



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Caribbean District Financial Risk Audit Report

September 30, 2011

Report Number FF-AR-11-017



HIGHLIGHTS

IMPACT ON:

Financial operations in the Caribbean District.

WHY THE OIG DID THE AUDIT:

Our objective was to determine whether the U.S. Postal Service is effectively managing selected financial controls over post office retail and business mail entry operations in the Caribbean District.

WHAT THE OIG FOUND:

The Postal Service did not effectively manage selected financial controls in the Caribbean District. Specifically, district management did not effectively review and monitor financial data to help ensure that retail units recorded revenue correctly and reduced the risk of potential revenue loss and placing other Postal Service assets at risk. We identified \$336,584 of monetary impact and referred several of our findings to the OIG Office of Investigations.

WHAT THE OIG RECOMMENDED:

We recommended the area vice president, Northeast Area Operations, direct the district manager, Caribbean District, to review and monitor financial operations and incorporate follow-up procedures to ensure retail units' compliance with internal controls, data accuracy, and records maintenance; and provide interim financial training for district and unit managers.

WHAT MANAGEMENT SAID:

Management agreed with our finding, recommendation 1, and \$336,584 of monetary impact. They also indicated agreement with recommendation 2.

Management stated that, in addition to local monitoring efforts, the Caribbean District uses monitoring tools provided by the Northeast Area to take necessary follow-up action on identified deficiencies. Further, significant improvements have been demonstrated in various indicators and have continued to improve as a result of the efforts and initiatives implemented. Also, management continues to monitor the offices with on-site and desk audits and continuous visits.

Management also stated they conducted a number of financial training sessions with district and unit managers.

AUDITORS' COMMENTS:

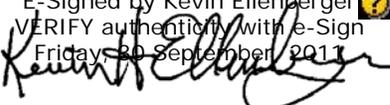
The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report.

[*Link to review the entire report*](#)



September 30, 2011

MEMORANDUM FOR: STEVEN J. FORTE
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

E-Signed by Kevin Ellenberger
VERIFY authenticity with e-Sign
Friday, 30 September 2011


for
FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Audit Report – Caribbean District Financial Risk
(Report Number FF-AR-11-017)

This report presents the results of our audit of the Caribbean District's financial risk (Project Number 11BD003FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Field Financial East, or me at 703-248-2100.

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Introduction

This report presents the results of our Caribbean District financial risk audit (Project Number 11BD003FF000). The objective of our audit was to determine whether the U.S. Postal Service is effectively managing selected financial controls over Post Office™ (PO) retail and business mail entry (BME) operations in the Caribbean District. This self-initiated audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

The Caribbean District is part of the Northeast Area and includes 171 POs, stations, and branches. These units reported approximately \$186 million of revenue in fiscal year (FY) 2010. The U.S. Postal Service Office of Inspector General (OIG) Performance and Results Information System (PARIS) Cost and Controls model ranked the Caribbean District's financial operations in the 10 most at-risk districts nationally throughout FY 2010. We looked at district financial practices and the impact they had on selected financial controls at nine units with \$21.7 million in revenue in FY 2010.

Conclusion

The Postal Service did not effectively manage selected financial controls in the Caribbean District. Specifically, the district did not review and monitor financial data to help ensure retail units recorded revenue correctly and reduced the risk of potential revenue loss and placing other Postal Service assets at risk. We identified \$336,584 of monetary impact and \$23,595 in other impacts. In addition, we referred several of our findings to the OIG Office of Investigations.

Reviewing and Monitoring Financial Data

The Caribbean District did not effectively review and monitor financial data. Specifically, district management did not:

- Review and monitor financial data discrepancies related to unit trust fund transactions. Specifically we noted units were not recording revenue and trust fund transactions properly or closing inactive accounts and were allowing customers to mail with negative balances. For example, at nine units visited, we found the unit did not record \$268,203 of revenue to the automated accounting records. Additionally, we found 10 units whose overall trust balance did not change in FY 2010, yet the units recorded revenue from customers in the accounting system.¹ Therefore, the units were not recording deposits to nor recording withdrawals from the customer trust funds as transactions occurred. As a result, retail units' trust account balances were inaccurate.

¹ A trust fund account is a liability for which the Postal Service owes service to a customer or the account may represent an amount for which a future claim can be made for funds on deposit. The Postal Service is responsible for maintaining an accurate accounting of customer funds.

- Monitor practices associated with unit financial operations that would have indicated there were potential problems with financial controls. Specifically, our review of financial data showed large dollar amounts of refunds, employee items, banking differences, and stamp stock discrepancies. For example, at six units visited, we found \$6,140 in unsupported refunds. In addition, at three of these units we found \$469 in refunds for 11 Express Mail® transactions where the package had been delivered.

These conditions occurred because district management did not:

- Analyze financial data or follow up to ensure units addressed and corrected any reported financial inconsistencies. District management believed that postmasters were conducting oversight at their respective retail units.
- Provide needed financial training to unit management. At the nine sites visited, unit level managers did not always have the financial knowledge needed to comply with accounting and reporting policies. We found that unit managers received fewer than 10 hours of training on financial controls in the past 5 years. On average, each manager received 5.5 hours of financial training in the past 5 years. In addition, we did not find that unit managers were using the Postal Service's 11 "Field Finance Toolkit"² online courses to help them comply with financial requirements.
- Request that *PostalOne!* be installed at units with annual permit imprint and/or business reply mail/postage due (BRM/PD³) sales of \$10,000⁴ or more to provide additional internal control capability. *PostalOne!* enables district management to directly monitor unit accounts for compliance with Postal Service policy; ensure timely recording of transactions; monitor account balances for inactivity, negative balances, and the payments of fees; and monitor business mail entry unit (BMEU)⁵ functions, such as the recording of postage statements.

As a result, retail units did not record revenue correctly, created situations for potential revenue loss, and placed other Postal Service assets at risk. Specifically, unit financial practices resulted in:

² Provides training, references, and useful links to help Postal Service employees understand and perform their required financial duties and responsibilities. The 11 courses consist of the following: Customer Trust, Daily Financial Reporting Basics, Employee Items, Field Unit Purchasing and Payment Processes, Financial Accountability Overview, Financial Differences Account Identifier Code (AIC) 247-647, Financial Security, No-Fee Money Orders, Stamp Stock Management, Timekeeping, and Unit 1412 Closeout.

³ BRM service enables a permit holder to receive First-Class Mail® and Priority Mail® items back from customers and pay postage and a per piece fee only for the pieces returned. Postage due mail customers must pay in cash for postage due mail before the mail is delivered. Payment may be made by advance deposit of money in a postage due account used solely to pay postage due.

⁴ Postal Service Headquarters was originally targeting sites with \$50,000 or more in permit imprint and/or BRM/PD sales for *PostalOne!* installation.

⁵ A Postal Service facility that processes bulk business mail. Mailers submit business mail for below retail prices to a BMEU.

- Revenue loss of \$268,203 from unrecorded customer transactions at nine units. We also identified revenue loss of \$43,897 associated with inactive accounts.
- Questioned costs of \$24,484 associated with units' financial practices related to refunds, employee items, financial differences, and unit stamp stock management.
- Other impacts of \$23,595 associated with an unrecorded financial transaction.

See [Appendix B](#) for a summary of the details of the monetary and other impacts found during the audit.

During the course of the audit, district and area management took corrective action to improve unit financial controls in the Caribbean District. Specifically, the Caribbean District and Northeast Area:

- Developed several financial training courses for unit managers and began holding "Field Finance Toolkit" training courses with unit employees.
- Worked with the bank to reduce banking differences through unit level training on bank deposit procedures and district notification of errors.
- Initiated procedures to clear and/or collect outstanding employee items.
- Installed *PostalOne!* in all offices with \$10,000 or more in BME and BRM/PD revenue so district management would have direct oversight into unit financial operations.

See [Appendix C](#) for a detailed discussion of the conditions found during the audit.

Recommendations

We recommend the vice president, Northeast Area Operations, direct the district manager, Caribbean District, to:

1. Review and monitor financial operations and incorporate oversight and follow-up procedures to ensure that retail units comply with internal controls, data is accurately reported, and records are maintained.
2. Provide financial training for all district and unit managers to include available finance courses the district developed and the Postal Service's 11 "Field Finance Toolkit" courses.

Management's Comments

Management agreed with our finding, recommendation 1, and \$336,584 of monetary impact. Management also indicated agreement with recommendation 2 in this report.

Regarding recommendation 1, management stated that, in addition to local monitoring efforts, the Caribbean District uses monitoring tools provided by the Northeast Area to take necessary follow-up action on identified deficiencies. The Northeast Area Financial Scorecard demonstrated the overall improvements and consistency the Caribbean District has maintained when compared to previous fiscal years. In addition, as of June 25, 2011, management installed *PostalOne!* in 22 offices to comply with internal controls and ensure data is accurately reported. Prior to activation of the *PostalOne!* sites, management assisted units with balancing trust accounts and ensuring that revenue previously not recorded was properly accounted for in the reporting systems. Additionally, management continues to monitor the offices with on-site and desk audits and continuous visits.

Regarding recommendation 2, management stated they conducted a number of training sessions during December 2010 and February 2011. Management provided training sessions to all postmasters/managers/officers-in-charge on various financial subjects to ensure full understanding of the policies and their responsibilities. Area Field Financial Specialists conducted additional training during FY 2011 specific to the management of employee items. The Northeast Area also implemented a Financial Training Series Program in March 2011 that is conducted by field financial specialists on a regularly scheduled cycle throughout the year. This training will occur on a continuous basis. Subsequent to management's response, the OIG confirmed that employees at offices where *PostalOne!* was installed as a result of this audit completed two classroom sessions and 13 web-based, Learning Management System courses dealing with BME/BRM/PD practices by June 15, 2011.

See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

Appendix A: Additional Information

Background

POs are the initial level where the Postal Service recognizes revenue from operations. The term “PO” or “unit” includes main offices, stations, and branches. The postmasters or unit managers 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 financial reporting and accounting objectives. To aid them with these duties, specific policies and procedures have been established and published for units.

The district is responsible for monitoring financial reporting duties to ensure that they are adequately fulfilled. District management is responsible for establishing and maintaining a system of management controls that provides reasonable assurance that transactions are executed and recorded in accordance with Postal Service policy and that assets are safeguarded from loss. Compliance with these policies and procedures constitutes an important aspect of the Postal Service’s management control system. All employees must comply with established policies and procedures and management must monitor and ensure compliance.

Based on Postal Service financial data recorded in the Enterprise Data Warehouse, the OIG developed a PARIS Cost and Controls Model that ranks the Postal Service’s 74 districts⁶ according to specific financial risk indicators.⁷ Using model results, the OIG performs periodic financial risk assessment audits of high-risk districts. We selected the Caribbean District for auditing because the PARIS model demonstrated the district was a consistently high financial risk compared to other districts. For example, throughout FY 2010, the OIG model ranked this district as one of the 10 most at-risk districts nationally.

The Caribbean District is part of the Northeast Area and includes 171 POs, stations, and branches. These units reported approximately \$186 million of revenue in FY 2010. We looked at district financial practices and the impact they had on selected financial controls at nine units with \$21.7 million in revenue in FY 2010.

Objective, Scope, and Methodology

Our objective was to determine whether the Caribbean District was effectively managing selected financial controls over PO retail and BME operations. Our audit scope covered the period from October 2009 through December 2010.

To accomplish our objective, we identified Caribbean District POs, branches, and stations with high-risk accounting activities based on our PARIS model and district

⁶ As of March 24, 2011, the Postal Service closed seven district offices, reducing the number of districts to 67.

⁷ The risk indicators include: Revenue, Local Expenses, Refunds, Miscellaneous Expenses (financial differences), Non-Local Purchases, Clerk Cash, Office Cash, Employee Items, Master Trust Accounts, Segmented Inventory Accountability Compliance, Stamp Stock management, and Contract Postal Unit management.

financial performance reports. Using the PARIS model we examined the following risk factors:

- Refunds
- Employee Items
- Financial Differences⁸
- Local Purchases⁹
- Unit Stamp Stock Management¹⁰

We also examined BME, BRM/PD, and trust accounts¹¹ based on revenue reported and trends noted in financial performance reports.

We performed audit work at nine judgmentally selected POs in the Caribbean District. We conducted in-depth financial audits at six units and limited reviews at three other units. We selected the units based on our evaluation of risk indicators and district financial performance reports.

Site	Review
Mayaguez Main PO	Full
San Juan Main Office Window (MOW)	Full
Carolina Main PO	Full
Aguada Main PO	Full
Aguadilla Main PO	Full
Charlotte Amalie Main PO	Full
Caugus Main PO	Limited
Old San Juan Station	Limited
Hato Rey Station	Limited

We used unit level results to evaluate the effectiveness of district financial management practices, improvements, and changes implemented during the audit.

At the district level we examined changes in financial practices made by management since assignment of the district manager in 2008. We evaluated the effectiveness of those changes and also determined whether the changes in financial practices were a result of Postal Service-wide directed actions or directed by district management. Additionally, we examined Postal Service Headquarters guidance for monitoring, evaluating, and correcting financial performance and district-level financial management controls and processes.

⁸ Financial differences are recorded in AICs 247 and 647 from the unit's daily Postal Service (PS) Form 1412, Daily Financial Report.

⁹ Goods and services purchased from local vendors, usually with cash or money orders.

¹⁰ Unit stamp stock is assigned to various individuals to manage. These individuals must maintain security of all stock and ensure financial integrity is maintained.

¹¹ A customer trust fund account is a liability account for which the Postal Service owes service to a customer or the account may represent an amount for which a future claim can be made for funds on deposit.

We conducted this performance audit from October 2010 through September 2011 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 August 24, 2011, and included their comments where appropriate.

We assessed the reliability of computer-generated data by tracing computerized data from the Postal Service's Accounting Data Mart (ADM)¹² to source records at selected POs. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG issued 13 audit reports over the past 3 years that addressed district and area financial risk based on rankings from the OIG PARIS Cost and Controls model.

Report Title	Report Number	Final Report Date	Monetary Impact	Other Impact
<i>Sierra Coastal District – Risk-Based Financial Audit</i>	FF-AR-09-072	1/15/2009	\$135,938	\$4,834,996
<i>Baltimore District Financial Risk Audit</i>	FF-AR-09-123	3/20/2009	\$179,124	\$4,655,528
<i>FY 2009 Phoenix Financial Risk Audit</i>	FF-AR-09-200	7/24/2009	\$166,094	\$96,750
<i>Fiscal Year 2009 Kentuckiana District Business Mail Entry Unit Financial Risk Audit</i>	FF-AR-09-221	9/17/2009	\$123,560	\$108,182
<i>Philadelphia District Post Office Financial Risk Audit</i>	FF-AR-09-223	9/25/2009	\$945,487	\$1,124,353
<i>Northland District – Business Mail Entry Financial Risk</i>	FF-AR-09-224	9/28/2009	\$3,664	\$146,096
<i>Fiscal Year 2009 Connecticut District Financial Risk Audit</i>	FF-AR-09-225	9/30/2009	\$89,274	\$471,356

¹² ADM is one of several business areas within the EDW. The EDW is an organization-wide data storage and reporting system. The ADM is the accounting folder in the EDW and the “one-stop shopping” location for a collection of finance-related reports.

<i>New York Metro Area Financial Accountability Risk Audit</i>	FF-AR-10-013	11/13/2009	\$114,515	\$386,375
<i>Fiscal Year 2009 Los Angeles District Financial Risk</i>	FF-AR-10-028	12/3/2009	\$250,151	\$2,244,240
<i>Gateway District Financial Accountability Risk Audit</i>	FF-AR-10-047	12/15/2009	\$170,631	\$1,880,754
<i>Greater South Carolina District Financial Risk Audit</i>	FF-AR-10-049	12/16/2009	\$0	\$296,590
<i>Capital District Financial Risk Audit</i>	FF-AR-10-075	1/19/2010	\$20,434	\$602,795
<i>San Francisco District Risk-Based Post Office Audit</i>	FF-AR-11-003	12/13/2010	\$8,870	\$38,213

In summary, these reports identified financial control and compliance issues and internal control deficiencies. Control and compliance issues were related to stamp accountabilities, disbursements, and financial accounting and reporting. The internal control deficiencies related to insufficient training, the financial background of employees, and oversight by the managers and supervisors responsible for implementing financial internal controls. The reports made recommendations to address these issues, and management agreed to take corrective action.

Appendix B: Monetary and Other Impacts

Monetary Impacts

Finding	Impact Category	Amount
Reviewing and Monitoring Financial Data	Revenue Loss ¹³	
	Unrecorded Revenue	\$268,203
	Inactive Accounts	43,897
	Questioned Costs ¹⁴	24,484
Total		\$336,584

Revenue Loss

The Caribbean District did not review financial operations associated with trust fund transactions at retail units. Units did not record mailing revenue to the ADM, resulting in differences from unit records. We identified monetary impact at units that did not record revenue through the ADM and units with inactive accounts.

Unrecorded Revenue

Post Office	Amount
Mayaguez	\$129,831
San Juan MOW	46,071
Caguas	7,156
Carolina	26,118
Aguadilla	6,498
Aguada	6,661
Charlotte Amalie	38,073
Hato Rey	2,068
Old San Juan	5,727
Total	\$268,203

Inactive Accounts

Post Office	Amount
Charlotte Amalie	\$14,331
Hato Rey	21,425
Old San Juan	8,141
Total	\$43,897

¹³ Amount the Postal Service is entitled to receive but did not realize because policies, procedures, agreements, requirements, or good business practices were lacking or not followed.

¹⁴ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera.

Questioned Costs

We identified monetary impact at units where procedures for compliance with internal controls were not followed.

Finding	Amount
Stamp Stock Shortages ¹⁵	\$13,005
Outstanding Employee Items	3,439
Unsupported Refunds	6,140
Unresolved Financial Differences	1,900
Total	\$24,484

Other Impacts

We identified other impacts as a result of one unit that did not record a customer BRM deposit to unit records.

Finding	Impact Category	Amount
Reviewing and Monitoring Financial Data	Assets or Accountable Items at Risk ¹⁶	\$23,595

¹⁵ This amount is comprised of a net stock shortage of \$13,624 at the San Juan MOW, a unit reserve overage of \$949 at the Mayaguez PO, and a unit reserve shortage of \$330 at Charlotte Amalie.

¹⁶ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

Appendix C: Detailed Analysis

The Caribbean District did not effectively manage selected financial controls. We found that district management did not review and monitor trust fund transactions or monitor practices associated with unit financial operations.

Review and Monitoring Trust Fund Transactions

District management did not review and monitor the data needed to manage financial operations. For example, Caribbean District retail units were not properly maintaining customers trust accounts. At the Mayaguez PO, the customers' manual subsidiary trust account balances differed from the automated financial records by \$129,831.¹⁷ Neither the postmaster nor the acting supervisor could explain why such a large discrepancy existed between the units' manual records and the automated records. At the nine units visited, we found that employees did not record mailing revenue to the automated records, resulting in differences from unit records of \$268,203. See Table 2 for the differences at each unit visited.

Table 2 – Unit Trust Balance Discrepancies

Post Office	Unit Records	ADM	Difference
Mayaguez	\$4,589	\$134,420	\$129,831
San Juan MOW	208,969	255,040	46,071
Caguas	7	7,164	7,156
Carolina	7,235	33,353	26,118
Aguadilla	0	6,498	6,498
Aguada	0	6,661	6,661
Charlotte Amalie	55,468	93,540	38,073
Hato Rey	116,006	90,343	2,068*
Old San Juan	31,291	37,018	5,727
Total			\$268,203

*Excludes an unknown customer BRM deposit of \$23,595 that is considered an accountable item at risk.
Source: ADM and Unit PS Form 25.

Further, we examined district financial performance reports and found 10 units with trust balances totaling \$23,463 that did not change in FY 2010, even though they recorded receiving revenue from customers. Each deposit and mailing should have resulted in a trust balance entry. As a result, customer trust account balances were inaccurate. We do not know if the customer had sufficient funds on account when they mailed something or if they were charged appropriately for the mailing/service. See Table 3 for units that recorded customer revenue in FY 2010 but had trust account balances that remained constant.

¹⁷ Master trust balances in ADM as of September 30, 2010, varied from units' PS Form 25, Trust Fund Account, records by that amount.

Table 3 – Units with Unchanged Trust Balances in FY 2010

Unit Name	Trust Balance (BRM/PD)	Trust Balance (Permit)	Total	FY10 Revenue Recorded
Cruz Bay PO	\$171.62	\$175.00	\$346.62	\$12,422
Rio Grande PO	679.03	239.75	918.78	3
Villalba	0	320.00	320.00	7,140
San Sebastian PO	473.27	53.10	526.37	1,778
San German	814.09	2,036.67	2,850.76	1,241
Juncos	819.42	2,284.94	3,104.36	4,423
Ciales	544.99	100.17	645.16	4,095
Aguadilla Victoria	1,591.60	0	1,591.60	54
Aguadilla PO	567.36	5,930.29	6,497.65	5,621
Aguada	0	6,661.49	6,661.49	1
Total	\$5,661.38	\$17,801.41	\$23,462.79	\$36,778

Source: Financial Performance Reports – ADM

We also identified \$43,897 of inactive trust accounts by looking at unit records and noting customer trust balances that have not changed in over 2 years.¹⁸ In total, we identified 68 inactive accounts at three units. For example, at the Hato Rey Station, we found that 26 of the unit's 71 permit accounts with balances totaling \$21,425 were inactive. Similarly, seven of 22 accounts with balances of \$8,141 at the Old San Juan Station were inactive. They also had two accounts with negative balances, one of which was negative for 3 months.

In addition, at the Hato Rey Station, retail associates accepted a BRM deposit of \$23,595 from a customer who did not have a BRM account at the unit. From July 2010 until January 2011, the deposit has remained in the ADM record for the unit yet was not recorded in local records to either an individual or summary BRM trust account. This amount is at risk of being mishandled because unit management did not reconcile the units trust balance with automated records or take corrective action to properly account for the BRM deposit.

Monitoring Practices Associated with Unit Financial Operations

Our review of financial data showed large dollar amounts of refunds, employee items, banking differences, and stamp stock discrepancies.

Refunds

In FY 2010, the Caribbean District issued \$894,859 in refunds. The district's risk ranking is high on the OIG PARIS model because it refunds a greater percentage of sales compared to other districts. Refunds are normally issued when services are not rendered, mail is damaged, or a customer requests discontinuance of service. We analyzed the types of refunds issued throughout the district. Our results found that

¹⁸ Handbook F-101, *Field Accounting Procedures*, Chapter 17, dated September 2010, defines inactive BRM or Postage Due accounts as accounts with no mailings or payment of fees during a 2-year period from the date of fee expiration.

55 percent of the refunds issued were for postal validation imprinter (PVI)¹⁹ errors and 27 percent were issued for Express Mail that was not delivered within the guaranteed time period. Units may be able to reduce refunds associated with PVI errors and Express Mail guarantees by reviewing refund procedures/policies.

At four of the sites visited, we found that refunds for 101 of 143 PVI labels refunded do not appear to be spoiled or damaged. The labels attached to PS Forms 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts, contained legible postage amounts and barcodes, if applicable, and showed no signs of damage. This indicates that clerk error, as well as customer indecision, may be causing a higher than normal number of refunds. The district has not performed an in-depth analysis of refunds; however, we believe the district may be able to reduce the amount of PVI refunds by evaluating retail associates' processes and determining the cause of excess refunds, thus reducing financial risk in this area.

The Caribbean District, as an island district, faces unique challenges for Express Mail. Express Mail is generally limited to one mode of transportation (air carrier). As a result, the district issues many refunds for Express Mail failures. In a prior OIG report,²⁰ we looked at Express Mail guarantees and how refunds for failure are affected in island communities. We found that Express Mail destined to/from American territories (including the Caribbean District) was late twice as often as Express Mail destined within the 50 states. The report recommended that the Postal Service evaluate the reasons for late deliveries for American territories and, if it is not possible to significantly improve on-time delivery, determine whether they should adjust or eliminate guarantees.

Additionally, we found refunds were often made with incomplete documentation and missing certification or witness signatures. This indicates that unit managers were not reviewing refunds as part of the close-out process to ensure each refund was properly supported, certified, and witnessed. Units were not following procedures because they were not aware of the requirements or failed to execute proper procedures. At six sites we reviewed refund documentation and found \$6,140 of unsupported refunds because:

- Four Express Mail refunds did not have a tracking slip attached to verify the actual delivery date and time.
- Nineteen refunds did not have adequate documentation supporting the refund.
- Three locations issued PVI refunds for 11 Express Mail transactions that were actually delivered according to the Postal Service Tracking and Confirmation system.

¹⁹ The PVI is used to generate mailing labels that show the postage amount paid by the customer and the destination ZIP barcode along with additional services if requested.

²⁰ [Express Mail Guarantees](#) (Report Number FF-AR-11-004, dated December 15, 2010).

- One customer received two refunds for one package, once when the PVI transaction was cancelled and again when the package was delivered late.
- One unit used PS Forms 3533 from calendar year 1999²¹ for several refunds.
- At five locations, we found 73 refunds that were not certified and/or witnessed, and 48 PVI refunds with labels attached but not certified.

Employee Items

The Caribbean District's unresolved employee items remain a high financial risk compared to other districts. As of September 30, 2010, the district's outstanding employee items were valued at \$135,295, compared to low-risk districts where employee item balances were under \$500. The Caribbean District had 167 of 252 outstanding employee items that remained unresolved beyond allowable time limits.²² Employee item risk is determined by how quickly units clear outstanding items. In FY 2010, the Caribbean District reduced its unresolved employee item balance by \$87,144 to the \$135,295 balance by filing claims for loss on items they could not collect. They also began training unit managers on how to manage and resolve employee items. However, four of the six units we reviewed did not have a formal system established to monitor employee items. We found employee items being added to records and no action being taken to clear outstanding items timely because unit managers were not monitoring and reviewing outstanding employee items routinely. Although unit managers are being trained on how to monitor and clear employee items, they are not effectively executing the review process. When units do not comply with employee item controls, the Postal Service is at risk of losing revenue and having inaccurate financial records.

Banking Differences

In FY 2010 the Caribbean District had \$506,975 in outstanding banking differences at year end.²³ The Caribbean District's unreconciled banking differences are a larger percentage of sales compared to other districts, placing the district at high risk. Banking errors occur for reasons such as mismatched daily bank deposits records, duplicate transactions, and debit/credit card discrepancies. Units were not aware of financial difference reconciliation requirements. However, the district realized that many of these errors were the result of daily bank deposit discrepancies. As a result, the district asked the bank to work with units to increase the accuracy of bank deposits.

²¹ Current PS Forms 3533 should be dated August 2008.

²² Handbook F-101, Chapter 15, specifies the time limits for resolving the various types of employee items. Time limits range from 14 days to 1 year.

²³ The banking differences were comprised of \$111,452 of shortages and \$618,427 of overages.

Our review found units did not:

- Monitor banking errors.
- Maintain a log of discrepancies.
- Understand the reconciliation process.
- Receive and/or use Narrowcaster²⁴ reports to monitor and clear items.

When units do not clear banking differences, the Postal Service is at an increased risk of fraud, unnecessary expenses, and lost revenue.

Unit Stamp Stock Management

The Caribbean District ranks high on the OIG PARIS model for segmented inventory accountability examinations. As of September 30, 2010, only 81 percent of units conducted their unit reserve and retail floor stock counts as required. Nationally, 95 percent of units were in compliance.

We examined the frequency and results of accountability examinations at six units. Although retail floor stock examinations were being conducted, we found shortages were five times higher than the national average (national average of .13 percent versus a district average of .67 percent). For example, during our visit to the San Juan MOW, we counted the retail floor stock — which the accounting system listed at \$58,910.13 — and disclosed a shortage greater than \$22,000. We also found the unit had a stamp-by-mail²⁵ accountability in the accounting system valued at \$24,322 that had not been counted in the past 3 years and exceeded the recorded balance by more than \$7,800.

Further, we observed the security of stamp stock was inadequate at two of the six units visited. Photo 1 illustrates stamp stock security inadequacies at the San Juan MOW, as stamps were left accessible to all plant personnel.

²⁴ Accounting Services sends Narrowcaster reports to units daily, weekly, monthly, and quarterly to notify them of outstanding financial discrepancies. The data for these reports comes from the ADM.

²⁵ A free service that allows customers to obtain stamps, envelopes, and other postal products from letter carriers, within PO lobbies, or by telephoning the local delivery unit to request its delivery. After completing an order and enclosing a check, the customer drops the sealed envelope in a collection box or hands it to a letter carrier.

Photo 1 – Unsecured Stock at the San Juan MOW

Source: OIG

We also observed that employees were unfamiliar with accountability procedures. For example, the stock custodians at the Mayaguez and Charlotte Amalie POs did not understand how to record unsalable stock in the inventory line item for conversion stock.²⁶ We initially noted a shortage of \$925 at the Mayaguez PO because the former custodian had misplaced the conversion stock and told the current custodian to add the count difference to conversion stock every time the count was conducted. We later found the conversion stock, recounted it, and identified an overage of \$949. At the Charlotte Amalie PO, we found two un-cashed money orders, each valued at \$545, included with the unit cash reserve.²⁷ These have remained in the safe since 2006 because the unit was not familiar with procedures to account for and destroy the money orders. When units do not properly manage accountable items; the Postal Service is at an increased risk for fraud, theft, and lost revenue.

²⁶ Unsalable stock in the unit inventory that has been marked for destruction but not returned to the stamp distribution office.

²⁷ A pre-determined amount of cash used to supplement the operating needs of the unit.

Appendix D: Management's Comments

STEVEN J. FORTE
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



September 22, 2011

SHIRIAN B. HOLLAND, ACTING DIRECTOR
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Caribbean District Financial Risk
(Report Number FF-AR-11-DRAFT)

The following responds to the Financial Risk Draft Audit Report - Caribbean District Financial Risk referenced above.

Management agrees with the Monetary Impacts found at the time of the audit. As indicated below, these issues were resolved by the actions implemented by local management.

Recommendation:

Review and monitor financial operations and incorporate oversight and follow-up procedures to ensure retail units' compliance with internal controls, data is accurately reported, and records are maintained.

Management Response/Action Plan:

Management agrees with the recommendation and has already begun efforts to improve financial controls prior to the audit.

In addition to local monitoring efforts, the District utilizes the monitoring tools provided by the Area to take necessary follow-up action on identified deficiencies.

Significant improvements have been demonstrated in various indicators prior to the initiation of the audit and have continued to improve as a result of the efforts and initiatives that were implemented several months prior to the audit.

The monitoring process that was utilized in the District was demonstrated to the Audit team and documentation provided on tracking reports that were implemented since July of 2009. Supporting documentation of training provided to all EAS during Quarterly and Cluster meetings were provided to the Audit team as well.

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Attachment 1 is the NEA Financial Scorecard which demonstrates the overall improvements and consistency that the Caribbean has maintained when compared to previous Fiscal Years.

Recommendation: Provide financial training for all district and unit managers, to include available finance courses the district developed and the Postal Services' 11 "Field Finance Toolkit" courses.

Management Response/Action Plan:

- Training Initiative
 - Finance provided training sessions to all Postmaster/Manager/OIC on various financial subjects to ensure full understanding of the policies and their responsibilities. These trainings were prepared locally using the F-101 and are not official courses and therefore are not found in the employee training file, but proper documentation was retained confirming participation.
 - Finance Security December 2010
 - Employee Items December 2010
 - Payments and Refunds February 2011
 - Purchasing February 2011
 - Additional training was conducted by Area Field Financial Specialist during FY 2011 specific to Management of Employee Items. This classroom training was conducted in 4 locations in order to provide coverage of all offices.

In addition to the above, the Northeast Area implemented a Financial Training Series Program in March 2011 that is conducted by Field Financial Specialist SMEs on a regularly scheduled cycle and is supported by the Management Learning and Development function. The Program includes 5 core modules from the ASC Toolkit (Employee Items, Financial Differences AIC 247/647, Unit 1412 Closeout, Stamp Stock Management, and SOX Compliance for Field EAS). The sessions are delivered via live Meeting Place telecons and include a Question and Answer component. The sessions are also recorded for viewing by those unable to attend live sessions or those who may need to review the session material.

Prior to the Audit, we had already provided sessions on employee items and sessions with Banco Popular of Puerto Rico which handles our daily deposits back in September of 2010 in an effort to improve our deficiencies with open employee items and banking errors.

PostalOne! was installed in 22 offices. Four of these offices were for BRM only. The following offices were activated on various dates:

March 31, 2011: St Thomas PO, SJU-MOWS, Ponce PO, SJU-Bayamon Gardens Sta, and SJU-Puerta de Tierra Sta-(Old San Juan).

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April 30, 2011: Caguas PO, SJU-Hato Rey Sta, Isabela PO, Kingshill PO, and Mayaguez PO.

May 28, 2011: Camuy PO, Toa Alta PO, Carolina PO, Arecibo PO, Christiansted PO, and Toa Baja PO.

June 25, 2011: Guaynabo PO, Cayey PO, Cruz Bay PO, Quebradillas PO, Moca PO and SJU-Loiza.

In conjunction with the above, implementation training was given to all offices before activation dates. Two classroom training sessions were provided to employees and supervisors and/or managers at each of the Postal One activation sites.

1. Course #57601-36 Business Mail Acceptance for Associate Offices
2. Course #10018955 Business Reply Mail, Postage Due and Merchandise Return Service. These other trainings were computer based and were mandatory to clerks, supervisors and postmasters.

Instructions were given to the field offices that the following web based and Learning Management System training needed to be completed.

1. Business Mail Management System Course # 51201-19 (Postal-One! System Training)
2. Business Reply Mail Course # 51201-25 (Postal-One! System Training)
3. BMA: 4 Check in for Postage Statements (Learning Management System)
4. BMA: 5 Initial Verification (Learning Management System)
5. BMA: 7 PVDS (Learning Management System)
6. BMA: 8 Full Service Verification (Learning Management System)
7. BMA: 10 Finalizing Verification Results (Learning Management System)
8. BMA 11 EOD (Learning Management System)
9. BMA: LDRSHIP 1 Key Financial Controls (Learning Management System) (Supervisor and Postmaster only)
10. BMA: LDRSHIP 2 Ensure key financial controls are met (Learning Management System) (Supervisor and Postmaster only)
11. BMA: LDRSHIP 3 BME Tools Resources (Learning Management System) (Supervisor and Postmaster only)
12. BMA Compliance Program (Learning Management System)
13. BMA Leadership Program (Learning Management System) (Supervisor and Postmaster only).

Prior to the activation of these new PostalOne sites, a Northeast Area Field Financial Specialist was on-site to assist with balancing Trust Accounts and ensuring that revenue previously not recorded was properly accounted for in the reporting systems. The on-site visits and subsequent actions also addressed closing inactive accounts per current policies and procedures.

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After Postal-One activation, offices were visited by mailing requirement clerks and by the BMEU Manager to verify their process. Since August 2011 the San Juan BMEU has been auditing the offices of BRM/Postage due offices and will also be working with the Acceptance offices. E-mail messages have been sent to inform offices of the improvements that need to be done. We continue to monitor the offices with on-site and desk audits and continuous visits.

Target Implementation Dates:

See above indicated completion dates.

Responsible Official:

Jesus Galvez, District Manager, Caribbean District

A copy of the audit form developed by the District BME is included for your reference (Attachment 2).

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

Please contact me should anything further be required.


Steven J. Forte

Attachments (2)

cc: Megan J. Brennan
Timothy F. O'Reilly
Deborah Giannoni-Jackson
Elizabeth A. Doell
Laurie A. Timmons
Jesus Galvez
Corporate Audit and Response Management