



March 31, 2009

KATHLEEN AINSWORTH  
VICE PRESIDENT, RETAIL OPERATIONS

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER

SUBJECT: Management Advisory – High-Risk Contract Postal Units  
(Report Number FF-MA-09-003)

This report presents the results of our review of high-risk contract postal units (CPU) (Project Number 08BD009FF006). The U.S. Postal Service Office of Inspector General (OIG) performed this self-initiated review to test selected transactions, address financial risk, and provide feedback to management to improve financial operations nationwide. See [Appendix A](#) for additional information about this audit.

## Conclusion

Host Post Offices, which are the post offices responsible for overseeing CPUs, did not provide sufficient oversight of the CPUs we reviewed, including collecting debts and putting information into the financial system. Specifically:

- Host Post Office personnel did not always enter CPU financial information into the financial system in a timely manner. Our audit disclosed that employees at seven CPUs entered financial information from 6 to 13 days late.<sup>1</sup> In conducting further analysis, we determined that, as of September 30, 2008, Host Post Offices took 5 days or longer to enter financial information at 114 of 2,901 CPU sites nationwide.
- Host Post Offices did not collect \$76,643 in outstanding stamp and cash shortages from eight CPUs we reviewed. As of September 30, 2008, there was \$162,993 in outstanding cash and stamp shortages for all CPUs nationwide.<sup>2</sup>
- Host Post Offices improperly allowed CPUs to issue \$14,198 in unauthorized and unsupported disbursements. This amount included \$2,434 in Express Mail®

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<sup>1</sup> Handbook F-101, *Field Accounting Procedures*, July 7, 2008, Section 5-7.2 parts a and e, state that the daily responsibilities of the Host Post Office postmaster or designated employee include ensuring the receipt of a daily Postal Service (PS) Form 1412, Daily Financial Report, and entering the CPU's PS Form 1412.

<sup>2</sup> Handbook F-101, Section 13-7.2.2, states that CPU shortages should be paid back by personal funds.

refunds<sup>3</sup> and other financial expenses and \$11,764 for disbursements without supporting documents.<sup>4</sup>

- Personnel at Host Post Offices responsible for two CPUs were unresponsive to our requests for documentation for disbursements totaling \$11,042. We consider these disbursements unsupported questioned costs.

During discussions with personnel at Host Post Offices, employees attributed these issues to employee turnover, inadequate training, and other higher priority duties. As a result, the Postal Service has not collected \$76,643 in funds owed by CPUs for stamp and cash shortages, and \$25,240 in unauthorized and unsupported expenses.

We judgmentally selected the CPUs we reviewed based on risk factors using the OIG Financial Risk Model and, as such, we are concerned that the issues identified at these CPUs could be occurring at others throughout the country. Specifically, we noted that, as of December 31, 2008, there were over \$200,000 in uncollected stamp credit shortages at CPUs nationwide. In addition, 14 units closed between August 2003 and May 2008 never cleared over \$136,000 in stamp stock accountability. Consequently, we believe the Postal Service can improve its oversight of CPUs in order to mitigate these expenses and reduce potential impropriety.

We recommend the Vice President, Retail Operations:

1. Develop an action plan to recover outstanding cash and stamp stock shortages.
2. Review the two contract postal units where no response was given.

We recommend the Vice President, Retail Operations, in coordination with the Vice President, Controller:

3. Reinforce procedures for review and input contract postal unit financial information.

### **Management's Comments**

Management agreed with the recommendations and monetary impact, and stated they would develop an action plan to provide instructions regarding the correct procedure for recovering cash and stamp shortages by June 30, 2009. Management also stated they would ask District Retail Managers to conduct financial and operational audits at both locations that did not provide documentation during our audit and forward the results to the Headquarters CPU office by April 17, 2009. Further, they plan to forward the

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<sup>3</sup> Publication 116, *Contract Postal Unit Operations Guide*, August 2002, Section 3-2.2, page 42, states CPUs do not process refunds for Express Mail failures.

<sup>4</sup> Publication 116, Section 5-7.1.d, states the Host Post Office is responsible for reviewing the PS Form 1412 daily and ensuring all financial entries match the amounts from the supporting documentation.

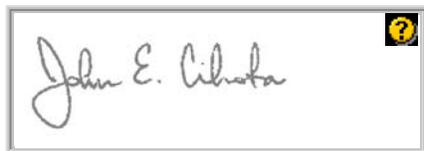
procedure for reviewing and inputting CPU financial information to the Vice Presidents, Area Operations, by June 30, 2009. See [Appendix B](#) for management's comments in their entirety.

### Evaluation of Management's Comments

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

We will report \$101,883 of monetary impact, including \$76,643 of recoverable questioned costs and \$25,240 of unrecoverable questioned costs,<sup>5</sup> in our *Semiannual Report to Congress*.

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

cc: Joseph Corbett  
William P. Galligan  
Vincent H. DeVito, Jr.  
Stephen J. Nickerson  
Steven R. Phelps  
Katherine S. Banks

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<sup>5</sup> Recoverable and unrecoverable questioned costs are unnecessary, unreasonable, or an alleged violation of laws or regulations.

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

CPUs are stations, branches, and community post offices operated under contract by individuals who are not Postal Service employees. Contracts to operate CPUs provide that the contractor will transact specified postal business. During our quarterly analyses of the Financial Risk Model, we identified unusual expenses and other high-risk financial activity occurring at CPUs throughout the country. The transactions indicate potential financial mismanagement and may involve funds owed to the Postal Service. We designed this limited scope review to evaluate these risk factors at selected CPUs.

As part of its responsibilities, a Host Post Office will coordinate with the CPU to ensure receipt of a daily PS Form 1412 with supporting documentation, review the contractor's surety bond limitation, and conduct stamp credit counts as required.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to determine if funds were owed the Postal Service by selected high risk CPUs. Our scope included transactions generated from June 1, 2007, through June 30, 2008.

To accomplish the objective, we issued letters to Host Post Office personnel requesting information and documentation to support the high risk transactions we identified. We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed appropriate supervisors and employees as needed, and observed operations at selected CPUs.

We conducted this review from July 2008 through March 2009 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on February 26, 2009, and included their comments where appropriate.

### PRIOR AUDIT COVERAGE

As part of its annual financial statement support work, the OIG completed installation audits of 16 CPUs in FY 2006 and summarized the results in a capping report titled *Fiscal Year 2006 Financial Installation Audit – Contract Postal Units*. Generally, these audits disclosed internal control and compliance issues related to cash and stamp accountability, security of the money order imprinter, and the Bait Money Order Program.

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## APPENDIX B: MANAGEMENT'S COMMENTS

KATHY AINSWORTH  
VICE PRESIDENT, RETAIL OPERATIONS



March 23, 2009

LUCINE M. WILLIS

SUBJECT: Transmittal of Draft Management Advisory – High Risk Contract Postal Units (Report Number FF-MA-09-DRAFT)

Please find our comments on the specific recommendations:

**Recommendation:**

We recommend the Vice President, Retail Operations:

1. Develop an action plan to recover outstanding cash and stamp stock shortages.

**Response:**

We agree with the recommendation. An action plan will be developed that will provide instruction regarding the correct procedure for recovering cash and stamp stock shortages. This plan will be communicated to the Vice Presidents, Area Operations with instructions to disseminate to the district managers for action by the Contracting Officer Representatives (CORs) in the field. The plan will include a method for verifying that Contract Postal Unit (CPU) cash and stamp stock shortages are cleared in a timely manner. This plan will be sent to the Vice Presidents, Area Operations by the end of the third Quarter.

**Recommendation:**

We recommend the Vice President, Retail Operations:

2. Conduct a review of the two contract postal units where no response was given.

**Response:**

We agree with the recommendation. We will have the Headquarters CPU program office contact the district retail managers and investigate both of these locations. We will request that they do a financial and operational audit on both locations and forward the results to the Headquarters CPU program office by the close of business April 17. We will also direct the district offices to take action regarding any irregularity that may be discovered.

**Recommendation:**

We recommend the Vice President, Retail Operations, in conjunction with the Vice President, Controller:

3. Reinforce procedures for review and input of contract postal unit financial information.

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-2-

**Response:**

We agree with the recommendation. The procedure for the review and input of contract postal unit financial information will be sent to the Vice Presidents, Area Operations. We will recommend that the Vice Presidents, Area Operations provide this information to the district managers for dissemination to the CORs. This will be accomplished by the end of the third Quarter. We will continue to monitor the reporting of contract postal unit financial information and recommend additional action by the Vice Presidents, Area Operations for districts where there are still performance issues.

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

  
Kathy Ainsworth  
Vice President, Retail Operations

cc: Kathy Banks  
Manager, Corporate Audit & Response Management