



# Internal Controls Over Segmented Inventory - Houston Long Point Station, Houston, TX

October 18, 2016





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**Internal Controls Over Segmented Inventory  
– Houston Long Point Station, Houston, TX**  
Report Number FT-FM-17-002

**BACKGROUND:**

The U.S. Postal Service Office of Inspector General (OIG) uses tripwires to identify financial anomalies. Tripwires are analytic tools combining specific behaviors that provide strong indicators of improper activity. The OIG's *Perfect Count Tripwire* identified that the Houston Long Point Station in Houston, TX, reported four 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 stock (stamps used to replenish those sold on the retail floor), cash, money orders, and stamps assigned to retail associates (RA). Inventory can be transferred between segments; therefore, all segments of inventory must be counted to ensure accuracy. Postal Service managers are responsible for timely and accurate 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 Houston Long Point Station were accurately

presented and whether internal controls were in place and effective.

**WHAT THE OIG FOUND:**

The accounting records for segmented inventory at the Houston Long Point Station 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. Two additional perfect counts were posted on May 24, 2016, and July 28, 2016. However, on August 2, 2016, and August 3, 2016, we conducted independent counts and identified:

- A retail floor stock overage of stamps totaling \$2,687;
- 400 booklets of Forever stamps valued at \$3,760 missing from unit reserve stock;
- Redeemed stamp stock valued at \$180 that was not included in the inventory records; and
- 1,499 missing domestic money orders with a potential value of \$54,276 (we referred this to the OIG's Office of Investigations for further review).

These issues occurred because the station manager did not include all

stamp stock in his inventory count and adjusted the count records to make perfect counts. Further, the station manager stated he thought he might have transferred stamps to the retail floor without recording the transfer but could not explain the 1,499 missing money orders.

In addition, we determined the station manager did not return or destroy 154 bait money orders (used to trace items in the event of theft) and 73 obsolete international money orders valued at \$2,643. He also did not properly record counts of other segments such as unit reserve stock, cash drawers, and reserve cash. We valued the 1,499 missing domestic money orders and 73 obsolete international money orders at \$56,919.

Further, we identified:

- Two RA cash drawers with a shortage of about \$65 and an overage of about \$28.
- Unsecured retail floor stock stamps left overnight at the retail counter, redeemed stamps mixed with funds collected by the office employees for charity, and stamps unsecured inside the vault area.
- Two RAs were missing the required duplicate key and password envelope, and four RAs did not have up-to-date password envelopes. These are used by the station manager to access and count the cash drawer when the RA is not present.

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 destroyed the bait money orders and returned the international money orders to the Stamp Distribution Center. In addition, management issued a letter of warning to the employee responsible for leaving stamps unsecured and created all the required envelopes to secure employees' keys and passwords. Further, management secured the vault area and removed the charity fund from it. Finally, on September 9, 2016, management located all 1,499 missing money orders.

***WHAT THE OIG RECOMMENDED:***

We recommended management establish a process to ensure employees follow the required procedures for inventory counts, daily cash drawer close-out, and returning non-saleable stamp stock. We also recommended management enhance oversight and security procedures for all accountable items, including cash, money orders, and stamp stock.

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



October 18, 2016

**MEMORANDUM FOR:** KIM QUAYLE  
MANAGER, HOUSTON DISTRICT

E-Signed by Lorie Nelson  
VERIFY authenticity with eSign Desktop  
*Lorie Nelson*

**FROM:** Lorie Nelson  
Director, Finance

**SUBJECT:** Audit Report – Internal Controls Over Segmented Inventory  
– Houston Long Point Station, Houston, TX  
(Report Number FT-FM-17-002)

This report presents the results of our audit of Internal Controls Over Segmented Inventory – Houston Long Point Station, Houston, TX (Project Number 16BFM001FT000).

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

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## Introduction

This report presents the results of our audit of Internal Controls Over Segmented Inventory at the Houston Long Point Station, Houston, TX (Project Number 16BFM001FT000). The Houston Long Point Station is in the Houston District of the Southern 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 (RA). Inventory can be transferred between segments; therefore, all segments of inventory must be counted to determine whether counts are accurate. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

We reviewed accounting records for segmented inventory at the Houston Long Point Station 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 station manager and other personnel responsible for overseeing 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 August through October 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 August 8, 2016, and included their comments where appropriate.

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<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> RSS 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.

## Segmented Inventory Counts

Our tripwire<sup>5</sup> showed the Houston Long Point Station reported four perfect counts<sup>6</sup> of retail floor stock from April 1, 2015, to March 31, 2016. Two additional perfect counts were posted on May 24, 2016, and July 28, 2016. During our site visit on August 2 and 3, 2016, we conducted a count of all segmented inventory at the office. Specifically, we counted retail floor stock, all RAs' cash drawers,<sup>7</sup> unit cash reserve,<sup>8</sup> Mobile POS (mPOS),<sup>9</sup> and unit reserve stock.<sup>10</sup>

Our two independent counts of retail floor stock resulted in a combined overage of \$2,687.09. There is no tolerance<sup>11</sup> for shortage or overage of retail floor stock. Of the four RAs' cash drawers counted, one was short by \$64.58 and another was over by \$27.74. The tolerance for each cash drawer is plus or minus \$10. The unit cash reserve was short by \$0.99. There is no tolerance for shortage or overage of unit cash reserve. The unit reserve stock was short by \$3,580. The tolerance level for unit reserve stock up to \$60,000 is \$150. See Table 1 for the results of the inventory counts.

**Table 1. Inventory Count Results**

Inventory Segment	RSS System Total	Actual Count	Difference
Retail Floor Stock	\$25,623.88	\$27,569.33	\$1,945.45
Retail Floor Stock (2nd count)	25,490.05	26,231.69	741.64
RA Cash Drawers	401.91	366.03	(35.88)
mPOS	1,880	1,880	0
Unit Reserve Stock	164,106.25	160,526.25	(3,580)
Unit Cash Reserve	410.00	409.01	(0.99)

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

If controls over segmented inventory are not followed, there is an increased risk of undetected theft and losses.

<sup>5</sup> Tripwires are analytic tools combining specific behaviors that provide strong indicators of improper activity.

<sup>6</sup> Perfect count means the Postal Service did not report any overages or shortages of retail floor stock.

<sup>7</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>8</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 a RA from the unit reserve stock at a postal retail unit.

<sup>9</sup> The mPOS unit consists of three devices: the mPOS device (iPod touch with an mPOS app), a receipt printer, and a postage label printer. It is used in retail lobbies to conduct quick and easy transactions. Stamps are assigned to mPOS from unit reserve stock.

<sup>10</sup> Stamp stock inventory; the unit reserve custodian is accountable for the value of all items in the unit reserve stock.

<sup>11</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.

## Retail Floor Stock

We conducted two independent counts of the retail floor stock, which identified a combined overage of \$2,687.09:

- On August 2, 2016, we conducted a count that identified an overage of \$1,945.45. The overage included redeemed stamp stock<sup>12</sup> of \$5,726.67 that was not included in the inventory records.
- On August 3, 2016, we found an additional \$542 of redeemed stock that was mixed with a charity fund collected by office employees and maintained by a carrier in a locked compartment in the vault. Therefore, we conducted another count of the retail floor stock, which identified an overage of \$741.64.

This occurred because, although the station manager was aware of the current policy, he did not include redeemed stock in his inventory count and adjusted the count records to make perfect counts. In addition, the station manager stated he did not conduct two independent counts of the retail floor stock.

Postal Service policy states an independent physical count of the retail floor stock must be performed by two employees and all value amounts must be entered into RSS.<sup>13</sup> If controls over retail floor stock are not followed, there is an increased risk of undetected theft and losses.

On August 3, 2016, the station manager removed the charity fund from the vault area.

## Cash Drawers

During our site visit, we counted four cash drawers. Two of them were not within tolerance. Specifically:

- One cash drawer had an overage of \$27.74.
- One cash drawer had a shortage of \$64.58.

The RA with the cash drawer overage was not available for an interview. The RA with the cash drawer shortage could not explain the shortage in her cash drawer. However, the unit did not follow proper daily close-out procedures for cash drawers. Postal Service policy states RAs are authorized up to \$100.99 for each cash drawer for which they are individually accountable. At the end of each business day, each RA must count his or her cash drawers and deposit any excess of the authorized amount in the bank.<sup>14</sup> If controls over cash drawers are not followed, there is an increased risk cash will be lost or stolen.

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<sup>12</sup> Non-saleable stamp stock that is returned from the RAs and is eventually returned to the Stamp Distribution Office (SDO) or Stamp Distribution Center (SDC).

<sup>13</sup> Handbook F-101, *Field Accounting Procedures*, Section 14-2.6.

<sup>14</sup> Handbook F-101, Section 13-7.2 and 5-4.1.

On August 2, 2016, the RA with the cash drawer shortage was issued a letter of demand.

### Unit Reserve Stock

On August 2, 2016, we conducted a count of the unit reserve stock, which identified a shortage of \$3,580. The majority of the shortage was due to 400 booklets of stamps, valued at \$3,760,<sup>15</sup> included on the office's inventory list but not found during the count. In addition, we found redeemed stamp stock valued at \$180 that was not included in the inventory records and should have been returned to the SDC or SDO<sup>16</sup> (see Table 2).

**Table 2. Unit Reserve Stock Inventory Differences**

Item	RSS System Total	Actual Count	Count Difference	Net Value Difference
(Forever) Star Spangled Banner PSA <sup>17</sup> Booklet/20	400	0	(400)	\$(3,760)
Redeemed Postage	0	180	180	180
<b>Totals</b>	<b>400</b>	<b>180</b>	<b>-220</b>	<b>\$(3,580)</b>

Source: Postal Service, EDW, and the OIG count, August 2, 2016.

The station manager stated he was not aware the 400 booklets of stamps were missing and, since the retail floor stock had an overage of \$2,687, he might have transferred stamps to the retail floor without recording the transfer. However, when we conducted counts of the unit reserve stock and retail floor stock, we did not find the booklets of stamps.

Postal Service policy states management is responsible for oversight of all stamp stock<sup>18</sup> and for removing all redeemed stamp stock from the unit reserve stock following the return schedule provided by the SDO.<sup>19</sup> If control activities over cash and stamp stock are not performed properly, there is an increased risk theft and losses will occur without detection.

On August 2, 2016, management issued the station manager a letter of demand for payment of the unit reserve stock shortage of \$3,580. We also referred this issue to the OIG's Office of Investigations (OI) for further review.

### Money Orders

During the count of the unit reserve stock on August 2, 2016, we could not locate 1,499 domestic money orders that were included in the unit reserve stock inventory.<sup>20</sup> In

<sup>15</sup> The list price of the booklets were \$9.40 each.

<sup>16</sup> These facilities are responsible for sending stamp stock to retail units. They also provide authorization for destruction or return of old, obsolete stamp stock.

<sup>17</sup> Pressure Sensitive Adhesive stamp.

<sup>18</sup> Handbook F-101, Section 13-1.2.

<sup>19</sup> Handbook F-101, Section 11-6.5.

<sup>20</sup> We referred this information to the OI for further review.

addition, the station manager did not return or destroy 154 domestic bait money orders<sup>21</sup> dated back to 1991 or 73 international money orders that were obsolete and could not be sold from the Postal Service. These money orders did not have an expiration date and were at risk of being stolen and cashed.

The station manager stated he was not sure why the money orders were missing. He said he might have entered the serial numbers incorrectly into RSS, but he did not think the money orders were actually missing. Further, the station manager did not examine the entire unit reserve stock area when he conducted his counts. He stated he did not know about the bait and international money orders in a file cabinet located inside of the vault. Although, the money orders were secured in the vault, they should have been returned to the SDO or destroyed.

Postal Service policy states the unit manager is responsible for ensuring that controls are in place for maintaining accurate inventory for all accountable paper<sup>22</sup> within the retail unit. This responsibility includes providing adequate security for all accountable items, monitoring inventory levels, and ensuring all required counts are performed.<sup>23</sup> If blank money orders are lost or stolen, unit managers must immediately contact the U.S. Postal Inspection Service and report the serial numbers of the missing forms.<sup>24</sup> Further, the policy states postal retail units must send unopened domestic money orders and all international money orders that cannot be sold to the SDC or SDO.<sup>25</sup>

As a result of our audit, on September 6, 2016, the Houston Long Point Station manager conducted an internal review to locate the 1,499 money orders. According to the station manager:

- In September 2015, he mistakenly entered 1,400 money orders into the inventory count of his unit reserve stock. However, the money orders were never physically sent to the Houston Long Point Station but were instead sent to post offices in Alabama and Georgia, which received and processed them.
- On September 9, 2016, he found the remaining 99 money orders in the unit reserve stock inventory at the Houston Long Point Station. The 99 money orders were part of a block of 100 money orders, which we did not identify because the beginning serial number of the first money order in the block did not match the serial number in the system.

If controls over money orders are not followed, there is an increased risk of undetected theft and lost revenue. We consider the money orders missing at the time of our audit questioned costs. For our scope period of April 1, 2015, to March 31, 2016, fraudulently

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<sup>21</sup> Bait money orders are used to aid the Postal Inspection Service in burglary and robbery investigations. Bait money orders have no redemptive value.

<sup>22</sup> Accountable paper includes blank money orders.

<sup>23</sup> Handbook F-101, Section 11-3.1.

<sup>24</sup> Handbook F-101, Section 3-3.3.

<sup>25</sup> Handbook F-101, Section 11-6.11.1

cashed postal money orders had an average value of \$608.54<sup>26</sup> per money order. Therefore, we calculated the 1,572 money orders have a potential value of \$956,625. However, only 5.95 percent<sup>27</sup> of fraudulent money orders were cashed at Postal Service locations. As a result, we valued the 1,572 money orders at \$56,919.

On August 4, 2016, the station destroyed the bait money orders and returned the international money orders to the SDO. Therefore, we are not making a recommendation regarding these two issues.

### **Inventory Count Records**

The station manager did not properly record all the unit's inventory counts on the required Postal Service (PS) Form 3368-P, Accountability Examination Record, to summarize the results for all inventory counts at the Post Office for the past 2 years. Specifically, of the seven inventory files reviewed, none of the files had a PS Form 3368-P.

The station manager stated he forgot to record the counts in the inventory files after each count. Postal Service policy states the manager is responsible for establishing and maintaining a file for each credit (stamp or cash) assigned to an employee. Stamp and cash credit files must contain a PS Form 3368-P, and the form should be retained for 2 years beyond the life of the credit.<sup>28</sup>

If inventory files are not maintained and updated, management cannot promptly address inventory count shortages or overages.

On August 3, 2016, the station manager completed all of the unit's PS Forms 3368-P; therefore, we are not making a recommendation.

### **Safeguarding of Assets**

The station manager did not always properly secure the unit's assets. Specifically, we identified a total of \$16,837.45 of unsecured retail floor stock stamp stock as follows:

- Unsecured retail floor stock stamps, valued at \$509, left overnight at an RA's counter.
- Redeemed retail floor stock stamps, valued at \$542, mixed with the funds collected for charity and maintained by a carrier.
- Unsecured retail floor stock stamps inside the vault area valued at \$15,786.45. Specifically, one compartment and one cash drawer containing retail floor stock

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<sup>26</sup> This average value was derived from the Postal Service's fiscal years (FY) 2015-2016 Fraud Reports, maintained by the General Accounting Branch at St. Louis, MO, Accounting Services.

<sup>27</sup> This percentage was derived from the Postal Service's FYs 2015-2016 Fraud Reports, maintained by the General Accounting Branch.

<sup>28</sup> Handbook F-101, Section 13-1.3.

were unsecured, which allowed employees, other than RAs, access to the retail floor stock.

The station manager stated he forgot to check the retail counter, cash drawers, and retail floor stock compartments to secure all stamp stock and cash.

According to Postal Service policy, the manager or supervisor must provide adequate security for all accountable items, which include postal funds and stamp stock.<sup>29</sup> Stamps and other accountable items must be protected at all times. They may be stored in a locked drawer or cabinet for short periods during the day. At all other times, they must be stored in the main vault or security container that affords the best available security.<sup>30</sup>

On August 5, 2016, the station manager issued a letter of warning to the employee responsible for leaving the stamps on the retail counter overnight. On August 4, 2016, he completed a work order to have all the locks changed inside and to the vault area.

### **Duplicate Key Envelope**

The unit did not have the required PS Form 3977, Duplicate Key Combination and Password Envelopes, for all RAs. The duplicate key is used to open the employee's cash drawer, and the password is used to access the employee's RSS login. Specifically, we found:

- Two RAs did not have both a duplicate key and password envelope.
- Two other RAs did not have a duplicate key envelope.

Further, all four RAs had expired passwords.

The station manager stated he forgot to update PS Forms 3977 for his employees. Postal Service policy states field units must complete a PS Form 3977 to protect each duplicate key, combination, and password.<sup>31</sup> If the employee is absent and management cannot access the employee's duplicate key and updated password from PS Form 3977, management will not be able to conduct the cash counts timely.

On August 4, 2016, the station manager updated PS Form 3977; therefore, we are not making a recommendation.

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<sup>29</sup> Handbook F-101, Section 3-3.2 (a).

<sup>30</sup> Handbook F-101, Section 14-6.2.

<sup>31</sup> Handbook F-101, Section 3-8.2.1.

## Recommendations

We recommend the manager, Houston District, instruct the station manager, Houston Long Point Station, to:

1. Establish a process to ensure employees follow the required procedures for inventory counts, daily cash drawer close-out, and returning non-saleable stamp stock.
2. Enhance oversight procedures for all accountable items, including postal funds, money orders, and stamp stock.

## Management's Comments

Management agreed with the findings, recommendations, and with the exception of the 1,499 missing money orders valued at \$54,276, the monetary impact,. Management stated they disagreed with the calculated value of the 1,499 missing money orders because they were located.

Regarding recommendation 1, management stated they will schedule segmented inventory refresher training for all managers of Post Office Operations, managers of Customer Service Operations, and their subject matter experts. Regarding recommendation 2, management will conduct field financial reviews that include security procedures for all accountable items, and all findings will be investigated and mitigated timely. The target implementation date for both recommendations is February 11, 2017.

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

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues in the report. Regarding the 1,499 missing money orders, management conducted an internal review to locate the money orders subsequent to our audit. It is unclear whether this review would have occurred if we had not conducted our audit. As a result, these missing money orders could have been fraudulently cashed.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

## Appendix A. Management's Comments

October 13, 2016

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Segmented Inventory – Houston Longpoint  
Station, Houston TX FT-FM-17-DRAFT

Thank you for the opportunity to respond to the findings to the OIG review of segmented inventory at Houston Longpoint Station. Management agrees that if controls over inventory and cash are not followed, there is an increased risk of undetected theft of money orders, stamp stock, and cash.

Management generally agrees with the findings and calculated values with the exception of the 1,499 missing money orders valued at \$54, 276. These money orders have been located as stated on page 5 of the OIG draft audit report.

Recommendation 1:

We recommended management establish a process to ensure employees follow the required procedures for inventory counts, daily cash drawer close-out, and returning non-saleable stamp stock.

Management Response/Action Plan:

Management agrees that the failed actions of the management staff to maintain inventory controls over segmented inventory at Longpoint Station was unacceptable. The District Finance Manager will schedule refresher training of segmented inventory for all Managers of Post Office Operations (MPOOs), Managers of Customer Service Operations (CSOMs), and their subject matter experts (SMEs).

Recommendation 2: We also recommended management enhance oversight and security procedures for all accountable items, including cash, money orders, and stamp stock.

Management Response/Action Plan:

In addition to providing the previously cited financial training, the District Finance Manager will request assistance from Southern Area Finance to conduct field financial reviews that include security procedures for all accountable items. Each review findings will have specific action items be investigated and mitigated in a timely manner.

Target Implementation Date:

The target implementation date to complete the training will be February 11, 2017.

Responsible Official:

The Houston District Finance Manager will be responsible for scheduling the financial training, and reviewing financial review findings.

  
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Kim Quayle  
Manager, Houston District

cc: *Manager, Corporate Audit Response Management*