



January 19, 2010

JERRY D. LANE
VICE PRESIDENT, CAPITAL METRO AREA OPERATIONS

SUBJECT: Audit Report – Capital District Financial Risk Audit
(Report Number FF-AR-10-075)

This report presents the results of our audit of high-risk financial transactions in the Capital District (Project Number 09BD021FF000). The objectives of our audit were to determine whether high-risk transactions such as refunds, local disbursements, miscellaneous expenses, and employee items were supported and made in accordance with U.S. Postal Service policies; and whether cash and stamp accountability were within authorized limits. The audit was self-initiated and addresses financial risk based on factors evaluated by the 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

Based on items we reviewed, high-risk financial transactions such as refunds, miscellaneous expenses, and employee items were not always supported and made in accordance with policies. In addition, cash and stamp accountabilities were not within authorized limits. Also, money orders, contract postal unit (CPU), and master trust accounts were not always managed in accordance with policy. We identified similar issues at four randomly selected Capital District sites audited in support of the opinion on the U.S. Postal Service's financial statements during the past 3 years. An April 2008 Financial Control and Support (FCS) review at one unit identified issues with financial differences, employee items, and cash retained,¹ which we also identified in this report.

Policies Were Not Followed For High-Risk Financial Transactions, Cash, Stamp, and Money Order Accountabilities, CPU, and Master Trust Accounts

We found high-risk transactions such as refunds, miscellaneous expenses, and employee items were not always supported and made in accordance with policy.² Specifically, we found units did not always:

- Properly process refunds or complete Postal Service (PS) Form 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts,

¹ Cash retained includes cash retained by retail associates and the custodian of the unit cash reserve.

² Key controls consistent with the criteria developed for evaluating Sarbanes-Oxley Act of 2002 compliance include authorization of disbursements; reconciling financial differences; monitoring trust and suspense items pertaining to employees; oversight of CPUs ; and reconciling master trust account balances. Another control is assessing cash, stamp, and money order accountabilities.

or certify PS Forms 3533 for the destruction of postage affixed to business reply mail (BRM) or meter stamps to prevent reuse.

- Consistently monitor and resolve financial differences in miscellaneous expenses.
- Monitor and clear employee items.

We also found that units did not properly manage cash, stamp, and money order accountabilities or customer accounts. Specifically, units did not always:

- Maintain cash retained and total office and retail floor stamp stock accountabilities within the authorized limits.
- Account for money orders.
- Obtain PS Forms 1412, Daily Financial Report, from one CPU.
- Reconcile master trust accounts.

See [Appendix B](#) for our detailed analysis of the findings. [Appendix C](#) presents a summary of the accountability examinations.

District officials stated that the root cause of these issues was management instability resulting from detailing untrained employees to supervisory positions in the units and the difficulty in filling the positions with willing and qualified personnel. We believe that these conditions are also attributable to insufficient management oversight of financial operations by postmasters, station managers, and managers of post office (PO) operations.

The issues identified could indicate similar situations at other units within the Capital District based on prior audit results. Specifically, we reported similar issues in audits we conducted in fiscal year (FY) 2009 at two units.³ In addition, at three other units audited during the last 3 years, we reported several similar internal control issues.⁴ As a result, there is increased risk that financial records could be misstated; or cash, accountable items, and other sensitive items could be lost or stolen without detection. We identified \$20,434 in monetary and \$602,795 in non-monetary impacts. See [Appendix D](#) for details of the monetary and non-monetary impacts.

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We recommend the vice president, Capital Metro Area Operations, direct the manager, Capital District, to:

1. Provide financial training to supervisory employees within 1 year of assignment in Post Offices.
2. Establish a system to monitor compliance with financial procedures by the units' management and enforce accountability.
3. Reinforce financial accountability oversight responsibility of postmasters and district post office operations management.
4. Develop and implement an action plan with milestones to address the internal control deficiencies identified in [Appendix B](#) of this report.

Management's Comments

Management agreed with our findings and recommendations. The Capital District started financial training for all supervisory personnel and plans to complete the training by the end of Quarter 2, FY 2010. In addition, the district finance office established a system to monitor compliance with financial procedures by unit management. This includes providing weekly reports to units, reviewing supporting documents, training postmasters to use the Enterprise Data Warehouse (EDW), following up on outstanding items, and daily teleconferencing on the status of stamp stock. Further, the district manager now reinforces financial accountability oversight responsibility during daily teleconferences with his leadership team. The daily teleconferences include discussions of key control deficiencies and units not in compliance. Finally, the district completed corrective action for all deficiencies identified in [Appendix B](#) as of December 28, 2009. As mandated by the Capital Metro Area, the district finance office will conduct a follow-up review at the units in 90 days. See [Appendix E](#) for management's comments in their entirety.

Excess Stamp Stock at [REDACTED] Window Carries Increased Risk

We found that the [REDACTED] acted as a receiving unit for excess stamp stock transferred from other units in Washington, DC. This condition occurred after the district, with the concurrence of area office, [REDACTED] to designate this unit as a receiving unit. [REDACTED] this condition occurred because the stamp services center (SSC)⁵ that services four districts in the metropolitan Washington, DC, area did not accept saleable stamps. As a result, the high level of excess stamp stock at the receiving unit carries increased risk of loss or misappropriation of accountable items. We identified \$1,120,841 of non-monetary impact.

⁵ SSC is a postal center that supplies stamps and money order stock to postal retail units (PRUs).

See [Appendix B](#) for our detailed analysis of the finding and [Appendix D](#) for non-monetary impact.

We recommend the vice president, Capital Metro Area Operations, direct the manager, Capital District, to:

5. Consult with applicable headquarters personnel to develop criteria for the stamp stock receiving units, including duration, limit, security, and accountability of stamp stock.
6. Reduce the stamp stock to authorized limits in all units.

Management's Comments

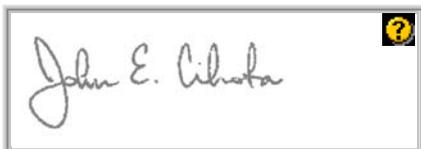
Management agreed with our finding and recommendations. Although Capital Metro Area management did not agree with the Capital District directly consulting with headquarters personnel, district management did consult with headquarters officials in Accounting Policy, Asset Management, and SSC in 2009 and will continue consulting with them.

The area implemented the Stamp Stock Reduction Plan in August 2009. The plan, which contains the criteria for stamp stock shipments, reduced stamp stock by approximately \$15 million, with the Capital District reducing stamp stock by \$5.6 million. In addition, the Postal Service designated the district as a stamp destruction site from November 2009 through February 2010 due to renovations in the SSC. As a result, the stamp stock at the Washington MOW has been reduced to the authorized limit as of December 28, 2009.

Evaluation of Management's Comments

The OIG considers management's comments responsive to all 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 John Wiethop, director, Field Financial - Central, 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

POs are the initial level where the Postal Service recognizes revenue from operations. 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 Capital District is in the Capital Metro Area and includes 223 PRUs with Point-of-Service (POS) system and Integrated Retail Terminal reporting technology. The district reported approximately \$672.4 million of revenue in FY 2008, \$2.9 million of which was reported by the three units we audited.⁶

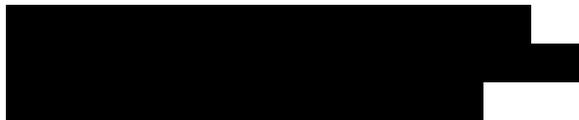
The OIG performs periodic financial risk assessments. Based on financial data in the EDW, the OIG developed a PARIS Cost and Controls Model that ranks the Postal Service's 74 districts with respect to specific financial risk indicators.⁷ We selected the Capital District because our model suggested the district was a high financial risk compared with other districts. In May 2009, data ranked the Capital District as the 12th highest risk district.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether:

- Judgmentally selected high-risk transactions such as refunds, local disbursements, miscellaneous expenses, and employee items were supported and made in accordance with Postal Service policies.
- Cash and stamp accountability were within authorized limits.

To accomplish our objectives, we audited the following three judgmentally selected units in the Capital District:



We selected these sites for audit based on risk indicators for refunds, local disbursements, miscellaneous expenses, employee items, and stamp stock levels. At each unit, we relied on data obtained from the Postal Service's EDW for the period

⁶ In FY 2009, the district reported approximately \$607.5 million of revenue, \$2.6 million of which was reported by the three units.

⁷ The risk indicators include the following: revenue, local expenses, refunds, miscellaneous expenses, non-local purchases, clerk cash, office cash, employee items, customer account management (master trust), segmented inventory accountability compliance, stamp stock management, and CPU management.

June 1, 2008, through May 31, 2009, and performed transaction tests for judgmentally selected refunds, local expenses/disbursements, miscellaneous expenses, employee items, cash and stamp accountability. We reviewed master trust at two of three sites.⁸ In addition, we reviewed a CPU at one of three units.⁹ 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. Further, we used Postal Service instructions, manuals, policies and procedures as criteria to evaluate internal controls and data reliability. We evaluated financial transactions for validity and propriety and the units' controls over safeguarding of assets. Finally, we interviewed district officials and managers, supervisors, and employees at the units and observed units' operations.

We conducted the performance audit from August 2009 through January 2010 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 on November 24, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG issued seven audit reports, including six financial audit reports, for the Capital District within the past 3 years.¹⁰

| Report Title | Report Number | Final Report Date | Monetary Impact | Non-Monetary Impact |
|---|---------------|-------------------|-----------------|---------------------|
| <i>Fiscal Year 2007 Financial Installation Audit - [REDACTED]</i> | FF-AR-07-091 | 2/12/2007 | \$0 | \$17,771 |
| <i>Fiscal Year 2007 Financial Installation Audit - [REDACTED]</i> | FF-AR-07-110 | 3/5/2007 | \$0 | \$250,312 |
| <i>Review of the Postal Services Refund Process - Capital Metro Area</i> | DR-AR-07-011 | 7/13/2007 | \$180,619 | \$531,784 |
| <i>Fiscal Year 2007 Financial Installation Audit - SmartPay Purchase Card Program for Local Buying (purchase card) - Capital District, Washington, DC</i> | FF-AR-07-251 | 9/27/2007 | \$93,938 | \$0 |

⁸ We reviewed master trust at the [REDACTED].

⁹ We reviewed a CPU hosted by the [REDACTED].

¹⁰ Four of these audits were financial installation audits at statistically selected sites conducted in support of the opinion on the financial statements; two were judgmentally selected.

| Report Title | Report Number | Final Report Date | Monetary Impact | Non-Monetary Impact |
|---|---------------|-------------------|-----------------|---------------------|
| <i>Fiscal Year 2008 Financial Installation Audit - [REDACTED]</i> | FF-AR-08-216 | 6/25/2008 | \$0 | \$27,255 |
| <i>Fiscal Year 2009 Financial Installation Audit - [REDACTED]</i> | FF-AR-09-185 | 6/18/2009 | \$8,557 | \$1,828,051 |
| <i>Fiscal Year 2009 Financial Installation Audit - [REDACTED]</i> | FF-AR-09-202 | 7/27/2009 | \$27,078 | \$0 |

The financial audit reports identified internal control and compliance issues related to cash and stamp stock accountability, money orders, financial accounting and reporting, and SmartPay® Card. The reports made recommendations to address these issues, and management concurred with the findings and agreed to take corrective actions. The performance report on the refund process in the Capital Metro Area¹¹ identified issues related to processing and recording refunds of stamps, fees, retail services, and Express Mail® Services. Management agreed with the findings and stated that corrective actions were initiated. This audit report identifies a repeat condition relating to incomplete PS Forms 3533.

¹¹ Capital District also was included in this audit.

APPENDIX B: DETAILED ANALYSIS

Policies Were Not Followed For High-Risk Financial Transactions, Cash, Stamp, and Money Order Accountabilities, CPU, and Master Trust Accounts

High Risk Financial Transactions

Based on items we reviewed, high-risk financial transactions such as refunds, miscellaneous expenses, and employee items were not always supported and made in accordance with policies.

Refunds

Refunds were not supported, processed, or certified adequately for destruction at the [REDACTED]. Postal Service policy requires units to complete, certify, and witness PS Form 3533 for all refunds, and to keep a copy of the form and supporting documentation on file.¹² The postmaster at the [REDACTED] and acting supervisor at [REDACTED] stated they relied on the closeout employee to verify all supporting documentation.

- [REDACTED] officials could not provide us with supporting documentation for seven refund transactions totaling \$171 of \$988 reviewed.
- The [REDACTED] did not always properly process refunds or complete PS Form 3533 for refund transactions. Specifically,
 - The unit paid for a \$2,200 refund of miscellaneous nonpostal revenue using a no-fee money order instead of processing it through the Scanning and Imaging Center (SIC).¹³ Additionally, the unit did not complete and approve the associated PS Form 3533. The refund was processed after a U.S. Postal Inspection Service investigation for lost money found in the mail that was claimed by a customer. Postal Service policy states employees must complete and certify PS Form 3533 for all refunds of miscellaneous nonpostal revenue. In addition, refunds for more than \$500 are to be sent to the SIC.¹⁴ Management stated the Postal Inspection Service instructed them to pay with no-fee money orders. A July 2007 audit of the refund process identified the same issue.
 - The unit did not certify 95 PS Forms 3533 totaling \$173,522 for the destruction of postage affixed to BRM or meter stamps to prevent reuse. Postal Service policy requires a supervisor and a witness to certify the destruction and sign in part 3 of PS Form 3533.¹⁵ The manager, Customer Service Operations,

¹² Handbook F-101 (F-101), *Field Accounting Procedures*, Sections 21-1 and 5-4.2.

¹³ Units send disbursement documents to a centralized postal center called the SIC. The SIC scans, indexes, and electronically transmits payment documents to the appropriate accounting services location for final processing.

¹⁴ F-101, Sections F-21-1.2 and 21-3.

¹⁵ F-101, Section 21-2.2.

stated she was unaware of the requirement to certify destruction of postage affixed BRM or meter stamps on PS Form 3533. When unit employees do not process refunds and disbursements in accordance with policy, the risk of loss of funds is increased.

Miscellaneous Expenses

All three units did not always follow procedures for financial differences. We found that the units did not consistently monitor and resolve financial differences totaling \$14,043 in Account Identifier Code (AIC) 247, Financial Differences Overage, and AIC 647, Financial Differences Shortage. Postal Service policy states unit management is required to research and resolve financial differences.¹⁶

- At the [REDACTED], unit management did not resolve 14 financial differences totaling \$2,778. The supervisor maintained a log of AICs 247/647 transactions; however, she did not resolve the differences. This condition was attributable to insufficient management oversight. An April 2008 FCS review identified the same issue.
- At the [REDACTED], management did not resolve 91 financial differences totaling \$5,308. In addition, the [REDACTED] that reports to the unit did not resolve financial differences for six transactions totaling \$5,356. The acting supervisor stated she took over financial differences after the former closeout employee retired in July 2009 and had not received formal training.
- Management at the [REDACTED] did not resolve eight financial differences totaling \$601. The postmaster stated that she did not fully understand the requirement to monitor and clear these items because she had no formal financial training.

Employee Items

Two units did not always follow procedures for employee items. The units did not monitor and clear employee items totaling \$717. Postal Service policy states at least once a month, the postmaster, manager, supervisor, or designated employee must reconcile employee items balances.¹⁷

- At [REDACTED] there were two employee items totaling \$604 that were not removed.¹⁸ One item of \$320 was for an employee salary advance, and another item for \$284 related to a stamp credit shortage. The supervisor stated she did not have time to clear outstanding employee items at this unit because

¹⁶ F-101, Sections 8-1.2 and 8-6.2.

¹⁷ F-101, Section 15-1.3.

¹⁸ We noted a unit reserve stock posting error on the Employee Items Report totaling \$86,272 at [REDACTED] prior to our audit. This posting error was resolved during the audit and was not reportable.

she assigned priority to her other units' outstanding items. An April 2008 FCS review identified the same issue.

- At the [REDACTED], the unit had five employee items related to employee cash shortages, totaling \$113, one of which originated in May 2005. The postmaster stated she did not know how to clear employee items.

Cash, Stamp, and Money Order Accountabilities and CPU

Management at all three units did not adhere to controls and procedures over cash and stamp accountability and money orders. Also, one unit did not follow prescribed procedures for the CPU. We found the following:

- Two units exceeded unit cash retained over the authorized limit by \$406.¹⁹ Postal Service policy states a PRU may increase the amount of the unit cash reserve by documenting any change from the existing cash reserve amount on the Cash Retained/Unit Cash List with justification to the district finance manager.²⁰
 - The [REDACTED] exceeded the limit by \$102. The supervisor stated she was unaware the unit had a cash retained limit or needed a limit authorization letter from the district. An April 2008 FCS review identified the same issue.
 - The [REDACTED] exceeded the limit by \$304. The postmaster stated she was unaware that the unit was over the limit and of the requirement to send a letter to the district requesting an increase in the limit.
- Two units exceeded total office stamp accountability over the authorized limit by \$1,416,752. According to policy, the stamp stock limit for a period is the total sales reported in AIC 852 from same period last year (SPLY).²¹
 - As of August 3, 2009, the [REDACTED] exceeded the limit by \$343,012.²² The excess stamp stock increased to \$1,120,841 as of September 27, 2009.²³ The manager, Customer Service Operations, stated this condition occurred due to the failure to order within thresholds, reduce automatic shipments, and redeem off-sale stamp stock for destruction quarterly.²⁴

¹⁹ Capital District authorized [REDACTED] and [REDACTED] to retain \$700.

²⁰ F-101, Section 13-8.1.2.

²¹ F-101, Section 11-3.4.

²² The [REDACTED] total office stock limit was \$97,614.

²³ This condition is discussed in detail in the second finding.

²⁴ Off-sale stamp stock is the items of stamps that are removed from saleable inventory as instructed by headquarters.

- The [REDACTED] exceeded the limit by \$295,911.²⁵ The postmaster stated this occurred due to her insufficient knowledge of the policy.
- The [REDACTED] exceeded retail floor stock by 23,092.²⁶ Postal Service policy states that management must limit the retail floor stock to a 2-week level as determined by stamp sales for the SPLY.²⁷ The postmaster was aware of the requirement and stated she wanted to provide sufficient stock to prevent making frequent trips to the unit to resupply stock.
- [REDACTED] had a shortage of \$3,943 in the unit reserve stamp accountability. Management stated that the shortage may have been due to posting errors from a prior count and did not initiate action to collect the shortage.
- The [REDACTED] did not account for all money orders. Specifically, we identified 332 money orders, valued at \$132,800, that were not entered into the POS system.²⁸ These money orders were found in a locked safe. Postal Service policy requires management to maintain an accurate inventory of all accountable paper within the retail unit.²⁹ The postmaster stated she was unaware of the existence of the money orders because they were hidden under paperwork.
- The [REDACTED] did not obtain and review daily PS Forms 1412 from the [REDACTED] for which it monitors. This condition occurred due to insufficient management oversight. Postal Service policy requires CPUs to submit daily PS Forms 1412 with the required supporting documents to the host PO. Policy also requires the host PO postmaster or designated employee to coordinate with CPU personnel to ensure the daily receipt of a PS Form 1412. Further, policy also requires that the PS Form 1412 be verified.³⁰

Master Trust Accounts

Management at two units did not always reconcile master trust accounts, leading to out-of-balance conditions totaling \$1,716. Postal Service policy requires unit managers review and reconcile customer trust accounts monthly.³¹

- The [REDACTED] postmaster stated she was unaware that a negative \$156 balance existed, because she thought the unit did not have any trust accounts. We believe this condition occurred due to insufficient management oversight at the unit level.
- The [REDACTED] acting supervisor and manager, Customer Service Operations, stated they were unaware that a negative \$1,560 balance existed,

²⁵ The [REDACTED] total office stock limit was \$57,761.

²⁶ The [REDACTED] retail floor stock limit was \$9,625.

²⁷ F-101, Section 13-8.1.

²⁸ For reporting purposes, the money orders were valued at \$400 each.

²⁹ F-101, Section 11-3.1.

³⁰ F-101, Section 5-7.2.

³¹ F-101, Section 2-4.3.

because they thought the unit did not have any trust accounts. We noted this issue started in November 2007 and believe this also occurred due to insufficient management oversight at the unit level. During our audit, the unit resolved the issue with the district finance office.

See [Table A](#) for a summary of findings by unit.

Excess Stamp Stock at [REDACTED] Carries Increased Risk

The district, with the concurrence of the area office, allowed [REDACTED], [REDACTED] to designate two PRUs as receiving units of excess stamp stock transferred from other units in Washington, DC. The [REDACTED] was designated as one of the receiving units. We identified stock transfers from 10 units between March 16 and August 1, 2009, totaling \$617,865 to the [REDACTED].³² As a result, on August 3, 2009, the [REDACTED] exceeded its authorized stamp stock limit by \$343,012.

According to policy, the stamp stock limit for a period is the total sales reported in AIC 852, Total Stamp Accountability Sales, from the SPLY.³³ We did not review the amount of excess stamp stock that was transferred to [REDACTED], the other receiving unit. The district finance manager stated this condition occurred because the SSC that services four districts in the metropolitan Washington, DC, area did not accept saleable stamps. The area accounting manager stated that all four local districts in the area had excess stamp stock. She also stated that this issue was unique to these districts and brought to the attention of appropriate officials in headquarters. As a result, the high level of excess stamp stock at the designated receiving units carries increased risk of loss or misappropriation of accountable items. The following table identifies the magnitude of excess stamp stock maintained.

| Name of Stamp Stock Receiving Units | Excess Stamp Stock Per the Enterprise Data Warehouse | |
|-------------------------------------|--|--------------------|
| | August 3, 2009 | September 27, 2009 |
| [REDACTED] | \$343,012 | \$1,120,841 |
| [REDACTED] ³⁴ | 1,023,887 | 0 |
| Total | \$1,366,899 | \$1,120,841 |

In September 2009, [REDACTED] transferred its excess stamp stock to the [REDACTED]. As of September 27, 2009, [REDACTED] excess stamp stock increased to \$1,120,841. The area finance manager stated this was a temporary condition that enabled the district to minimize risk. He also stated that the SSC would begin accepting saleable stamp stock from units in early calendar year 2010.

³² The units transferred saleable stock to [REDACTED] to reduce total office accountability.

³³ F-101, Section 11-3.4, July 2009.

³⁴ We did not audit the [REDACTED]. However, we obtained this information from district management and from information contained in the EDW.

See [Table A](#) on the following page for the summary of the finding.

TABLE A: SUMMARY OF AUDIT FINDINGS

This table presents the issues identified at the three sites judgmentally selected for audit.

| Internal Control Not Implemented | |  |  |  | Number of units | Specific Actions Required |
|--------------------------------------|---|---|--|---|-----------------|--|
| Refunds | | | | | | |
| 1 | Maintain proper supporting documentation. | | | X | 1 | Maintain documentation for refunds. |
| 2 | Follow the procedures pertaining to miscellaneous nonpostal revenue refunds. | X | | | 1 | Follow proper procedure for nonpostal revenue refunds in accordance with Postal Service policy. |
| 3 | Certify destruction of postage affixed on BRM pieces or metered stamps on PS Form 3533. | X | | | 1 | Certify PS Form 3533 in accordance with Postal Service policy. |
| Miscellaneous Expenses | | | | | | |
| 4 | Consistently monitor and resolve financial differences. | X | X | X | 3 | Research and resolve all outstanding financial differences in accordance with Postal Service policy. |
| Employee Items | | | | | | |
| 5 | Monitor and clear employee items. | | X | X | 2 | Research and resolve outstanding employee items in accordance with Postal Service policy. |
| Cash and Stamp Accountability | | | | | | |
| 6 | Adhere to the authorized cash retained limit. | | X | X | 2 | Reduce the cash retained to the limit established by Postal Service policy. |
| 7 | Adhere to total office stamp stock limit. | X | | X | 2 | Reduce the total stamp stock to the limit established by Postal Service policy. |
| 8 | Maintain retail floor stamp stock within limits. | | | X | 1 | Reduce retail floor stock to the limit established by Postal Service policy. |
| 9 | Account for money orders in POS. | | | X | 1 | Account for all money orders, as required. |
| 10 | Obtain PS Forms 1412 from CPU. | X | | | 1 | Obtain and review the PS Forms 1412 as required. |
| Master Trust Accounts | | | | | | |
| 11 | Reconcile the Accounting Data Mart master trust account balances. | X | | X | 2 | Research and reconcile the Accounting Data Mart master trust account balances, as required. |

APPENDIX C: ACCOUNTABILITY EXAMINATION SUMMARY

| Accountability | ██████████ | | ██████████ | | ██████████ | |
|---------------------|------------|----------|------------|----------|------------|----------|
| | Shortages | Overages | Shortages | Overages | Shortages | Overages |
| Unit Reserve Stock | \$0 | \$3,789 | \$3,943 | \$0 | \$0 | \$24,386 |
| Unit Cash Reserve | 0 | 0 | 9 | 0 | 0 | 0 |
| Total Per Unit | \$0 | \$3,789 | \$3,952 | \$0 | \$0 | \$24,386 |
| Total For All Units | Shortages | | | Overages | | |
| | \$3,952 | | | \$28,175 | | |

APPENDIX D: SUMMARY OF MONETARY AND NON-MONETARY IMPACTS**Monetary Impacts**

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

| Finding No. in Table A | Finding Description | Questioned Costs | |
|---------------------------|---|-------------------------------------|---|
| | | Supported Recoverable ³⁵ | Unsupported Unrecoverable ³⁶ |
| | | | |
| 4 | Unresolved financial differences | \$0 | \$10,664 |
| 11 | Negative trust account balances not monitored | 0 | 1,560 |
| | | | |
| Appendix C | Unit reserve stock shortage | 3,943 | 0 |
| 4 | Unresolved financial differences | 0 | 2,778 |
| 5 | Unmonitored employee items | 604 | 0 |
| | | | |
| 1 | Unsupported refunds | 0 | 171 |
| 4 | Unresolved financial differences | 0 | 601 |
| 5 | Unmonitored employee items | 113 | 0 |
| Subtotals | | \$4,660 | \$15,774 |
| Total | | \$20,434 | |

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

³⁶ Costs that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

Non-Monetary Impacts

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

By Unit

| Finding No. in Table A | Finding Description | Safeguarding Assets ³⁷ | |
|---------------------------|--|-----------------------------------|---------------------------|
| | | Assets at Risk | Accountable Items at Risk |
| [REDACTED] | | | |
| 3 | Did not certify destruction of postage affixed on BRM pieces or metered stamps | \$173,522 | \$0 |
| 7 | Excess stamp stock | 0 | 1,120,841 |
| [REDACTED] | | | |
| 6 | Unit cash retained exceeded authorized limit | 102 | 0 |
| [REDACTED] | | | |
| 6 | Unit cash retained exceeded authorized limit | 304 | 0 |
| 7 | Excess stamp stock | 0 | 295,911 |
| 9 | Unaccounted money orders | 0 | 132,800 |
| 11 | Trust account balances not reconciled | 156 | 0 |
| Subtotals | | \$174,084 | \$1,549,552 |
| Total | | \$1,723,636 | |

By Finding

| Safeguarding Assets | |
|---------------------|--------------------|
| Finding 1 (Page 2) | \$602,795 |
| Finding 2 (Page 3) | 1,120,841 |
| Total | \$1,723,636 |

³⁷ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

APPENDIX E: MANAGEMENT'S COMMENTS

VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS



January 7, 2010

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

Subject: Transmittal of Draft Audit Report Response – Capital District
Financial Risk Audit (Report Number FF-AR-10-DRAFT, Project number 09BD021FF000)

The Capital Metro Area has reviewed the subject Draft Audit Report (Report Number FF-AR-10-DRAFT, Project number 09BD021FF000) and is in agreement with the findings and recommendations. Additionally, we agree with all monetary calculations and all non-monetary calculations and have no Freedom of Information Act (FOIA) issues related to this audit.

Recommendation No. 1:

We recommend the Vice President, Capital Metro Area Operations, direct the District Manager, Capital District to:

1. Provide financial training to supervisory employees within one year of assignment in Post Offices.

Response No. 1:

The Capital Metro Area agrees with this recommendation and has instructed the District Manager to respond with an action plan addressing the noted deficiencies - See Attachment 1. The District Manager has submitted the action plan to me - See Attachment 2, Response 1. Milestones for training to address financial deficiencies are indicated in the district plan in Attachment 2, Response 1.

Recommendation #2:

We recommend the Vice President, Capital Metro Area Operations, direct the District Manager, Capital District to:

2. Establish a system to monitor compliance with financial procedures by the units' management and enforce accountability.

Response No. 2:

The Capital Metro Area agrees with this recommendation and has instructed the District Manager to respond with an action plan to include expanding their current monitoring activities - See Attachment 1. The District Office has implemented a system for monitoring compliance and enforcing accountability as indicated in Attachment 2, Response 2; 1 through 11 of their action plan.

Recommendation #3:

We recommend the Vice President, Capital Metro Area Operations, direct the District Manager, Capital District to:

3. Reinforce financial accountability oversight responsibility of postmasters and district post office operations management.

Response No. 3:

The Capital Metro Area agrees with this recommendation and has instructed the District Manager to respond with an action plan to reinforce to oversee the financial accountability of postmasters and district post office operations management - See Attachment 1. The District Manager has implemented daily

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telecons with district leadership as an oversight measure to ensure financial accountability and compliance as indicated in Attachment 2, Response 3.

Recommendation #4:

We recommend the Vice President, Capital Metro Area Operations, direct the District Manager, Capital District to:

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

Response No 4:

The Capital Metro Area agrees with this recommendation and has instructed the District Manager to respond with an action plan to address the internal control deficiencies identified in Appendix B - See Attachment 1. Milestones for financial accountability have been implemented in their action plan as indicated in Attachment 2, Response 4.

Recommendation #5:

We recommend the Vice President, Capital Metro Area Operations, direct the District Manager, Capital District to:

5. Consult with applicable headquarters personnel to develop criteria for the stamp stock receiving units, including duration, limit, security, and accountability of stamp stock.

Response No 5:

We do not agree that Capital District directly consult with Headquarters personnel for reasons states in Recommendation 5; however, Capital Metro Area Office has over the past year consulted with Headquarters Accounting Policy, Headquarters Asset Management Team, as well as, Headquarters Stamp Services Center (Dulles), and will continue to do so as 95 percent of stock limit accountability and security issues are in four districts (Capital, NOVA, Baltimore, and Richmond) under the Dulles Stamp Services Center.

Recommendation #6:

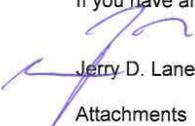
We recommend the Vice President, Capital Metro Area Operations, direct the District Manager, Capital District to:

6. Reduce the stamp stock to authorized limits in all units.

Response No 6:

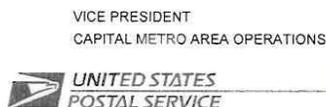
The Capital Metro Area agrees with this recommendation. Since Capital Metro Area implemented the Stamp Stock Reduction Plan area-wide in mid August 2009, the Area has reduced stock by \$15,065,954, with Capital District reducing stock by \$5,645,622 – See Attachment 3.

If you have any questions regarding this matter, please feel free to contact Kit Allshouse at 301 548-1457.


Jerry D. Lane

Attachments

cc: Bill Harris
Acting Manager, Corporate Audit and Response Management
CARMManager@USPS.GOV
audittracking@uspsaig.gov





Attachment 1

December 21, 2009

HENRY L. DIX

SUBJECT: Transmittal of Draft Audit Report Response – Capital District
Financial Risk Audit (Report Number FF-AR-10-DRAFT, Project number 09BD021FF000)

This is in reference to the OIG Financial Risk Audit findings dated December 16, 2009, for the Capital District.

Please establish and provide me with your action plan to correct the noted deficiencies to include:

- Provide financial training to supervisory employees within one year of assignment in Post Offices.
- Establish a system to monitor compliance with financial procedures by the units' management and enforce accountability.
- Reinforce financial accountability oversight responsibility of postmasters and district post office operations management.
- Develop and implement an action plan with milestones to address the internal control deficiencies identified in Appendix B on this report.

Please submit your response to me and Agnes Nixon no later than Monday, December 28, 2009.


Jerry D. Lane

Attachment

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Attachment 2



| VICE PRESIDENT 12/28/09 | | |
|-------------------------------|--------|------|
| CAPITAL METRO AREA OPERATIONS | | |
| | ACTION | INFO |
| OPERATIONS SUPPORT | | |
| DELIVERY | | |
| IN-PLANT SUPPORT | | |
| MAINTENANCE | | |
| DND | | |
| HUMAN RESOURCES | | |
| FINANCE | | |
| MARKETING | | |
| SALES | | |
| DISTRICT MANAGERS | | |
| SENIOR PLANT MANAGERS | | |
| DISTRIBUTION NET | | |
| PENDING DATE | | |
| COMMENTS | | |

December 28, 2009

Jerry D. Lane
 Vice President
 Capital Metro Area Operations

SUBJECT: Transmittal of Draft Audit Report Response-Capital District
 Financial Risk Audit (Report Number FF-AR-10-DRAFT, Project number 09BD021FF000)

An audit was conducted in August at three postal facilities in the Capital District whereby financial key controls were tested and deficiencies identified. The Capital District has taken the following actions in regards to the recommendations cited by the Office of Inspector General Report FF-AR-09-131.

Recommendation #1: Provide financial training to supervisory employees within 1 year of assignment in Post offices.

Response: The District has provided three-day financial training (including modules in the Field Financial Toolkit) to all supervisory personnel in Washington DC during the first three weeks of August. At the time of the audit, the training had already begun. Due to the holiday season and the early incentives offered the clerks, the District suspended training until 2010. Financial training has been scheduled for 206-207 (Southern Maryland) in February and March for 208-209 (Suburban Maryland). Our plan is to have all management trained by the end of PQ II. We feel it is beneficial to have all management retrained due to the changes associated with SOX. In addition, the on-line website has been provided whereby individuals can receive training targeted to specific areas as needed.

Recommendation #2: Establish a system to monitor compliance with financial procedures by the units' management and enforce accountability.

Response:

Action taken:

1-3: Refunds were not supported, processed or certified adequately for destruction at Riverdale Post Office and the Washington Main Office.

| | | |
|-----------------------|------------------------------|--------------|
| Riverdale Post Office | Date discussed and corrected | September 22 |
| Main Office Window | Date discussed and corrected | September 23 |

The District Finance provides a weekly report with refund information and a daily report showing money order activities. Copies of PS Form 3533 are requested from units that have questionable costs. In addition, the forms are reviewed for completion, including the supervisor's signature and a witness in Part 3 of the form.

4. All three units failed to research financial differences and ensure clearance.

| | | |
|-----------------------|----------------|--------------|
| Riverdale Post Office | Date corrected | September 23 |
| Main Office Window | Date corrected | September 23 |
| Palisades | Date corrected | September 23 |

Finance Control and Support monitors the financial differences daily and provide a report weekly from EDW. Each MPOO is notified of the discrepancies within their respective areas. Additionally, Finance has trained postmasters to utilize EDW to monitor their units daily. Offices have also been instructed to utilize the accounting HELP desk if they have problems resolving any differences. Researching and correcting financial differences are a key component of the finance training that will be take place in the District in the upcoming months.

5. Two units failed to monitor and clear employee items.

| | | |
|-----------|----------------|--------------|
| Palisades | Date corrected | September 16 |
| Riverdale | Date corrected | September 16 |

The District Finance provides a weekly report to MPOOs listing all units with entries in AICs 767, 764, 754, 068 (employee items). Management has been instructed to follow up on these items including the issuance of letters of demand and tracking them through GATS (if grievance is filed). The Manager, TACS is responsible for reviewing all paperwork for salary advances that have been issued and ensuring that they have been reconciled.

6. Two units exceeded the unit cash retained over the authorized limit.

| | | |
|-----------|----------------|--------------|
| Palisades | Date corrected | September 16 |
| Riverdale | Date corrected | September 23 |

The postmasters were provided information on requesting an increase in the limit by notifying the Manager, Finance. These units have remained within their authorized limit since the audit.

7. Two units exceeded the total office stamp accountability over the authorized limit.

| | | |
|----------------|----------------|--------------|
| Washington MOW | Date corrected | September 16 |
| Riverdale | Date corrected | September 23 |

The District Finance Office provided daily reports on the excess stock held within the units. Offices were instructed to reduce automatic shipments and return stock

during the cycle. The Capital District has been designated as a destruction site for the months of November-February due to renovations in Dulles. As a result, the stamp stock has been reduced in both of these units and they are within their authorized limit.

- 8. One unit did not maintain the retail floor stamp stock within limits.

| | | |
|-----------|----------------|--------------|
| Riverdale | Date corrected | September 16 |
|-----------|----------------|--------------|

The District Finance Office provides a weekly report of units that have excess stamp stock on the floor. This information is communicated on the daily 7:30 telecom instructing the units to return it to the unit reserve. Follow up reports are generated to ensure units are returning as instructed. To date, the Capital District has reduced in excess of \$753,000 in excess stock on the floor.

- 9. One unit did not account for money orders in POS.

| | | |
|-----------|----------------|-------------|
| Riverdale | Date corrected | November 12 |
|-----------|----------------|-------------|

Riverdale was instructed by Manager, Finance to return all money orders during Capital District's return cycle in November. In addition, all units were notified by e-mail and communicated on the daily telecom to check their offices for money orders that were not accounted for in POS.

- 10. One unit (host) did not obtain the daily PS 1412 and verify as required.

| | | |
|----------------|----------------|-------------|
| Washington MOW | Date Corrected | November 19 |
|----------------|----------------|-------------|

The Manager, Finance contacted manager at Howard University and is receiving a faxed copy daily. The PS form 1412 is given to the Manager, Customer Services Operations for validation.

- 11. Two units did not reconcile the Accounting Mart master trust balances.

| | | |
|----------------|----------------|------------------|
| Riverdale | Date Corrected | September 30 |
| Washington MOW | Date Corrected | during the audit |

Recommendation #3: Reinforce financial accountability oversight responsibility of postmasters and district post office operations management.

Response: This is reinforced daily by the Manager, Finance and District Manager at the 7:30 a.m. telecom with the District Leadership. The SOX key control deficiencies are discussed as well as the units that are not in compliance. There has been significant improvement in Capital District's scores due to the daily communication. At the time of the audit, Capital District was number 77 on the weighted scoreboard that is published by Controller Council. In October, we are ranked number 45 (middle of the country).

Recommendation #4: Develop and implement an action plan with milestones to address the internal control deficiencies identified in Appendix B of this report.

Response: The Capital District has implemented the following actions:

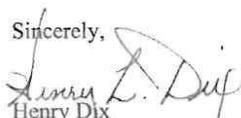
| <u>Key Control</u> | <u>Frequency</u> | <u>Action Response Frequency</u> |
|---------------------|------------------|----------------------------------|
| Refunds | Monthly | Monthly |
| AICs247/647 | Weekly | Monthly |
| Employee Items | Weekly | Monthly |
| Cash Retained | Monthly | Monthly |
| Unit Reserve Stock | Weekly | Monthly |
| Retail Floor Stock | Weekly | Monthly |
| Contract Post Units | Monthly | Monthly |
| Customer Trust | Monthly | Monthly |
| Excess Stamp Stock | Weekly | Monthly |

Nonmonetary Impact:

Appendix D: Nonmonetary Impact Summary totals \$1,723,636

The District agrees with the findings and has taken the action as cited in the responses numbered 1-11. The District Finance monitors reports daily and weekly and sends notification to the MPOOs regarding their status. Before the month closes, another updated status report is sent indicating which units are not in compliance. The MPOOs take the necessary corrective action on the manager, supervisor or postmaster for failure to follow instructions.

The Capital District has made notable accomplishments in the Call to Action (CTA) items. We finished the FY with NPA 9 tied with Northern Virginia for the best performance in Capital Metro Area. In addition, the daily communication and focus by the District Leadership has resulted in Capital District moving from the bottom to the middle of the country. As mandated by the Capital Metro Area Office, Financial Control and Support, a follow up review at these units will be completed in 90 days.

Sincerely,

 Henry Dix
 District Manager

VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS

Attachment 3



August 13, 2009

DISTRICT MANAGERS

SUBJECT: Excess Stock Reduction Plan

The Capital Metro Area has developed a strong partnership between the Finance and Customer Relations organizations to support efforts at reducing excess stamp stock during the past fiscal year. Joint telecons have been held with the Headquarters Stamp Services Center, Stamp Distribution Offices, District Managers and Managers, Post Office Operations, District Finance Managers and District Customer Relations Managers. Excess Stock Ambassadors have been designated under MPOOs to train units for preparation of return shipments during cycles and management of stock inventory. As of July 27, excess stock levels were approximately \$19.5 million, a reduction of \$31 million since the end of Quarter 1.

Please see the attached Excess Stock Reduction Plan. District leadership must establish a stock management plan following the guidelines set forth in the template provided. Also attached is a newly created "Capital Area Excess Stock Report" for distribution among Finance, Customer Relations and Operations which will be updated and posted on the Area website once a week. This report communicates the maximum stock limit, excess stock amount, and order up to amount. Most importantly, it identifies units who must "Get Approval" prior to ordering more stock inventory. It will now be necessary for these units to submit their requests to the District Customer Relations Manager. If approved, the District Finance Manager must concur and communicate approval back to the unit. Each tool is to be utilized by districts to manage their stamp stock limits. It is imperative that district leadership incorporate this plan into their daily activities.

Any questions or concerns should be directed to the District Customer Relations and Finance managers.


Jerry D. Lane

cc: S. Darragh
T. Edwards
District Finance Managers
Customer Relations Managers

Attachments

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