December 15, 2009

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Gateway District Financial Accountability Risk Audit (Report Number FF-AR-10-047)

This report presents the results of our audit of financial accountability in the Gateway District (Project Number 09BD022FF000). This audit was self-initiated and addresses financial risk. The objective of our audit was to determine whether internal controls over stamp, cash, and money order accountabilities; financial differences; employee items; and disbursements at the selected sites were in place and effective. See Appendix A for additional information about this audit.

Conclusion

We visited five Gateway District post offices and stations with high-risk accounting activities according to our PARIS Cost and Controls model. We identified internal control and compliance issues at these sites related to stamp, cash, and money order accountabilities; financial differences;[1] employee items; and disbursements. In addition, we identified similar issues at five other sites in the Gateway District that we audited during fiscal year (FY) 2009.[2]

We attribute these internal control deficiencies to an insufficient district-wide monitoring program that identified high-risk offices but did not hold unit managers accountable for implementing and documenting corrective actions. As a result, Gateway 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 $171,000 in monetary impact and approximately $1.9 million in non-monetary impact as a result of unit managers not effectively implementing internal controls.

[1] Financial differences are unreconciled expense entries that must be researched and resolved in a timely manner.
[2] See Prior Audit Coverage in Appendix A.

Monitoring of Internal Control Procedures Needs Improvement

Of the five units we visited, we found internal control weaknesses over stamp, money order, and cash accountability at all five units; financial differences at four units; disbursements at three units; and employee items at one unit. For example, management at the five units did not conduct, witness, and properly document accountability examinations at the proper frequencies. Four of these units also maintained excess retail floor stock ranging from 200 to 358 percent above required levels. Additionally, four of the units did not research and resolve financial differences totaling $149,586, and three units did not maintain support for disbursements totaling $11,818. Some of these internal control weaknesses may have contributed to the $7,380 in stamp stock shortages that we identified at three of the units.

We attribute these deficiencies to an insufficient monitoring program that is supposed to identify high-risk units that are not complying with financial control activities. Although district management implemented a program to identify financial risks at the various units, they did not have a tracking mechanism to ensure unit managers took corrective actions to address these risks. In addition, unit managers were not held accountable for implementing and documenting corrective actions taken at their sites. When management does not take corrective action to address identified financial control deficiencies, the Postal Service is at an increased risk of losing cash, accountable items,[3] and revenue without detection; and misstating financial records.

See Appendix B for our detailed discussion of stamp, money order, and cash accountability; financial differences; employee items; and disbursement internal control deficiencies. Appendix C presents the results of our accountability examinations, Appendix D presents the detail of the monetary impact,[4] and Appendix E presents the detail of the non-monetary impact.[5]

We recommend the vice president, Great Lakes Area Operations, direct the manager, Gateway District, to:

1. Expand the district's monitoring of unit financial control activities to include a tracking mechanism documenting corrective action taken at units that are not in compliance.

2. Hold unit managers accountable for improving financial operations to address identified financial risks.

[3] Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.
[4] The monetary impact includes recoverable questioned costs and unrecoverable questioned costs.
[5] The non-monetary impact includes assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

3. Develop and implement an action plan with milestones to address the internal control deficiencies identified in Appendix B of this report.

Management's Comments

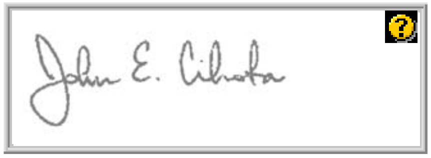
Great Lakes Area management agreed with our findings and recommendations. The area accounting team will assume the responsibility of monitoring financial control for postal retail units due to a change in structure of the Financial Control and Support (FC&S) group. The area accounting team's responsibilities will include tracking actions taken to correct financial discrepancies. Area management also recommended the district finance manager work with the area accounting manager to enhance the existing remediation process for holding unit managers accountable to address identified financial risks. Area management stated they will complete these actions by June 30, 2010. In addition, the Gateway District's finance manager assigned the Gateway District's FC&S manager to work with designated representatives at the St. Louis and Hazelwood Post Offices to develop and implement a plan to correct the deficiencies found during the audit. Management completed corrective actions for all deficiencies identified in Appendix B as of November 30, 2009. See Appendix F for management's comments, in their entirety.

Although management agreed in principle with the recommendations in our report, they disagreed with the non-monetary impact related to unrecorded money orders and excess stamp stock. Specifically, management agreed the money orders in question were unrecorded or not destroyed and the excess stock we identified at the units did exist, but they asserted that these non-monetary accountable items were not at risk because they were adequately secured at the units.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations, and their corrective actions should resolve the issues identified in the report. Although we agree the unrecorded money orders and excess stamp stock were secured, unrecorded money orders are considered to be at risk because they could be stolen or lost without detection. Additionally, maintaining excess stamp stock at the retail units places these accountable items at an unnecessary risk.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John Wiethop, director, Field Financial Central, or me at (703) 248-2100.



John E. Cihota
Deputy Assistant Inspector General
  for Financial Accountability

Attachment

cc: Joseph Corbett
Vincent H. DeVito, Jr.
Steven Phelps
Chris R. Oronzio
Danita M. Aquiningoc
Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

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

The Gateway District is in the Great Lakes Area and includes 294 post offices with Point-of-Service (POS) systems and Integrated Retail Terminal reporting technology. The district reported approximately $200 million of revenue in FY 2009, $10 million of which was reported by the five units we audited.[6] We chose the Gateway District because we identified internal control issues over stamp, cash, and money order accountabilities at the sites[7] we previously audited in the district in FY 2009.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether internal controls over stamp, cash, and money order accountabilities; financial differences; employee items; and disbursements at the selected sites were in place and effective.

To accomplish our objective, we audited the following five judgmentally selected units in the Gateway District. We selected the sites based on high stamp stock levels, financial differences, employee items, and disbursements.

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

We selected the five post offices and stations because risk indicators in our model suggested these units were at higher financial risk than other units within the Gateway District. We performed accountability and cash verifications and evaluated whether the internal control structure over safeguarding of assets was implemented and functioning as designed at all five sites. Additionally, we reviewed all transactions generated for the 12-month period from July 2008 through June 2009 related to financial differences at four sites[8] and employee items at one site.[9] We also judgmentally selected and

---

[6] Data obtained through the Standard Accounting for Retail for FY 2009.
[7] During FY 2009, we issued reports for audits conducted within the Gateway District at the [redacted].
[8] Based on our analysis of data in our PARIS model, we reviewed miscellaneous expenses at the [redacted]
[9] Based on our analysis of data in our PARIS model, we only reviewed employee items at [redacted]

reviewed 30 disbursements generated for the June 1, 2008, through June 30, 2009, reporting period for three[10] of the five sites.

We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed supervisors and employees and observed operations at these judgmentally selected Postal Service sites. We also interviewed the district finance manager to determine what procedures the district has in place to monitor financial control activities at the units.

We conducted this performance audit from July through December 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 officials on October 27, 2009, and included their comments where appropriate. We did not rely on computer-generated data to support our findings.

PRIOR AUDIT COVERAGE

The OIG has not conducted financial installation audits of the five units we reviewed in the past 3 years. However, we issued three financial installation and two performance audit reports for units in the Gateway District during FY 2009. The reports identified internal control and compliance issues over cash, money order, and stamp accountability; financial differences; employee items; and disbursements. The reports made recommendations to address these issues, and management agreed to take corrective action.

[10] Based on our analysis of data in our PARIS model, we reviewed disbursements at the [redacted]

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Financial Installation Audit [redacted]	FF-AR-09-209	8/13/2009	$66,446	This report disclosed 14 internal control weakness and compliance issues related to stamp, cash, and money order accountabilities; financial accounting and reporting; payroll; and payments.
Financial Installation Audit - [redacted]	FF-AR-09-186	6/19/2009	$0	This report disclosed six internal control and compliance issues related to stamp and cash accountabilities, inactive accounts, and financial differences.
Financial Installation Audit [redacted]	FF-AR-09-116	3/16/2009	$0	This report disclosed eight internal control and compliance issues related to accountability procedures, POS system access, safeguarding of Postal Service assets, resolving financial differences, bank preparation and closeout procedures, and Voyager card purchases.
[redacted]	FF-AR-09-040	12/11/2008	$8,098	This report disclosed 17 internal control weakness and compliance issues related to accountability procedures, employee items, SmartPay purchase cards, and APC procedures.
[redacted]	FF-AR-09-027	11/28/2008	$0	This report disclosed six internal control weakness and compliance issues related to accountability examinations, inactive cash retained credits, money orders, stamp stock levels, and vending stock disposition.

APPENDIX B: DETAILED ANALYSIS

Monitoring of Internal Controls Needs Improvement

We found financial internal control weaknesses over stamp, money order, and cash accountability at all five units; financial differences at four units; disbursements at three units; and employee items at one unit we visited. We attribute these deficiencies to an insufficient monitoring program that is supposed to identify high-risk units that are not complying with financial control activities. Although district management implemented a program which included reviewing reports to identify high-risk offices, district management did not hold unit managers accountable for implementing and documenting corrective action taken to address these risks. When management does not take corrective action to address identified financial control deficiencies, the Postal Service is at an increased risk of losing cash, accountable items, and revenue without detection; and misstating financial records.

Stamps, Money Orders, and Cash Accountability

Management at all five units did not adhere to controls and procedures over stamps, money orders, and cash accountability. Specifically:

- Management at four units maintained excess retail floor stock totaling $190,301 and ranging from 137 to 358 percent above authorized levels.[11] In addition, two of the units maintained excess unit stamp stock totaling $209,357 and ranging from 53 to 98 percent above authorized levels.[12] Postal Service policy states that management must limit the retail floor stock to a 2-week level as determined by stamp sales for the same period last year (SPLY).[13] Further, the policy states the unit stamp stock level must not exceed the average total sales reported in Account Identifier Code 852, Total Sales, for the SPLY.

- Management at two sites did not secure the unit cash reserve.[14] At both sites, we found the unit cash reserve maintained in an unlocked compartment within a safe, accessible to all retail associates (RA). At one of these units, management did not assign the cash reserve to an individual. Postal Service policy states that units are to assign the unit cash reserve to an individual who is directly accountable and are not to mix the cash reserve with other accountable credits.[15]

- Two units did not record 2,700 domestic and 38 international money orders valued at $1,095,200[16] in the POS system. In addition, management at three other units

[11] The combined authorized levels of retail floor stock for the four units at the time of our audits were $72,244.
[12] The combined authorized levels of the unit stamp stock for the two sites at the time of our audits were $329,811.
[13] Handbook F-101, *Field Accounting Procedures* (FAP), Section 14-2.3, July 2009.
[14] Management may establish a unit cash reserve to provide associates a resource for exchanging large bills for rolled coins and smaller denomination currency.
[15] FAP, Section 13-8.1.
[16] For reporting purposes, the OIG values blank money orders at $400 each.

maintained a total of 1,142 obsolete money orders valued at $456,800 that were not recorded in the POS system. Further, we could not locate 26[17] money orders valued at $10,400 that were recorded in the POS system at two units. Postal Service policy requires management to maintain an accurate inventory of all accountable paper within the retail unit. Further, the policy requires unit management to destroy all obsolete money orders locally.[18]

- Unit management at the [redacted] did not close one inactive RA credit.[19] Further, the unit supervisor could not find the funds or stock associated with this credit and was not aware of its existence in the financial records. Postal Service policy requires management to cancel unused credits at least once a month.[20]

- Management at all five units did not conduct, witness, and properly document accountability examinations at the proper frequencies. For example, management at the [redacted] did not conduct monthly counts of the unit cash reserve from February through July 2009. In addition, management did not witness 24 out of 31 cash retained credit examinations conducted between April and August 2009 at the [redacted] Postal Service policy gives specific instructions for accountability examinations and provides specific timeframes and procedures for conducting, documenting, and witnessing counts.[21]

- Management did not properly secure Automated Postal Center (APC) repository stock inventory at the [redacted]. Management maintained the APC stock with the retail floor stock, and it was accessible to all RAs working at the unit. Management is required to provide APC stock with the same level of security, protection, and performance as stock assigned to an individual.[22]

These internal control deficiencies may have contributed to the $7,380 in stamp stock shortages that we identified at three of the units. See Appendix C for a summary of accountability examinations by unit. See Appendix D for the monetary impact associated with the unit stock shortages; and Appendix E for the non-monetary impact associated with excess stock, unsecured APC stock, and unrecorded money orders.

[17] We determined that one of the money orders was cashed for $30 in February 2003. The other 25 money orders were not cashed as of October 1, 2009.
[18] FAP, Section 10-5.1c and 11-3.1.
[19] Retail associate credits are funds management assigns to unit employees in order to conduct daily transactions with customers at the retail window.
[20] FAP, Section 13-9.3.
[21] FAP, Sections 13-1.3, 13-4, 13-9.1, 13-9.3, 13-9.5.
[22] Handbook PO 106, *Automated Postal Center Program,* Section 542.1, November 2007.

Financial Differences

We examined financial differences at four[23] of the five units and determined that management did not always adhere to established procedures. Specifically, the four units did not research and resolve financial differences totaling $149,586. For example, management at the [redacted] did not resolve 22 financial differences totaling $108,019 that occurred from July 2008 through June 2009. Unit management is required to research and resolve financial differences and maintain a system-generated record or log.[24] See Appendix D for the monetary impact associated with this issue.

Employee Items

We reviewed employee items at [redacted] and found management did not clear one item totaling $1,884. This item was created in February 2009 for a unit reserve shortage. According to Postal Service policy, unit managers are required to monitor outstanding employee items and immediately issue the employee a letter-of-demand.[25] See Appendix D for the monetary impact associated with this issue.

Disbursements

We examined disbursement controls at three[26] of the five sites and determined that management did not always adhere to established procedures. Specifically, we reviewed a sample of 107 transactions valued at $98,323 and found that unit management did not maintain sufficient supporting documentation for 72 refunds valued at $4,561. In addition, management could not provide any supporting documentation for an additional 26 refund and expense disbursements valued at $7,257. Units are required to complete, certify, and witness 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.[27] In addition, all local disbursements must be supported, verified, and approved.[28] See Appendix D for the monetary impact associated with these issues.

See the next page for a summary of the control deficiencies and specific actions required.

---

[23] Based on our analysis of data in our PARIS model, we reviewed financial differences at the [redacted].
[24] FAP, Section 8-6.
[25] FAP, Section 2-4.
[26] Based on our analysis of data in our PARIS model, we reviewed disbursements at the [redacted], [redacted].
[27] FAP, Section 21.1.
[28] FAP, Sections 5-4.2 and 19-1.5.

This table presents the internal control deficiencies identified at the five sites judgmentally selected for audit.

Internal Control Not Implemented	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Number of units	Specific Actions Required
Stamp, Cash, and Money Order Accountability							
1. Maintain retail floor stock within the authorized limit.	X	X	X	X		4	Reduce retail floor stock to the limit established by Postal Service policy.
2. Maintain total stamp stock level within authorized limits.		X		X		2	Reduce total stamp stock to the limit established by Postal Service policy.
3. Secure unit cash reserve.		X	X			2	Properly secure the unit cash reserve in accordance with Postal Service policy.
4. Destroy obsolete money orders.		X	X		X	3	Destroy money orders or return money orders to [redacted] as appropriate.
5. Record money orders into the POS system.	X			X		2	Record money orders in the POS system or return money orders to the [redacted], as appropriate.
6. Investigate missing money orders.	X				X	2	Investigate and report missing money orders and update the POS system.
7. Close inactive retail associate credit.		X				1	Close inactive accountability credits and update financial records.
8. Conduct, witness, and properly document accountability examinations at the proper frequencies.	X	X	X	X	X	5	Perform accountability examinations at the proper frequencies, as required.
9. Secure APC repository stock inventory.		X				1	Properly secure APC repository stock in accordance with Postal Service policy.

Internal Control Not Implemented[29]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Number of units	Specific Actions Required
Financial Differences							
10. Monitor and resolve expense items resulting from financial differences.	X	X	X	X		4	Research and resolve all outstanding financial differences in accordance with Postal Service policy.
Employee Items							
11. Clear and initiate collection procedures for unresolved employee items.			X			1	Research and resolve outstanding employee items in accordance with Postal Service policy.
Disbursements							
12. Follow proper disbursement procedures and maintain proper supporting documentation.		X		X	X	3	Complete, review, and retain support documentation for disbursements.

[29] Shaded boxes represent controls we did not review for the unit based on our analysis of data in our PARIS models.

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]		[redacted]		Total Value of All	
	Shortage	Overage	Shortage	Overage	Shortage	Overage	Shortage	Overage	Shortage	Overage	Shortage	Overage
Unit Reserve Stock	-	$2,558	$37	-	-	$127	$1,431	-	$2,249	-	$3,717	$2,685
Unit Cash Reserve	-	-	-	-	-	-	-	-	-	-	-	-
Retail Floor Stock	-	$3,676	$3,663	-	-	$1,818	-	$685	-	$3,818	$3,663	$9,997

APPENDIX D: MONETARY IMPACT SUMMARY

This table presents the monetary impact identified at the five sites judgmentally selected for audit, rounded to the nearest dollar.

Reference (Appendix B)	Finding Description	Questioned Costs: Supported Recoverable[30]	Questioned Costs: Unsupported Unrecoverable[31]
[redacted]			
10	Unresolved financial differences (net shortage)		$108,019
[redacted]			
Appendix C	Retail floor stock shortage		3,663
12	Unsupported or improperly supported refunds		8,523
10	Unresolved financial differences (net shortage)		2,148
[redacted]			
10	Unresolved financial differences (net shortage)		1,119
11	Unresolved employee items	$1,884	
[redacted]			
Appendix C	Unit reserve stock shortage	1,431	
12	Unsupported or improperly supported refunds		221
10	Unresolved financial differences (net shortage)		38,301
[redacted]			
Appendix C	Unit reserve stock shortage	2,249	
12	Unsupported or improperly supported refunds		3,074
	Total $170,631	**$5,563**	**$165,068**

[30] Recoverable costs that are unnecessary, unreasonable or an alleged violation of laws or regulations.
[31] Unrecoverable costs that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

APPENDIX E: 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 (Appendix B)	Finding Description	Assets at Risk[32]	Accountable Items at Risk[33]
[redacted]			
1	Excess retail floor stock		$21,016
5 and 6	Unrecorded or missing money orders		134,000
[redacted]			
2	Excess total unit stock		134,637
3	Unsecured unit cash reserve	$150	
4	Obsolete money orders not destroyed		320,000
7	Inactive retail associate credit	112	
9	Unsecured APC repository stock		58,646
[redacted]			
1	Excess retail floor stock		28,923
3	Unsecured unit cash reserve	150	
4	Obsolete money orders not destroyed		80,000
[redacted]			
2	Excess total unit stock		74,720
5	Unrecorded money orders		969,600
[redacted]			
4	Obsolete money orders not destroyed		56,800
6	Missing money orders		2,000
	Total $1,880,754	**$412**	**$1,880,342**

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

APPENDIX F: MANAGEMENT'S COMMENTS

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

UNITED STATES POSTAL SERVICE

December 8, 2009

LUCINE M. WILLIS, DIRECTOR , AUDIT OPERATIONS
1735 N. LYNN ST.
ARLINGTON, VA 22209-2020

SUBJECT: Draft Audit Report – Gateway District Financial Accountability Risk Audit (Report Number FF-AR-10-Draft)

Thank you for the opportunity to review and respond to the subject audit report. The audit report contained three recommendations that we are addressing in this reponse letter. Although we agree in principle with the recommendations made, we disagree with the non-monetary impact as summarized in Appendix E. The money orders identified as unrecorded or not destroyed were not discovered to be unsecured. These money orders were adequately secured and we do not consider them to be at risk. While we do not condone stations having excess unit stock, we also feel that because the stock was adequately secured at each of the locations, there was no risk of loss.

We will address the recommendations individually.

We recommend the Vice President, Great Lakes Area Operations, direct the District Manager, Gateway District, to:

Recommendation 1.

Expand the district's monitoring of unit financial control activities to include a tracking mechanism documenting the corrective action taken for units that are not in compliance.

We agree with the intent of this recommendation. With the change in the structure of the Financial Control & Support (FCS) group, the monitoring of financial control for Postal Retail Units (PRU) will be assumed by the Area Accounting team. Part of the remediation duties will be to track the actions taken to correct financial discrepancies. This will be in place by June, 2010.

244 KNOLLWOOD DRIVE FLOOR 4
BLOOMINGDALE, IL 60117-1000
630/539-5858
FAX: 630/539-7171

Recommendation 2.

Hold unit managers accountable for improving financial operations to address identified financial risks.

We agree with this recommendation. The Area will recommend that the District Manager, Gateway assign the District Finance Manager to work with the Area Accounting Manager to develop an escalation process as part of the remediation process after Area Accounting assumes the remediation duties as a result of the finance restructure. The escalation process will be in place by June 2010.

Recommendation 3.

Develop and implement an action plan with milestones to address the internal control deficiencies identified in Appendix B of this report.

We agree with this recommendation. The District Finance Manager has assigned the current FC&S Manager to work with the designated representatives from the St. Louis Post Office and Hazelwood Post Office to develop and implement a plan to correct the deficiencies found during the audit as detailed in Appendix B. This process has taken place and all deficiencies have been corrected as of November 30, 2009.

The report was reviewed for FOIA concerns and we do not perceive any issues.

Jo Ann Feindt