



December 10, 2008

KATHLEEN AINSWORTH
VICE PRESIDENT, RETAIL OPERATIONS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

VICE PRESIDENTS, AREA OPERATIONS

SUBJECT: Audit Report – Contract Postal Unit Bonding
(Report Number FT-AR-09-005)

This report presents issues concerning procedures for monitoring the adequacy of contract postal unit (CPU) bond amounts. We identified these issues during our audit of the fiscal year (FY) 2008 Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 08BM001FT001). This audit addresses the financial risk associated with inadequate bond coverage. See [Appendix A](#) for additional information about this audit.

Conclusion

Policies and procedures for establishing CPU bond amounts were adequate. Specifically, the requirements for establishing bond amounts were sufficient to protect Postal Service accountabilities. However, procedures for monitoring bond amounts needed strengthening, and existing bond amounts were not always adequate to protect Postal Service accountabilities.

Procedures for Monitoring Contract Postal Unit Bond Amounts

The Postal Service did not have procedures in place for CPU coordinators to monitor bond amounts and bond waivers. Specifically, the Postal Service did not have procedures in place for district CPU coordinators to verify the local CPU's contracting officer's representative (COR) or designee:

- Completed the CPU annual financial examination and took corrective action based on the results.
- Maintained a current file of CPU activities.

- Assessed the adequacy of the bond amount as part of their daily responsibilities and took corrective action as necessary.

Additionally, the Postal Service did not have (1) procedures established to monitor the validity of existing bond waivers or (2) established and updated oversight tools for use by CORs and districts to monitor the adequacy of bond amounts. This occurred because Postal Service procedures focused primarily on establishing CPUs and initial bond amounts. When specific procedures for monitoring CPUs and updating bond amounts and waivers do not exist, there is an increased risk of loss to the Postal Service. See [Appendix B](#) for our detailed analysis of this topic.

As of June 2008, 420 CPUs did not have bonds adequate to cover stamp stock accountabilities totaling \$1,817,127. We will report \$1,817,127 of non-monetary impact, accountable items at risk, in our *Semiannual Report to Congress*. Because the maximum monthly accountability report did not include meter accountability, the actual accountable items at risk could be greater.

We recommend the Vice President, Retail Operations:

1. Clarify procedures for granting bond waivers for contract postal units.

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

2. Develop and implement procedures to ensure that existing monitoring tools, such as the Accounting Data Mart reports, reflect current requirements and communicate the availability and use of these tools to all applicable personnel.

Management's Comments

Management agreed with recommendations 1 and 2 and will review the procedures with the appropriate stakeholders, reissue the procedures to the areas as clarification, and instruct the areas to forward the procedures to their respective districts. Management also agreed to establish bond requirements that are in the best interest of the Postal Service and will revise the current Accounting Data Mart (ADM) report to reflect current requirements. When appropriate, they will communicate the availability and use of the tools to the areas for follow-up. They expect to complete these actions by Quarter 2, FY 2009.

Management neither agreed nor disagreed with the \$1.8 million non-monetary impact. However, they stated that to address the monetary impact, which was calculated after the May 2008 price increase, they will review policies and procedures to address the

bond requirement amounts during the price increase. See [Appendix C](#) for management's comments, in their entirety.¹

We recommend the Vice Presidents, Area Operations:

3. Subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.
4. Direct the district managers to:
 - Reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives.
 - Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Management's Comments

All Vice Presidents, Area Operations, agreed with recommendations 3 and 4² and have taken or planned actions to strengthen controls for monitoring and supporting compliance with bonding requirements. These include reiterating requirements at district and local levels and implementing procedures for bond waivers and limits, annual financial examinations, CPU files, and documentation and monitoring activities (including updated and new ADM reports as they become available).

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to all the recommendations, and the corrective actions should resolve the issues identified in the report.

We will continue to follow-up on the issues and corrective actions taken in response to our recommendations in our FY 2009 financial statement audit.

¹ We did not include the internal document provided by the Vice President, New York Metro Area Operations, that is used to monitor annual CPU examinations. It was provided only as an example of corrective action taken.

² The Vice President, Great Lakes Area Operations, agreed only in part with recommendation 4 because she indicated that contracting officers are not under the jurisdiction of the area or district. Since we directed our recommendation to all CPU contractors and contracting officer representatives, and not contracting officers, we do not view this as a disagreement.

Observation

During our audit, we found the Postal Service established 1,051 CPUs as sporadic stores in the Finance Number Control Master (FNCM) rather than on a regular financial reporting schedule as required. Sporadic stores are units that are established in the FNCM to transmit Postal Service (PS) Form 1412, Daily Financial Report, on an irregular frequency. However, management may not establish CPUs as sporadic stores. Instead, district offices must prepare a CPU request package specifying the CPU contract type and the days and time the CPU will be open for business.

Per the CPU Program Manager, some districts allowed management to establish CPUs as sporadic stores. Because these CPUs do not have a regular reporting schedule, they are not captured as “missing stores” in the Standard Accounting for Retail – Retail Accounting (SAFR-RA) system when they do not file a PS Form 1412. Consequently, their reporting status may not be readily brought to the attention of the COR and district representative, and these CPUs may not report revenues timely and accurately. Sporadic CPUs can jeopardize timely and accurate revenue reporting and further risk loss of Postal Service accountable items.

Management’s Comments

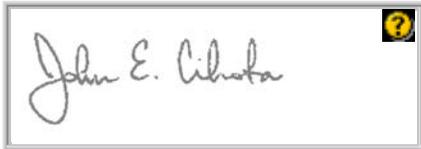
The Vice President, Great Lakes Area Operations, stated the only CPUs that should be sporadic are seasonal CPUs and those that are not open daily. Also, CPUs on the Sporadic Stores Not Reporting reports have been terminated for some time. Area Retail and Finance will work with districts to clean up the Sporadic Sites Missing reports by December 31, 2008.³

Evaluation of Management’s Comments

The OIG considers management’s comments responsive to the observation, and the corrective actions should resolve the issues identified.

³ The Vice President, Great Lakes Area Operations, was the only vice president to comment on this observation.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Financial Reporting, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: William P. Galligan, Jr.
H. Glen Walker
Susan M. Brownell
Vincent H. DeVito, Jr.
Ronald D. Langevin, Jr.
Janet L. Webster
Gladys E. Zamora
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

A CPU is a supplier-owned or supplier-leased site under contract to the Postal Service. CPUs are usually located in retail stores or other businesses and accept mail from the public, sell postage and Postal Service supplies, and provide other selected services. The goals of the CPU program are to provide customers alternate access in order to reduce customer wait times in post offices, retain and increase market share, reduce operational costs, and improve customer satisfaction.

As of July 2008, there were 4,176 active CPUs. Of these, 2,979 CPUs were in the SAFR-RA system and transmit a PS Form 1412. These CPU contractors must have bonds to cover stamp and postage meter accountability to indemnify the Postal Service for any shortage that may occur. The remaining 1,197 CPUs were in the Contract Access Retail System (CARS) and are not required to be bonded because the contractors purchase their own stamps and postage meters. As such, they are not part of the SAFR-RA system and are not required to complete a PS Form 1412. Most new CPUs will meet the criteria to be established as CARS units.⁴ However, those that do not will be in the SAFR-RA system. Also, the Postal Service plans to convert existing CPUs to CARS if they meet the criteria. As of July 2008, CPUs generated \$602 million in revenue.

District coordinators monitor the establishment of CPUs by host post offices.⁵ The host post office's COR or designee, usually the postmaster, is responsible for all CPU activities, including financial reporting, and ensuring the bond amount reflects the CPU's current full stamp and meter accountability.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to determine whether policies and procedures for establishing and monitoring bond amounts were adequate and whether existing bond amounts were adequate to protect Postal Service accountabilities.

To accomplish our objectives, we visited one CPU host post office in the Gateway District to obtain information about bond calculation, criteria, annual financial examination, and local and district oversight of the adequacy of the bond amount. We also interviewed employees from the CPU host post office, Gateway District, Retail Operations, St. Louis Accounting Service Center, and Denver Category Management Center. In addition, we analyzed bonding information from the ADM and reviewed applicable policies and procedures.

⁴ CARS CPUs must have annual revenues of \$100,000 or more and no post office boxes.

⁵ A host post office is the main post office in the service area where a CPU is located.

We conducted this performance audit from December 2007 through December 2008 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 officials on October 15, 2008, and included their comments where appropriate.

We relied on computer-generated data from the ADM to determine the number and dollar amount of CPUs that did not have bonds adequate to cover accountabilities. We did not test the reliability of computer-generated data in ADM for this audit finding.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2006 Financial Installation Audit – Contract Postal Units</i>	FF-AR-07-075	January 25, 2007	None	The bonds for two CPUs had expired. For another unit, cash and stamp accountability exceeded the surety bond amount. We made no recommendations.
<i>Fiscal Year 2004 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center</i>	FT-AR-05-009	March 15, 2005	None	The Postal Service did not have an automated method for verifying whether contract stations' stamp accountabilities exceeded their bond authority. The Postal Service implemented our recommendation, which is now closed.

APPENDIX B: PROCEDURES FOR MONITORING CONTRACT POSTAL UNIT BOND AMOUNTS

Procedures for monitoring the adequacy of CPU bonds needed strengthening. Specifically, the Postal Service did not have procedures in place for district CPU coordinators to verify that the local CPU's COR or designee:

- Completed the CPU annual financial examination and took corrective action based on the results.
- Maintained a current file of CPU activities.
- Assessed the adequacy of the bond amount as part of their daily responsibilities and took corrective action as necessary.

Additionally, the Postal Service did not have procedures in place to monitor the validity of existing bond waivers.⁶ Finally, the procedures did not provide for establishing and updating oversight tools for use by CORs and districts to monitor the adequacy of bond amounts. In fact, the ADM report, *Contract Stations Exceeding Bonds*, which personnel use to monitor the adequacy of bond amounts, did not reflect current bonding requirements. This report showed CPUs with bond amounts exceeding average monthly stamp accountability only. The report did not identify full stamp and meter accountability, as required.

This occurred because Postal Service procedures focused primarily on establishing CPUs and initial bond amounts and did not provide for specific district oversight of CPU daily activities and annual financial examinations regarding the adequacy of bond amounts. We visited a host post office⁷ and determined that, although the COR completed the annual financial examination, the district coordinator did not have a copy of the examination and was not aware of the results. In addition, at the time of our visit, the COR did not have a copy of the bond in the CPU file and did not know if the CPU had a meter.⁸ According to the CPU program manager, some CPUs had not completed the annual financial examination in more than 2 years and do not maintain adequate files.

According to Postal Service policy, the postmaster, manager, or supervisor of the host post office is responsible for ensuring that CPU stamp credit counts are conducted randomly at least every 12 months.⁹ In addition, the COR's administrative file should include a copy of the contract, any modifications, and the original bond, among other items,¹⁰ to ensure the bond covers all stamp stock, accountables, and the value of the

⁶ We did not determine how many CPUs had valid bond waivers.

⁷ ██████████, Gateway District.

⁸ The district coordinator later confirmed the CPU had a meter.

⁹ Handbook F-101, *Field Accounting Procedures*, Section 13-7.1, July 2008.

¹⁰ Publication 156, *Postal Service Employee Guide to Contract Postal Units*, Section 7-3.2.3, August 2005.

postage on the meter.¹¹ Although procedures state bond waivers are usually not approved,¹² they do not include guidance on when management can waive bond requirements.

When specific procedures do not exist for monitoring CPUs to ensure the adequacy of bond amounts and the validity of existing bond waivers, there is an increased risk of loss to the Postal Service. Furthermore, when bonds do not adequately cover full stamp and meter accountabilities, the Postal Service is at risk of loss for CPU shortages. As of June 2008, 420 CPUs did not have bonds adequate to cover stamp stock accountabilities totaling \$1,817,127. Of these, 44 CPUs had total maximum monthly accountabilities¹³ of \$182,456 but had bond coverage of \$1 or less. Because this amount did not include meter accountability, the actual accountable items at risk could be greater.

¹¹ Publication 156, Section 5-7.2.3.

¹² Publication 156, Section 5-7.2.3.

¹³ Maximum monthly accountability represents the largest daily stock ledger balance for the month for each CPU.

APPENDIX C: MANAGEMENT'S COMMENTS



November 6, 2008

LUCINE M. WILLIS

SUBJECT: Contract Postal Unit Bonding (Report Number FT-AR-09-DRAFT)

Please find our comments on the specific recommendation:

Recommendation:

We recommend the Vice President, Retail Operations:

1. Clarify procedures for granting bond waivers for contract postal units.

Response

We agree with the recommendation, and we will review the procedures with the appropriate stakeholders and then reissue the procedures to the areas as clarification. We will instruct the areas to subsequently forward the procedures to their respective districts. It is expected that these procedures will be reissued no later than Quarter 2, fiscal year (FY) 2009.

Recommendation:

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

2. Develop and implement procedures to ensure that existing monitoring tools, such as the Accounting Data Mart reports, reflect current requirements and communicate the availability and use of these tools to all applicable personal.

Response:

We agree with the recommendation and will establish bond requirements which are in the best interest of the Postal Service. The current ADM report will be revised to reflect current requirements.

We will also review the policies and procedures to address the bond requirements amount during the price increase. This will address the comment on \$1.8M non-monetary impact which was calculated for the month subsequent to the May 2008 price increase. It is expected that this will be completed no later than Quarter 2, FY 2009. When appropriate, we will communicate the availability and use of the tools to the areas for follow up.

No information in the Draft Audit Report is exempt from disclosure under the Freedom of Information Act (FOIA).


Kathy Ainsworth
Vice President, Retail Operations


Lynn Malcolm
Vice President, Controller

cc: Kathy Banks, Manager, Corporate Audit & Response Management

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SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS



November 3, 2008

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Contract Postal Unit Bonding
(Report Number FT-AR-09-DRAFT)

We have reviewed the subject draft report and look forward to the completion of the first two recommendations by Headquarters. Each of these will greatly assist us achieve and maintain compliance relative to the management of Contract Postal Units.

Our responses to your recommendations #3 and #4 follow.

Recommendation #3: We recommend the Vice Presidents, Area Operations, subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and District monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Response: We agree with this recommendation and offer the attached memo to Western Area District Managers as support of our efforts to monitor contract postal unit daily activities. We are requesting immediate action by our Districts to validate and update CPU bonds as well as to ensure daily verification of bond adequacy by those with responsibility for system input of financial activity.

Recommendation #4: We recommend the Vice Presidents, Area Operations, direct the District managers to:

- Reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives.
- Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Response: We agree with these recommendations and again offer the attached letter in support of both recommendations.

We do not believe there is any Freedom of Information Act exempt information in the draft report or our response.

Sylvester Black

Attachment

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FINANCE



October 31, 2008

DISTRICT MANAGERS
WESTERN AREA

SUBJECT: MANAGEMENT OF CONTRACT POSTAL UNITS

A recent national OIG audit revealed significant deficiencies in the management oversight of Contract Postal Units (CPUs), particularly in the areas of bond coverage and daily reporting. The Vice President, Retail Operations has been requested to clarify procedures for granting bond waivers, and the Vice President, Controller has been tasked with developing actionable monitoring tools. One tool we will continue to request is a robust postage meter report that will provide CPU meter balances at any given time. This will greatly assist districts with monitoring CPU bond adequacy.

In the meantime, we are instituting the following processes in a joint effort to ensure SOX compliance for CPU operations.

On an ongoing basis, District Finance and Retail must monitor and determine the adequacy of all CPU bonds. The majority of CPUs are required to maintain a bond that covers their stamp accountability and meter postage. We request that District Retail and CORs evaluate and update CPU bonds upon receipt of this letter.

CONTRACT POSTAL UNIT RESPONSIBILITIES

- CPUs must prepare a daily PS Form 1412.
- A deposit is required when funds reach \$100, or if there are money order sales. Otherwise, the CPU is to prepare and submit a zero activity Form 1412. A bank deposit must be made at a minimum of once per week, regardless of amount.
- CPUs must not order quantities of stamp stock that would, when combined with their meter postage, exceed their bond.

PS FORM 1412 INPUT SITE RESPONSIBILITIES

- The person(s) responsible for entering CPU Forms 1412 into eMOVES or an IRT must verify on a daily basis that the stamp accountability and postage meter balance do not exceed the bond.
- Zero activity Forms 1412 must be entered into eMOVES or an IRT with just the AIC 853 balance.
- Daily receipt of Forms 1412 is required and management action must be taken in cases of non-compliance.
- Forms 1412 must not be batched when input into eMOVES or an IRT.

DISTRICT RETAIL AND COR RESPONSIBILITIES

- Each COR and District Retail office must maintain a file for each CPU. This file will contain the contract, copies of modifications, the bond, (letter of credit, record of deposit of assets or

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waiver if applicable), the COR Appointment, a listing of equipment provided by USPS, all correspondence to and from the supplier, and all audit and review documentation.

- District Retail must immediately notify District Finance of CPU changes or cancellations.
- CORs must ensure quarterly performance and annual financial reviews are conducted. Western Area policy is that the annual financial review be conducted during Quarter 2, January 1st through March 31st.
- District Retail will establish a process to ensure all CORs have completed the required reviews and will maintain copies in the COR files.
- CORs are responsible to monitor and address CPU financial discrepancies.

DISTRICT FINANCE RESPONSIBILITIES

- District Finance will ensure FNCM (Finance Number Control Master) has correct CPU information to include the current contract number and bond amount and any other updated information provided by District Retail.
- District Finance will ensure all CPUs have a daily reporting status. There should be very few circumstances warranting a sporadic reporting status.
- Financial Control and Support will monitor compliance with the required annual stamp and cash counts, bond limits and daily reporting.

Extraordinary issues impeding the implementation of these action items and procedures by November 30th may be forwarded to us via email.



Steven J. Juhl
Manager, Finance



Kim Harbeck
Manager, Customer Relations

Attachment

VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



November 5, 2008

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Transmittal of Draft Audit Report – Contract Postal Unit Bonding
(Report Number FT-AR-09-DRAFT)

The New York Metro Area has reviewed the recommendations for Vice Presidents, Area Operations, contained in the subject audit and agrees with the findings.

RECOMMENDATION #3: Subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Response: We agree with this recommendation. District CPU CORs will receive training on how to utilize Accounting Data Mart reports. The purpose of this training will be for reviewing PS Form 1412s and ensuring transmission from all CPUs that are in the SAFR-RA system. A spreadsheet has been developed to track CPUs in each District (see attached). The spreadsheet contains the CPU name and address, the adequacy of the bond amount, and the date of the last annual financial examination as well as a space to document corrective action. All audits (excluding those deemed necessary by management due to reporting irregularities) will be conducted during the months of May and June. Upon completion of the audits, District CPU CORs will be required to submit a report to the Area CPU Coordinator documenting that the financial audits have been conducted and that the bond is adequate.

RECOMMENDATION #4: Direct district managers to reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives and evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Response: We agree with this recommendation. The Area Retail Office will reissue the bond requirements to District Managers for all CPUs currently using the SAFR-RA system. Instructions will be given to retail CPU coordinators regarding procedures for CORs to follow to ensure that bond limits are not compromised when issuing stamps to a CPU. Effective November 17, 2008, each district coordinator will visit their district CORs to reiterate policies and protection of postal assets.



Steven J. Forte

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ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



November 10, 2008

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS – OIG
audittracking@uspsoig.gov

SUBJECT: Contract Postal Unit Bonding (Report Number FT-AR-DRAFT)

Management agrees with the findings in the draft audit report.

Recommendation #3:

Subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Management's Response:

Management agrees with the recommendation and will implement procedures for district monitoring of contract postal units to ensure the stamp accountability and the dollar amount on the meter do not exceed the bond amount within 30 days after the ADM report is available.

Recommendation #4:

Direct the district managers to:

- Reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives.
- Evaluate and update existing bond and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Management Response:

We agree with the finding and will issue a letter to District Managers directing them to reiterate bonding requirements and to update existing bonds and bond

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- 2 -

waivers to ensure bond amounts cover stamp and postage meter accountabilities within 30 days of receiving of the new procedures developed by Retail Operations (Headquarters).

Management's response does not contain any information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

Should you have any question or require any additional information, please contact Mark Loop, Area Finance Manager, at (214)819-8950.


Ellis A. Burgoyne

cc: William P. Galligan, Jr.
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Vincent H. DeVito, Jr.
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Gladys E. Zamora
Katherine S. Banks

MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



November 6, 2008

Lucine Willis
Director, Audit Operations
1735 North Lynn St.
Arlington, Va. 22209-2020

SUBJECT: Contract Postal Unit Bonding (Report Number FT-AR-09-DRAFT)

The Eastern Area has reviewed the subject Audit Report (Report Number FT-AR-09-Draft) and is in agreement with the findings and recommendations.

Headquarters Retail Operations is responsible for addressing recommendations (1) and (2).

Recommendation 3: Subsequent to actions taken in response to recommendations (1) and (2), the Vice Presidents of Area Operations are to develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Management agrees with this recommendation. The Eastern Area will implement the procedures developed by Retail Operations (Headquarters) for local and district monitoring of contract postal unit daily activity and annual financial examinations including bond amounts and bond waivers. These processes will be disseminated to the District Managers by the Area Manager of Customer Relations immediately upon receipt.

Recommendation 4: The Vice Presidents of Area Operations will direct the district managers to:

- Reiterate bonding requirement to all contract postal unit contractors and contracting officer representatives.
- Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Management agrees with the recommendation. The attached memorandum, dated November 5, 2008, directs District Managers to reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives. This also requires them to evaluate and update existing bonds and bond waivers ensuring that bond amounts cover full stamp and postage meter accountabilities.



Megan Brennan

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MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



November 5, 2008

MEMORANDUM FOR DISTRICT MANAGERS, EASTERN AREA

The Office of the Inspector General conducted a performance audit from December 2007 through October 2008 to determine whether policies and procedures for establishing and monitoring bond amounts for Contract Postal Units (CPUs) were adequate and whether existing bond amounts were adequate to protect Postal Service accountabilities.

The audit concluded that policies and procedures for establishing CPU amounts were adequate however, procedures for monitoring bond amounts needed strengthening, and existing bond amounts were not always adequate to protect the Postal Service.

To that end, you are asked to ensure compliance with existing policies and procedures by sending the attached bonding requirements to all contracting officer representatives. Direct your district CPU coordinator (retail specialist) to evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities (instructions attached).

Please ensure that an annual financial examination of all CPUs has taken place no later than November 29, 2008 and corrective action taken if necessary. In addition, ensure that the district CPU coordinators maintain a current file of CPU activities and assess the adequacy of the bond amount as part of their daily responsibilities.

The Area Customer Relations staff will continue to review and monitor CPU performance to ensure we are all doing our part to protect and grow revenue and provide a high standard of customer service. Please contact [REDACTED] Customer Relations Manager (A), when your district is in compliance with the above and for any questions or concerns.

Megan Brennan

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TERRY J. WILSON
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



November 6, 2008

Lucine M. Willis
Director, Audit Operations
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SUBJECT: Transmittal of Draft Audit Report – Contract Postal Unit (CPU) Bonding
(Report Number FT-AR-09-Draft)

Thank you for the opportunity to review and comment on the subject draft audit report.

Recommendation #3:

Subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Response: We are in agreement with this recommendation. In lieu of waiting for national implementation of recommendations (1) and (2), the Southeast Area Vice President instructed District Managers to ensure:

- All District CPU Coordinators maintain records that all Contracting Officer Representatives (CORs) complete the annual examination for all CPUs and actions taken.
- CPU Coordinator maintains a log of these examinations for review.
- CPU Coordinators ensure all CORs maintain a current file of CPU activities, including copies of bonds and their adequacy, and all correspondence related to that issue.

We will revise and re-issue instructions, if necessary, subsequent to receipt of national actions to recommendations (1) and (2).

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Recommendation #4:

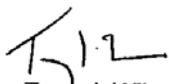
Direct the District Managers to:

- Reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives.
- Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Response: We are in agreement with this recommendation. District Managers were instructed, by copy of letter attached, to put procedures in place that the District CPU Coordinator ensures CORs assess the adequacy of bond amount for each CPU periodically and that they monitor the stamp and meter accountability of the CPU to ensure the accountability does not exceed the bond amount. Additionally, Southeast Area Finance produces a monthly report ranking areas and districts on amount of contracts exceeding bond. The current report uses average accountability over bond rather than maximum. This report is posted to the Southeast Area Accounting web site and CORs with contract units exceeding the bond must email Southeast Area Finance their corrections. During the month of September 2008, the Southeast Area only had one contract unit on the report.

We do not feel this information is exempt from disclosure under the FOIA.

If you have any questions, please contact Jeanne McAfee, Accounting Manager (A), at 901-747-7546.



Terry J. Wilson

Attachment

cc: Kathy Banks, Manager, Corporate Audit and Response Management
Patricia M. White, Manager, Retail Access Channels
Area Manager, Finance
Area Manager, Customer Relations

TERRY J. WILSON
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



November 3, 2008

DISTRICT MANAGERS

**SUBJECT: Draft Audit Report – Contract Postal Unit (CPU) Bonding
(Report Number FT-AR-09-DRAFT)**

In accordance with the recommendations made by the OIG in the above referenced report, the following procedures must be put in place immediately:

1. District CPU Coordinators must maintain records indicating that all Contracting Officer Representatives (CORs) or their designee have completed the annual examination for all Contract Postal Units (CPUs) and taken action based on the results of the examination. To simplify this process, each District should direct CORs to complete these examinations during a specific month and to notify the District CPU Coordinator when it has been completed with the results of the examination. The month should be varied. A log of the results must be maintained by the Coordinator for review.
2. District CPU Coordinator must ensure all CORs maintain a current file of CPU activities including:
 - The contract itself, the contractor's proposal and all contract modifications
 - Delivery orders or task orders, if applicable
 - Invoices
 - Copies of the annual audit
 - Copies of the bond amount
 - General Correspondence
 - Special issues files
 - Any other communications between the contractor and the Postal Service
3. District CPU Coordinator must ensure that CORs assess the adequacy of the bond amount for each CPU periodically and that the COR monitors the stamp and meter accountability of the CPU to ensure that the accountability does not exceed the bond amount. SEA Finance produces a monthly report ranking areas and districts on amount of contracts exceeding bond. The current report uses average accountability over bond amount rather than maximum. This report is posted to the SEA accounting web site. CORs with contract stations exceeding bond on this report each month must send email to SEA Finance with action plan to alleviate this problem.

If you have any questions regarding this matter, please contact Jeanne McAfee at 901-747-7546.

A handwritten signature in black ink that reads "T.J. Wilson".

Terry J. Wilson

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MEMPHIS TN 38106-0100
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JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



November 6, 2008

Lucine Willis
Director, Audit Operations
1735 North Lynn St
Arlington VA 22209-2020

SUBJECT: Transmittal of Draft Audit Report – Contract Postal Unit Bonding
(Report Number FT-AR-09-Draft)

Thank you for the opportunity to review and comment on the subject draft audit report. The findings are addressed below:

Finding: The Postal Service did not have procedures in place for CPU coordinators to monitor bond amounts and bond waivers.

Response: Great Lakes Area does not have designated CPU Coordinators. For the interim period Area Finance will require District Financial Control and Support monitor compliance with the required annual stamp and cash counts, bond limits, and daily reporting. See attached letter.

Finding: The Postal Service did not have procedures in place for district CPU coordinators to verify the local CPUs Contracting Officer Representative (COR) or designee:

- Completed the CPU annual financial examination and took corrective action based on the results.
- Maintained a current file of CPU activities.
- Assessed the adequacy of the bond amount as part of their daily responsibilities and took corrective action as necessary.

Response: Area Retail sent out a directive reiterating Retail responsibilities relative to CPUs (copy attached). Once the Vice President, Retail Operations, in conjunction with the Vice President, Controller clarify, develop, and implement the procedures identified in Recommendations 1 and 2, Area Finance and Area Retail will jointly develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

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Finding: The Postal Service did not have (1) procedures established to monitor the validity of existing bond waivers or (2) established and updated oversight tools for use by CORs and districts to monitor the adequacy of bond amounts.

Response: Once the Vice President, Retail Operations, in conjunction with the Vice President, Controller clarify, develop, and implement the procedures identified in Recommendations 1 and 2, Area Finance and Area Retail will jointly develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

The recommendations are addressed below:

Recommendation 3 – Subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Response: Management agrees with this recommendation. Once the Vice President, Retail Operations, in conjunction with the Vice President, Controller clarify, develop, and implement the procedures identified in Recommendations 1 and 2, Area Finance and Area Retail will jointly develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Recommendation 4 – Direct the District Managers to:

- Reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives.
- Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Response: Management agrees in part with this recommendation. Attached is a copy of letter issued to the field to reiterate bonding requirements to all contract postal unit contracting officer representatives. Contracting officers were not included in the correspondence since they are part of the Purchasing Material Service Center (PMSC) and are not under the jurisdiction of the Area or District. The letter also directs the District to evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Observation: The Postal Service established 1,051 CPUs as sporadic stores in the Finance Number Control Master (FNCM) rather than on a regular financial reporting schedule as required. Sporadic stores are units that are established in the FNCM to transmit Postal Service (PS) Form 1412, Daily Financial Report, on an irregular frequency.

Comments: District Finance is responsible for the data entered into FNCM. The only CPUs that should remain as sporadic are the seasonal CPUs and/or those CPUs that are not open daily M-F. Many of the CPUs listed on the Sporadic Stores Not Reporting 10-Day and 30-Day Reports have been terminated for some time. Area Retail and Area Finance will work with the Districts to clean up the data in the Sporadic Sites Missing 10 Days and 30 Days Reports. Due Date: December 31, 2008

The Great Lakes Area is not in a position to determine what is exempt under the Freedom of Information Act (FOIA) regarding this national program. We defer to the statement that Headquarters includes in their response.

If you have any questions or require additional information, please contact [REDACTED] [REDACTED] Manager Customer Relations at [REDACTED] or [REDACTED] Manager, Finance at [REDACTED].



Jo Ann Feindt

GREAT LAKES AREA
FINANCE



November 6, 2008

DISTRICT MANAGERS

SUBJECT: Management of Contract Postal Units

A recent national OIG audit revealed significant deficiencies in the management oversight of Contract Postal Units (CPUs), particularly in the areas of bond coverage and daily reporting. The Vice President, Retail Operations has been requested to clarify procedures for granting bond waivers, and the Vice President, Controller has been tasked with developing actionable monitoring tools.

In the meantime, we are instituting the following processes in a joint effort to ensure SOX compliance for CPU operations.

On an ongoing basis, District Finance and Retail must monitor and determine the adequacy of all CPU bonds upon receipt of this letter.

CONTRACT POSTAL UNIT RESPONSIBILITIES

- CPUs must prepare a daily PS Form 1412
- A deposit is required when funds reach \$100, or if there are money order sales. Otherwise, the CPU is to prepare and submit a zero activity Form 1412. A bank deposit must be made at a minimum of once per week, regardless of amount.
- CPUs must not order quantities of stamp stock that would, when combined with their meter postage, exceed their bond.

PS FORM 1412 INPUT SITE RESPONSIBILITIES

- The person(s) responsible for entering CPU Forms 1412 into eMOVES or an IRT must verify on a daily basis that the stamp accountability and postage meter balance do not exceed the bond.
- Zero/non-activity Forms 1412 must be entered into eMOVES or an IRT with just an AIC 853 balance.
- Daily receipt of Forms 1412 is required and management action must be taken in cases of non-compliance.
- Forms 1412 must not be batched when input into eMOVES or an IRT.

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BLOOMINGDALE, IL 60117-4000

DISTRICT RETAIL AND COR RESPONSIBILITIES

- Each COR and District Retail office must maintain a file for each CPU. This file will contain the contract, copies of modifications, the bond, (letter of credit, record of deposit of assets or waiver if applicable), the COR Appointment, a listing of equipment provided by USPS, all correspondence to and from the supplier, and all audit and review documentation.
- District Retail must immediately notify District Finance of CPU changes or cancellations.
- CORs must ensure quarterly performance and annual financial reviews are conducted. Great Lakes policy is that the annual financial review be conducted in the month of April.
- District Retail will establish a process to ensure all COR's have completed the required reviews and will maintain copies in the COR files.
- CORs are responsible to monitor and address CPU financial discrepancies.

DISTRICT FINANCE RESPONSIBILITIES

- District Finance will ensure FNCM (Finance Number Control Master) has correct CPU information to include the current contract number and bond amount and any other updated information provided by District Retail.
- District Finance will ensure all CPUs have a daily reporting status. There should be very few circumstances warranting a sporadic reporting status.
- Financial Control and Support will monitor compliance with the required annual stamp and cash counts, bond limits and daily reporting.

Extraordinary issues impeding the implementation of these action items and procedures by December 5th may be forwarded to us via email.


for Ron McDowell
Manager, Finance


Nancy Bessler
Manager, Customer Relations

TIMOTHY C. HANEY
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



November 7, 2008

LUCINE M. WILLIS, DIRECTOR, AUDIT OPERATIONS, USPS-OIG

SUBJECT: Draft Audit Report – Contract Postal Unit Bonding
(Report Number FT-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

I agree with each finding stated in the audit report and understand that the Vice President, Retail Operations will be addressing Recommendations 1 and 2.

Recommendation [3]:

Develop and implement procedures for local and district monitoring of contract postal unit (CPU) daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Response

The Northeast Area and all performance clusters are monitoring stock shipped to CPUs in excess of their bond amount monthly through a report provided by the Area. Correspondence was sent to all District Marketing Managers on October 17, 2008 instructing them to inform the Contracting Officer's Representatives (CORs) and Postmasters that CPU accountability must remain within the bond limits.

All CORs for CPUs will monitor daily stamp shipments and postage meter amounts ensuring that stamp and meter accountability stays within bond amount. Stamp Distribution Offices that ship stamps to CPUs will institute the same procedures. In addition, stamps returned by CPUs for destruction must be destroyed prior to any additional stock being shipped to avoid bond overage.

Action: Immediately. Site responsibility - Contracting Officer's Representatives with oversight by District Manager.

6 GRIFFIN ROAD NORTH
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- 2 -

Recommendation [4]:

- District Managers will reiterate bond requirements to all CPU contractors and CORs.
- Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamps and postage meter accountabilities.

Response

The Northeast Area Vice President has sent the attached memorandum to the District Managers directing them to reiterate the bond requirements of CPUs to the CORs. This memo also directs the District Managers to evaluate and update existing bonds and bond waivers to ensure that bond amounts cover full stamp and postage meter accountabilities. Additionally the District Managers are to direct the CORs to perform annual examinations on each CPU.

All Bond Standard Operating Procedures and Postal Operations Manual regulations pertaining to CPU bonds will be issued to CORs who are required to meet with CPU operators ensuring bonds are adequate for stamps and meter accountability. Each bond will be reviewed individually to ensure compliance and the COR guidance to CPU operators on obtaining adequate bonding amount.



Timothy C. Haney

Attachment

TIMOTHY C. HANEY
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



November 7, 2008

NORTHEAST AREA DISTRICT MANAGERS

SUBJECT: Contract Postal Units – OIG Audit

A recent national OIG audit revealed significant deficiencies in the management oversight of bonding coverage of Contract Postal Units (CPUs).

In order to ensure compliance in the Northeast Area, the following will occur in each PC:

- On an ongoing basis, District Retail and Finance must monitor and determine adequacy of all CPU bonds. In addition, CORs (in most cases, Postmasters) must ensure stock is given to a CPU only up to the amount of the bond.
- Each District Retail office and COR must maintain a file for each CPU. This file will contain the contract, copies of modifications, and bonding information.
- District Retail will notify Finance of any changes in CPU operations or contracts and will provide updated bond documentation if necessary.
- CORs will conduct annual financial reviews during Quarter 2 of FY09.
- District Finance will ensure Finance Number Master Control (FNMC) has correct CPU information as provided by COR and District Retail.

Attached is an SOP for issuing CPU bonds. Please ensure this is explained to each COR who has responsibility for a CPU.

The Postal Service could assume large monetary expenses when CPUs have more accountability than they are bonded for. Please adhere to the SOPs and procedures outlined.


Timothy C. Haney

Attachment

cc: Manager, Customer Relations
Manager, Finance

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MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS



November 6, 2008

Lucine Willis
Director, Audit Operations
1735 North Lynn St.
Arlington, VA 22209-2020

SUBJECT: Contract Postal Unit Bonding (Report Number FT-AR-09-DRAFT)

Stated below are our responses to Recommendations #3 and #4 of the subject report. The completion, by the Vice President of Retail Operations, of recommendations #1 and #2 will further assist us in our review and assessment of our Contract Postal Unit (CPU) bonds, and in maintaining compliance with our management procedures relative to management of CPU accountabilities.

Recommendation #3:

We recommend the Vice Presidents, Area Operations, subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waivers and documenting corrective actions taken.

Response to Recommendation #3:

We agree with this recommendation. A copy of the memo we have issued to outline our Area policies relative to responsibilities for CPU bond management and oversight is provided as evidence of our efforts in support of this recommendation.

Recommendation #4:

We recommend the Vice Presidents, Area Operations direct the district managers to reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives, and evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

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Response to Recommendation #4:

We agree with Recommendation #4 and offer the previously described memo as evidence of our support of this recommendation.

We do not believe that Report FT-AR-09-DRAFT or our response contain information that may be exempt from disclosure under the Freedom of Information Act.



Michael J. Daley
Vice President, Pacific Area Operations

Attachment

cc: David Stowe
Ed Ruiz
Loren Machart
Bonnie Badilla
Robert McGuire



November 5, 2008

DISTRICT MANAGERS
PACIFIC AREA

SUBJECT: Contract Postal Unit (CPU) Bond Management and Oversight

A recent national OIG audit revealed deficiencies in procedures for monitoring CPU bond amounts. Specifically, the audit found that the Postal Service did not have procedures in place for district CPU coordinators to verify that CPU contracting officer representatives (CORs) or designees:

- completed their CPU annual financial examinations and took corrective action based on the results;
- maintained a current file of CPU activities; and
- assessed the adequacy of the bond amount as part of their routine responsibilities

Each of you must ensure that your District Finance and District Retail groups, on a routine basis, collaboratively review and assess the adequacy of all CPU bonds. Upon receipt of this letter, it is requested that the CORs along with District Retail evaluate each CPU bond and make any appropriate updates.

Daily Accounting Instructions

- CPUs must not order quantities of stamp stock that would, when combined with their meter accountability, exceed their bond.
- The person(s) responsible for entering CPU Form 1412 must verify on a daily basis that the combined stamp and meter accountability do not exceed the bond.

District Retail and COR Responsibilities

- Each COR and the District Retail office must maintain a file for each CPU. This file will contain the contract, copies of modifications, the bond (letter of credit, record of deposit of assets, or waiver if applicable), the COR appointment, a listing of equipment provided by USPS, all correspondence to and from the supplier, and all audit and review documentation.
- District Retail must immediately notify District Finance of CPU changes or cancellations.
- CORs must ensure all required financial reviews are conducted.
- District Retail must validate that all CORs have completed their required reviews.
- CORs are responsible for monitoring and addressing CPU financial discrepancies.

District Finance Responsibilities

- District Finance will ensure the Finance Number Control Master is maintained with the correct CPU information
- Financial Control and Support will monitor compliance with the required annual stamp and cash counts, bond limits, and reporting frequency

www.usps.com

The review of each CPU bond, the update of any bonds, as appropriate, and the establishment of procedures to ensure compliance with the responsibilities communicated above should be completed by December 3, 2008.



David B. Stowe
Manager, Finance



Eduardo H. Ruiz
Manager, Customer Relations

VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS



November 7, 2008

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Contract Postal Unit Bonding (Report Number FT-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. The Capital Metro Area has reviewed and concurs with the general findings and recommendations of the OIG audit team.

Recommendations 1 and 2 - Headquarters Retail Operations will be responding to and addressing these two recommendations.

Recommendation 3 – Subsequent to actions taken in response to recommendations (1) and (2), develop and implement procedures for local and district monitoring of contract postal unit daily activities and annual financial examinations, including ensuring the adequacy of the bond amount and validity of existing bond waiver and documenting corrective actions taken.

Response

Management agrees with this recommendation. Upon completion of procedures developed by Headquarters Retail Operations, Capital Metro Area will implement and communicate developed tools and instructions to the districts for daily monitoring activities and responsibilities.

Recommendation 4 – The Vice Presidents of Area Operations will direct the district managers to:

- Reiterate bonding requirements to all contract postal unit contractors and contracting officer representatives.
- Evaluate and update existing bonds and bond waivers, as appropriate, to ensure that bond amounts cover full stamp and postage meter accountabilities.

Response

Management agrees with this recommendation. Please see attached instructions communicated on this date to District Managers to ensure that bonding requirements are being evaluated, updated and adhered to by contracting officer representatives and CPU contractors.


Jerry D. Lane

Attachment

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VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS



November 7, 2008

DISTRICT MANAGERS

SUBJECT: Contract Postal Unit Bonding

Throughout Fiscal Year 2008, the Office of the Inspector General (OIG) conducted audits regarding the adequacy and effectiveness of policies and procedures for establishing and monitoring bond amounts for Contract Postal Units (CPUs).

The OIG concluded that policies and procedures for establishing CPU bond amounts were adequate, however, procedures for monitoring bond amounts needed strengthening, and existing bond amounts were not always adequate to protect Postal Service accountabilities.

As a result of these findings, I am requesting that each district manager ensure compliance with existing policies and procedures. Please direct your district CPU coordinators (Customer Relations Specialist) to evaluate and update existing bonds and bond waivers to ensure that bond amounts fully cover stamp and postage meter accountabilities. In addition, CPU coordinators must maintain a current file of CPU activities, assessing adequacy of bond amounts as part of their daily responsibilities and ensure that annual financial examinations have taken place.

The Area Customer Relations staff will continue to review and monitor CPU performance to ensure and protect revenue growth.


Jerry D. Lane

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