	Stock Type	Authorized Stock Level	Stock on Hand	Excess Accountability (May 31, 2009)	Percent Excess
	Unit	\$142,458	\$256,397	\$113,939	80
	Retail Floor	22,519	57,379	34,859	155
	Retail Floor	31,066	85,452	54,385	175
	Retail Floor	48,071	242,161	194,091	404
Totals		\$244,114	\$641,389	\$394,274	

Maintaining excess retail floor stock may have contributed to shortages totaling about \$1.1 million at the three units during the past year.²² We believe limiting the amount of retail floor stock may help prevent significant shortages in the future.

District management did not provide oversight for internal controls over financial differences and refunds. Further, although district management was conducting selected site reviews for SOX compliance requirements; the District was unaware these units were not complying with internal controls over refunds and financial differences. Additionally, the District was not aware these unit managers did not know how to resolve financial differences. When management does not monitor internal controls

²¹ This includes self service and automated postal centers.

²² Information obtained for August 2008 through July 2009 from Segmented Inventory Accountability (SIA) Count Compliance reports in the Accounting Data Mart. Required accountability examinations of retail floor stock were conducted and recorded by management.

over financial differences and refunds, there is an increased risk of loss of funds and inaccurate financial statements. Specifically, we found:

- Management at the two units examined did not research and resolve financial differences totaling \$28,547. The units did not maintain a detailed record because unit management did not have an understanding of expenses related to differences in financial transactions and were not aware that all expenses needed to be resolved and tracked on a log.²³
- One unit could not provide sufficient documentation²⁴ for \$34,467 of the \$288,008 in refunds reviewed. Unit management stated that they try to review all supporting documentation but completing other assigned duties sometimes prevents complete reviews.

²³ Handbook, F101, Section 8-6.

²⁴ Handbook F101, Section 21.

APPENDIX C: ACCOUNTABILITY EXAMINATION SUMMARY

This table presents the results of accountability examinations performed during the audit, rounded to the nearest dollar.

Accountability	[REDACTED]	[REDACTED]	[REDACTED]
	Overage/ (Shortage)	Overage/ (Shortage)	Overage/ (Shortage)
Unit Reserve Stock	(\$94)	\$427	(\$6,011) ²⁵
Retail Floor Stock ²⁶	-	-	\$7,588

²⁵ We conducted the unit reserve count on July 22, 2009. The Customer Service Supervisor explained that the shortage occurred because of insufficient oversight regarding the transfer of stock between the unit reserve stock and the retail floor stock. The shortage amount of \$6,011 was entered into AIC 767, *Employee Stamp Credit Shortage*, in the Point-of-Service system.

²⁶ We conducted counts of retail floor stock based on risk assessment and the unit's SIA count compliance history.

APPENDIX D: MONETARY IMPACT

Finding	Description	Amount
District management did not effectively monitor and require units to close all cancelled and inactive advanced deposit accounts.	Recoverable Revenue Loss	\$26,260
District management did not monitor one units' compliance with internal controls over refund transactions.	Unsupported Unrecoverable Questioned Costs	34,467
District management did not monitor units' compliance with internal controls over researching and resolving financial differences.	Unsupported Unrecoverable Questioned Costs	28,547
	TOTAL	\$89,274

APPENDIX E: NON-MONETARY IMPACT

Finding	Description	Amount
District management did not monitor units' compliance with accurate and timely entry of postage statement data.	Revenue at Risk	\$108,941
District management did not monitor units' compliance with internal controls over stamp stock accountabilities.	Accountable Items at Risk	362,415 ²⁷
	TOTAL	\$471,356

²⁷ This amount does not include the excess retail floor stock of \$34,859 at the Waterbury Post Office. When units have both excess stamp stock and retail floor stock, we only claim the higher amount as non-monetary impact.

APPENDIX F: MANAGEMENT'S COMMENTS

TIMOTHY C. HANEY
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



September 25, 2009

MEMORANDUM FOR LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report - FY 2009 Connecticut District
Financial Risk Audit (Report Number FF-AR-09-DRAFT)

The following responds to the findings, recommendations, and monetary impacts contained in the subject report of the Financial Risk Audit of the Connecticut District. While we are in general agreement with the five recommendations included in the report, we do not fully agree with the statement that Area and District management did not effectively implement all required financial controls in the Connecticut District. Our responses provide a justification for any issues where we are not in full agreement and also details systems or processes that have been established to ensure that financial controls are complied with.

Recommendation 1

We recommend the Acting Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

1. Provide clear and consistent guidance to BMEUs on recording postage statements.

Response:

We acknowledge that based on evidence provided by the auditors, there were several instances of inconsistent guidance being provided to units on the proper recording of Postage Statements by both an Acting BME Manager and a District BMEU Clerk. The evidence, however, also included the fact that at least on one occasion the current BME Manager corrected this incorrect guidance immediately. This was also followed-up with formal instructions issued by the District to all units re: the proper procedures for recording Postage Statements in the PostalOne! system. The effectiveness of this follow-up was evidenced by the results of the Financial Control and Support physical review of Postage Statements in August 2009 that indicated an on-time completion percentage in excess of 99% for the July 2009 scope period. This percentage was comparable to the on-time percentage posted for July 2009 on the Headquarters BMA Blue Page report for the Connecticut District as well as the data contained in the Micro Strategies Report for the same month.

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FAX 860-285-1253

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Action:

Due to the critical nature of this control, we agree with your recommendation and I will instruct the District Manager of the Connecticut District to reissue formal instructions and guidance on the proper procedures for recording Postage Statements in the PostalOne! system. I will further request that the District address the issue of inconsistent guidance directly with the individuals identified by the auditors as having provided that erroneous information to the audited units.

Recommendation 2

We recommend the Acting Vice President, Northeast Area Operations, instruct the Area Finance Manager and Connecticut District Manager to:

2. Evaluate inactive account data provided in the Non-Active Permits Report and ensure all data is used to monitor inactive accounts.

Response:

The Area and District monitored the risk associated with Non-Active Accounts based on the guidance and data provided by Headquarters for these accounts since FY 2008. Essentially that guidance provided for managing those accounts that were designated as Cancelled, Inactive, Deleted, and Denied. Weekly and Monthly reports were provided by Headquarters that implicitly referred to management of these accounts and the risk they posed based on that data. This was also how the data was conveyed to the Districts for management of the issue at the field level. During the course of the audit, it was identified by the OIG and concurred to by Headquarters that there were several thousand more accounts that had exceeded the 24 month timeframe with no activity and designated them as non-active accounts per current policy. Subsequent to a telecon with Headquarters, the attached communication was issued from the Area Customer Relations staff to the field on August 12, 2009 clarifying how non-active accounts needed to be managed going forward.

Action:

Due to the critical nature of this control and based on the issues of confusion re: interpreting the data reports for what accounts need to be monitored, I concur with your recommendation on ensuring that all data is used to monitor inactive accounts. I will reiterate instructions to all Northeast Area Districts on monitoring the appropriate data from the reports and further clarify the policies on managing non-active accounts.

Recommendation 3

We recommend the Acting Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

Require unit management to review PostalOne! control overrides and require the business mail entry Manager to establish a system to monitor compliance. Until Postal Service Headquarters resolves the system limitations, we suggest units place increased emphasis on reviewing high-risk overrides such as fees not paid, negative balances, and bypass verifications.

- 3 -

Response:

We have implemented the National BMEU Certification Application, which requires all BMEUs meeting specific revenue criteria to certify daily or weekly that they have reviewed the PostalOne! Override report to ensure that all Overrides are appropriate and authorized. We believe that this certification process establishes a system for management to monitor this critical issue. It should be noted that the current override report does not provide descriptions of all overrides in the system. Headquarters has advised that this will be corrected in a future release of PostalOne!. As indicated in the audit, this report limitation has posed a significant issue to larger BMEU sites.

Action:

We will instruct all Northeast Area Districts to emphasize the need to monitor the override reports on a daily basis and focus specific attention on the high-risk items outlined in your recommendation. In addition, I will instruct Area Finance and Customer Relations to conduct periodic unit reviews of the certification application that we have established as the system for monitoring compliance with this control.

Recommendation 4

We recommend the Acting Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

3. Provide oversight of units' compliance with controls over financial differences and refunds.

Response:

The Northeast Area Finance Office provides monthly data re: both financial differences and local refund transactions via Web Based Scorecards to all Northeast Area Districts. The data summarizes performance on these indicators at the District level and provides detail data at the unit level. The data further analyzes financial difference data specific to banking related errors. Although this data is used by the Districts, in addition to data from other reports executed locally to monitor these controls, the maintenance of required logs for financial differences and the supporting documentation for refund transactions cannot be validated until physical on-site inspection of these issues is conducted at the units. Both of these controls are reviewed during the quarterly sample Sarbanes-Oxley Postal Retail Unit Reviews conducted by Financial Control and Support. Results from these reviews are communicated to the unit manager and a management response is required for any failures related to these controls. The audit report did not provide specific detail re: the unsupported refund transactions. It is requested that this detail be provided prior to our providing concurrence re: the Unsupported Recoverable Questionable Costs of \$34,340.

Action:

We agree in part and will instruct all Districts to reiterate the proper procedures for managing financial differences and documenting refund transactions.

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Recommendation 5

We recommend the Acting Vice President, Northeast Area Operations, instruct the Connecticut District Manager to:

4. Enforce district-wide compliance with stock level requirements.

Response:

We agree that the condition of excess stock for the scope period of this review validated non-compliance with existing policy. The Northeast Area, in conjunction with all Districts, implemented a process on July 28, 2009 (see attached document) that requires the SDO to review the status of all unit requests for shipment of stock prior to fulfilling any orders. If a unit is in excess, the order can not be filled without the approval of the POOM, District Finance Manager, and District Customer Relations Manager. The report tool for checking unit status was developed and posted to the Northeast Area Web Site for use by the Districts. The report tool is updated 3 times each week. An Excess Retail Floor Stock Report is also provided as a tool on the Web Site. In addition to the approved shipment process, all District Managers were instructed to ensure that excess stock was returned to the SDO and that all units were in compliance with existing stock level policies by the end of FY 2009. Data as of stock on hand balances on September 19, 2009 for the Connecticut District indicated a total of 3 units with \$8,723.58 in excess stock. None of the units reviewed as part of this audit had an excess stock balance. The three units referenced are all APCs that were installed during Quarters 2-4 of FY 2008. This results in incomplete sales data for SPLY which provides a false indicator for excess accountability.

Action:

The Northeast Area Districts will continue to utilize the established process and associated reporting tools for controlling excess unit reserve and retail floor stock.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

We would also like to note that considerable time was spent at our September 23-24 Area Leadership meeting reminding all Area executives of their responsibility and accountability for financial controls in their respective Districts.

We appreciate the cooperation of the OIG Auditors during this process including the follow-up telecons to clarify the results of the audit.


Timothy C. Haney

Attachments