



## AUDIT REPORT

# Internal Controls Over Segmented Inventory – Bayport Post Office, Bayport, MN

September 26, 2016





September 26, 2016

**Internal Controls Over Segmented Inventory –  
Bayport Post Office, Bayport, MN**  
Report Number FT-FM-16-007

**BACKGROUND:**

The U.S. Postal Service Office of Inspector General (OIG) uses tripwires, to identify financial anomalies. Tripwires are analytic tools that look at specific behaviors and patterns that are strong indicators of improper activity. The OIG's *Perfect Count Tripwire* identified that the Bayport Post Office in Bayport, MN, reported four (quarterly) perfect inventory counts from April 1, 2015, to March 31, 2016. Perfect count means the Postal Service did not report any overages or shortages of Retail Floor Stock.

Segmented inventory consists of retail floor stock (stamps sold on the retail floor), unit reserve stamp stock (stamps used to replenish those sold on the retail floor), cash, money orders, and stamps assigned to Retail Associates (RAs). Inventory can be transferred between segments; therefore, all segments of inventory must be counted to determine whether perfect counts are accurate. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

An office with at least \$100,000 in annual revenue and three employees overseeing segmented inventory is unlikely to go 12 consecutive months with no overage or shortage of Retail Floor Stock.

The objectives of this audit were to determine whether accounting records for segmented inventory at the Bayport

Post Office were accurately presented and whether internal controls were in place and effective.

**WHAT THE OIG FOUND:**

Accounting records for segmented inventory at the Bayport Post Office were not always accurately presented and internal controls needed improvement.

We verified the office reported four perfect counts of retail floor stock from April 1, 2015, to March 31, 2016. Another perfect count was reported on April 7, 2016. However, a count reported on July 14, 2016, recorded an overage of \$14. We conducted an independent count on July 19, 2016, and identified retail floor stock had a shortage of stamps valued at \$54.

The postmaster stated that during his on-the-job training 4 years earlier he was told to always make sure the inventory count results were perfect. Therefore, he incorrectly adjusted the inventory records to match the retail system totals.

In addition, we determined the postmaster did not adequately secure the keys to compartments within the vault that stored items such as cash, stamps, and money orders. Also, the postmaster did not close out the cash account for a retail associate no longer working at the office, as required, and improperly conducted two counts of the

employee's cash drawer without a required designated witness.

Further, three of four employee passwords maintained on the duplicate key and password envelope used by the postmaster to access and count the cash drawer when the retail associate is not present were expired. The fourth employee did not have a password on file.

If controls over inventory and cash are not followed, there is an increased risk of undetected theft of money orders, stamp stock, and cash.

As a result of this audit, management closed the cash account for the retail associate; located and created the required envelopes to secure the keys and passwords; and secured the keys in a locked drawer within the vault.

***WHAT THE OIG RECOMMENDED:***

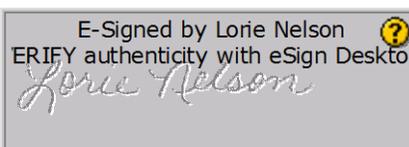
We recommended management implement procedures to maintain security over accountable items stored in the Post Office's vault and reiterate the counting process to ensure employees conduct counts with a witness.

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



September 26, 2016

**MEMORANDUM FOR:** ANTHONY C. WILLIAMS  
MANAGER, NORTHLAND DISTRICT



**FROM:** Lorie Nelson  
Director, Finance

**SUBJECT:** Audit Report – Internal Controls Over Segmented Inventory  
– Bayport Post Office, Bayport, MN  
(Report Number FT-FM-16-007)

This report presents the results of our audit of the Internal Controls Over Segmented Inventory – Bayport Post Office, Bayport, MN (Project Number 16WFM002FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Asha Mede, deputy director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

## TABLE OF CONTENTS

Introduction .....	1
Retail Floor Stock Counts.....	2
Segmented Items Security .....	3
Retail Associate Cash Drawer.....	4
Duplicate Key Envelope .....	5
Recommendations .....	5
Management’s Comments .....	5
Evaluation of Management’s Comments.....	6
Appendix A. Management’s Comments .....	7

## Introduction

This report presents the results of our audit of Internal Controls Over Segmented Inventory at the Bayport Post Office, Bayport, MN (Project Number 16WFM002FT000). The Bayport Post Office is in the Northland District of the Western Area. This self-initiated audit is one of several audits of segmented inventory designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Segmented inventory consists of retail floor stock (stamps sold on the retail floor), unit reserve stamp stock (stamps used to replenish those sold on the retail floor), cash, money orders, and stamps assigned to Retail Associates (RAs). Inventory can be transferred between segments; therefore, all segments of inventory must be counted to determine whether perfect counts are accurate. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

We reviewed all accounting records for segmented inventory at the Bayport Post Office from April 1, 2015, to March 31, 2016. To determine the validity of the reported inventory counts, we conducted unannounced counts of the inventory segments,<sup>1</sup> evaluated the segmented inventory process, and interviewed the postmaster and other personnel responsible for oversight of the process.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW),<sup>2</sup> Time and Attendance Collection System (TACS),<sup>3</sup> and Retail Systems Software (RSS).<sup>4</sup> We did not test the validity of controls over these systems; however, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from July through September 2016, in accordance with generally accepted government auditing standards. 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 objectives. We discussed our observations and conclusions with management on July 26, 2016, and included their comments where appropriate.

---

<sup>1</sup> Inventory segments consist of Retail Floor Stock, Unit Reserve Stock, Unit Cash Reserve, Cash Drawers, and other segments such as Stamps by Mail.

<sup>2</sup> A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

<sup>3</sup> A system used by all installations that automates the collection of employee time and attendance information.

<sup>4</sup> The RSS system was deployed in February 2016 and replaced the Point of Service (POS) system, which is the primary hardware and software system used to conduct retail sales transactions in post offices.

## Retail Floor Stock Counts

Our tripwire showed the postmaster at the Bayport Post Office reported five consecutive perfect counts of the retail floor stock in the Point-of-Service system (POS) system between April 7, 2015 and April 7, 2016. In April 2016, the post office converted from the POS system to RSS and conducted a count of retail floor stock on July 14, 2016, which identified an overage of \$13.76.

During our site visit in July 2016, we conducted an independent count of all segmented inventory at the Bayport Post Office. We counted four RAs cash drawers,<sup>5</sup> unit cash reserve,<sup>6</sup> retail floor stock, and unit reserve stock.<sup>7</sup> The cash drawers were over by a total of \$6.68. The tolerance<sup>8</sup> level for each cash drawer is \$10, and all were within tolerance. The retail floor stock count resulted in a shortage of \$53.84; however, there is a zero tolerance when retail floor stock difference is less or greater than .1 percent of sales.<sup>9</sup> See Table 1 for the results of the inventory counts.

**Table 1. Inventory Count Results**

Segmented Inventory Accountability Segment	RSS System Total	Actual Count	Difference
Retail Associate Cash Drawers	\$387.18	\$380.50	\$(6.68)
Unit Cash Reserve	200.00	200.00	0.00
Retail Floor Stock	4,894.37	4,840.53	(53.84)
Unit Reserve Stock	\$14,006.50	\$14,006.50	\$0.00

Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

The postmaster stated that during his on-the-job training 4 years earlier he was told to always make sure the inventory count results were perfect. Therefore, he adjusted the stamp stock volumes prior to entering the count volumes in the former retail system. However, when the unit converted to RSS, he was no longer able to adjust the retail floor stock count. The postmaster could not explain why there was an overage and a shortage for the two most recent counts.

According to Postal Service policy, management should ensure proper entry of all financial transactions. In addition, although no individual RA is accountable for retail

<sup>5</sup> RAs that are only assigned a cash credit are authorized a cash retained amount of up to \$100.99, for which they are individually accountable.

<sup>6</sup> Authorized funds on hand for making change. These are separate funds, not to be confused with the cash portion of a stamp credit. A stamp credit is the value of the stamp stock and money orders consigned to an RA from the unit reserve stock at a postal retail unit.

<sup>7</sup> Stamp stock inventory, for which the unit reserve custodian is accountable for the value of all items in the unit reserve stock.

<sup>8</sup> Tolerance is the allowed difference for individually accountable inventory segments. If a count is within tolerance, no one is accountable for the difference. If a count is outside of tolerance, the responsible employee is issued a Letter of Demand for the difference.

<sup>9</sup> Handbook F-101, *Field Accounting Procedures*, June 2016, Section 14-2.5.

floor stock, each RA making sales should ensure sales from the retail floor stock are accurately reported.<sup>10</sup>

If controls over cash and stamp stock are not followed, there is an increased risk of undetected theft and losses.

### Segmented Items Security

The postmaster did not adequately secure the keys to compartments within the vault that stored accountable items such as cash, stamps, and money orders valued at \$506,528. The vault also held envelopes containing employees' passwords and the keys to their cash drawers. We observed the keys used to access the vault compartments hanging on the opened vault door throughout the day (see Figure 1). Business customers, truck drivers, and a maintenance employee had full access to the office throughout day.

**Figure 1. Vault Compartment Keys**



Source: OIG picture taken on July 20, 2016.

The postmaster stated he left the vault door open with keys hanging on the door to allow employees access to the unit's stamp and cash reserves when he was not available. Postal Service policy states management must provide adequate security for all segmented items and the items should not be kept in places accessible to the public.<sup>11</sup> Cash, money orders, and stamps are easy to steal and, if they are not adequately monitored, there is an increased risk of undetected theft. We estimated that

<sup>10</sup> Handbook F-101, Section 14-1.2 (c), 14-2.2.

<sup>11</sup> Handbook F-101, Section 3-1.1 and 3-3.2.c.

32.931 percent or \$166,804.73 of the segmented items were at risk of being stolen or cashed.

On July 20, 2016, the postmaster began storing the safe compartment keys in a locked drawer within the vault. However, it is imperative that the postmaster develop procedures to ensure ongoing security of the accountable items.

### **Retail Associate Cash Drawer**

The postmaster did not close out the cash drawer for an RA who left the office on September 23, 2015. In addition, management improperly conducted four counts of the employee's cash drawer after that individual left the office. Specifically, management did not:

- Conduct a final count of the cash and money orders in the employee's cash drawer.
- Update the RA's administrator and retail floor roles in RSS.
- Require a witness to certify the counts conducted of the employee's cash drawer between October 2015 and April 2016.

Postal Service policy states a final count of the cash retained credit account must be conducted if the accountable role is being removed in RSS due to nonuse or inactivity.<sup>12</sup> It also allows the postmaster to use the witness designated on the employee's duplicate key and password envelope to conduct the count when the employee was absent.<sup>13</sup> Finally, according to policy, if a witness is used for the count he or she must sign the system generated cash and stamp stock summary form.<sup>14</sup>

The postmaster stated he had difficulties scheduling the departing employee to come into the office to conduct the count. Also, the departing employee did not have the envelope which listed his designated witness and password on file, so he conducted the count without a witness.

If controls over cash drawers are not followed and employee roles in RSS are not updated timely, there is an increased risk of undetected theft or loss of cash or money orders.

As a result of this audit, on July 19, 2016, the postmaster removed the administrative role for the employee who no longer worked at the unit. The employee's final Cash Drawer count was conducted on July 20, 2016 and the funds were transferred to another employee to include in the nightly deposit. The postmaster removed the employee's role from RSS the following day.

---

<sup>12</sup> Handbook F-101, Section 13-7.2 and 13-8.4.

<sup>13</sup> Handbook F-101, Section 3-8.3.

<sup>14</sup> Handbook F-101, Section 3-8.5.d.

## Duplicate Key Envelope

The passwords inside Postal Service (PS) Forms 3977, Duplicate Key Combination and Password Envelope, for three of four employees were expired. We confirmed the dates on the password envelopes were prior to 2015. The remaining employee did not have a password envelope on file at the Post Office.

Postal Service policy states that each time a password is changed, a new PS Form 3977 must be prepared to replace the old form.<sup>15</sup> The Postmaster stated he was aware of the policy but did not comply due to an oversight on his behalf. If the employee is absent and management cannot access the employee's duplicate key from the PS Form 3977, they will not be able to conduct the cash counts timely. Untimely counts decrease management's ability to mitigate risks of theft of cash or money orders.

On July 22, 2016, the postmaster obtained and updated the PS Form 3977 for all RAs. Therefore, we are not making a recommendation on this issue.

## Recommendations

We recommended the manager, Northland District, instruct the postmaster, Bayport Post Office, to:

1. Implement procedures to maintain security over accountable items stored in the Post Office's vault.
2. Reiterate the counting process to ensure employees conduct counts with a witness.

## Management's Comments

Management agreed with the findings and recommendations. As of August 23, 2016, the Postmaster has secured all keys to the safe in a locked drawer. The Postmaster was also instructed, on July 26, 2016, to provide a witness when conducting accountability count examinations.

Management disagreed with the monetary impact associated with money orders because the Postal Service does not cash the majority of money orders, and the financial risk is assumed by the institution that cashes it. Management also disagreed with the rating of high in the category of malice because there was no evidence of malice presented or discussed during this audit.

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

---

<sup>15</sup> Handbook F-101, Section 3-8.2.1.c

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. Regarding the calculation of impact for money orders, we acknowledge that the majority of money orders are not cashed at post offices and that the financial risk is generally assumed by the institution that cashes it. However, we continue to believe some risk exists. The purpose of the calculation is to provide a reasonable assessment of value at risk when exact monetary impact assessment is not possible. It does not represent actual loss and, therefore, we only presented it as items at risk, not monetary impact as management stated.

We used a mathematically accepted statistical tool to estimate the average impact of uncertain at risk events. It considers six simultaneous sources of uncertainty for any given event. One of them is intentional harm from mal-intentioned people (malice) and includes theft. We based our malice rating on our knowledge of the control environment considering control gaps with inventory counts, accountable items security, cash, and passwords at the unit. Since the calculation is subjective, includes auditor judgment, and is only shown to provide perspective, we will not pursue this issue through the audit resolution process.

We consider both recommendations closed with the issuance of this report.

## Appendix A. Management's Comments

DISTRICT MANAGER  
CUSTOMER SERVICE AND SALES  
NORTHLAND DISTRICT



September 21, 2016

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls over Segmented Inventory –  
Bayport Post Office, Bayport, MN (Report Number [FT-FM-16-DRAFT])

We agree with the OIG findings on the controls over Segmented Inventory at the referenced unit.

We disagree with the monetary impacts associated with money orders (count of 518). We assert the following:

- Blank money orders do not have a value of \$1,000 risk to the USPS. The majority of USPS money orders are not cashed by the Postal Service, so the financial risk to the USPS is low. The risk is assumed by the institution that cashes the check.
- We do not agree with the OIG's rating of high (ranked 4 on a scale of 1-5) in the category of "Malice". The definition provided is: likelihood of being caused by mal-intentioned actors. Examples: Hackers, thieves, terrorists. There was no evidence of malice presented or discussed in this audit at this Post Office.

Recommendation No. 1: *Implement procedures to maintain security over accountable items stored in the Post Office's vault.*

Management Response/Action Plan:

Postmaster, Bayport, MN has secured all keys for the safe in a locked cash drawer.

Target Implementation Date:

August 23, 2016 Completed

Responsible Official:

Postmaster, Bayport, MN

100 S 1st St, Rm 409  
Minneapolis MN 55401-9990  
TEL: (612) 349-3500  
FAX: (612) 349-6377

Recommendation No.2: *Reiterate the counting process to ensure employees conduct counts with a witness.*

Management Response/Action Plan:

Management agrees with Recommendation No. 2. Postmaster, Bayport, MN has been instructed to provide a witness when conducting accountability counts.

Target Implementation Date:

July 26, 2016 Completed

Responsible Officials:

Postmaster, Bayport, MN

Manager, Post Office Operations, Area 6, Northland District

*Linda K. Dresen*  
for Anthony C. Williams  
District Manager  
Customer Service and Sales

cc: Greg G Graves, Vice President, Western Area  
Marilyn Ross, Manager, Accounting, Western Area  
Trivonda Ray, Manager, Finance, Northland District  
Linda Padden, Manager Post Office Operations, Area 6  
Paul Ashwood, Postmaster, Bayport, MN