



AUDIT REPORT

Internal Controls Over Segmented Inventory - Laughlin Post Office, Laughlin, NV

December 20, 2016



Report Number FT-FM-17-006



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Inventory – Laughlin Post Office,
Laughlin, NV**

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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 Laughlin Post Office in Laughlin, NV, reported three consecutive retail floor stock perfect inventory counts from April 1, 2015, to March 31, 2016. Perfect count means the Postal Service did not report any overages or shortages.

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, we counted each accountability segment. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

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

were not always accurately presented and internal controls needed improvement.

We verified the unit reported three perfect counts of retail floor stock from April 1, 2015, to March 31, 2016. On August 9, 2016, we conducted an independent count of the retail floor stock and identified an overage of \$68.65.

Our review of the perfect count details revealed a high variance between expected quantities and recorded count quantities, by stock item. The percentage of counted items that did not match the expected count ranged from 64 to 79 percent.

Inventory count documentation for our scope period listed the postmaster as one of the two independent counters, yet the postmaster was on a temporary detail assignment and was not on site for the counts. Also, the documentation did not identify a second independent counter, and we could not locate the required completed count sheets from a second counter.

We also determined the unit did not always perform the required quarterly retail floor stock, unit reserve stock, and unit cash reserve counts. There were no counts performed in fiscal year 2015, Quarter 4, and the unit cash reserve

count was not performed in fiscal year 2016, Quarter 1.

The officer in charge acknowledged that he independently performed the counts by using the postmaster's logon while the postmaster was not on site. The postmaster stated she shared her logon and password information with the officer-in-charge, she did not establish retail floor stock count procedures for her unit, and she did not monitor operations. The postmaster also advised that she changed her password in April 2016, and no longer shares it with others.

Finally, the unit did not always properly maintain and update Retail Systems Software roles and maintain and secure passwords. Specifically:

- One RA, the lead sales and services associate, had roles in the Retail Systems Software that allowed him to sell postal products and maintain the unit's inventory after his officer in charge detail ended.
- Four of five RAs were missing the required duplicate key and password envelope used 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 created the required envelopes to secure employees' keys and passwords.

Further, as a result of our overall work regarding segmented inventory

accountability, headquarters management advised they will issue an expectations letter to the field. They will also reissue the Financial Accountability Standard Operating Procedures and conduct a webinar to review them with applicable area and district managers. Finally, they will conduct unannounced random field financial audits using the Sarbanes-Oxley Remediation Tool to measure improvement.

WHAT THE OIG RECOMMENDED:

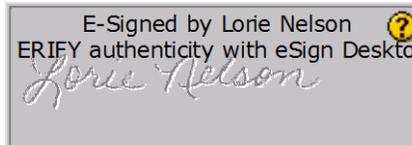
We recommended management establish controls to ensure the postmaster properly executes and documents inventory counts and monitors count completion, Retail Systems Software roles, and duplicate key and password envelopes.

[Link to review the entire report](#)



December 20, 2016

MEMORANDUM FOR: BELINDA L. OLSON
MANAGER, NEVADA-SIERRA DISTRICT



FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Segmented Inventory
– Laughlin Post Office, Laughlin, NV
(Report Number FT-FM-17-006)

This report presents the results of our audit of Internal Controls Over Segmented Inventory at the Laughlin Post Office, Laughlin, NV (Project Number 16BFM003FT000).

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
Segmented Inventory	2
Required Quarterly Counts.....	3
Retail Systems Software Roles	3
Duplicate Key and Password Envelope.....	4
Recommendations	4
Management’s Comments	5
Evaluation of Management’s Comments.....	5
Appendix A. Management’s Comments	6

Introduction

This report presents the results of our audit of Internal Controls Over Segmented Inventory at the Laughlin Post Office, Laughlin, NV (Project Number 16BFM003FT000). The Laughlin Post Office is in the Nevada-Sierra 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 (RA). Inventory can be transferred between segments; therefore, we counted each segment. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

We reviewed accounting records for segmented inventory at the Laughlin Post Office from April 1, 2015, to August 11, 2016. We conducted unannounced counts of the inventory segments,¹ 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),² Time and Attendance Collection System (TACS),³ and Retail Systems Software (RSS).⁴ 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 management. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from August through December 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 15, 2016, and included their comments where appropriate.

¹ Inventory segments consist of retail floor stock, unit reserve stock, unit cash reserve, cash drawers, and other segments such as stamps by mail.

² 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.

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

⁴ A system was deployed in February 2016 and replaced the Point of Service system, which is the primary hardware and software system used to conduct retail sales transactions in post offices.

Segmented Inventory

Our tripwire⁵ showed the Laughlin Post Office reported three consecutive retail floor stock⁶ perfect counts between April 1, 2015, and March 31, 2016. We confirmed the unit reported these consecutive retail floor stock counts in April 2015, October 2015, and January 2016. We also found the unit reported minor shortages⁷ for two additional counts in May 2016 and July 2016.

During our site visit in August 2016, we conducted an independent count of the retail floor stock and identified an overage of \$68.65. There is no tolerance⁸ applied to retail floor stock counts. We also conducted independent counts of all the other segmented inventory at the office. Specifically, we counted the unit reserve stamp stock,⁹ unit cash reserve,¹⁰ and all five RAs' cash drawers.¹¹

See Table 1 for the results of the stamp stock inventory and cash counts.

Table 1. Inventory Count Results

Inventory Segment	RSS System Total	Actual Count	Difference
Retail Floor Stock	\$7,119.56	\$7,188.21	\$68.65
Unit Reserve Stock	37,732.10	37,732.10	0.00
Unit Cash Reserve	350.00	358.00	8.00
RA Cash Drawers	\$492.23	\$518.53	\$26.30

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

The unit cash reserve count resulted in an overage of \$8.00, but was still within the unit's authorized unit cash reserve maximum of \$400. The unit recorded four consecutive unit cash reserve counts, from April 2015 through July 2016, with no reported variances.

Our counts of RA cash drawers revealed a net \$26.30 difference. Each RA is authorized a tolerance of plus or minus \$10 for cash drawers. Three cash drawers had minor

⁵ Tripwires are analytic tools combining behaviors that provide strong indicators of improper activity.

⁶ Retail floor stock is shared stock from which RAs sell stamps and stamped products. Each RA selling items from this stock is responsible for ensuring that sales are reported accurately but is not individually accountable for the items.

⁷ The unit recorded \$6.82 and \$65.32 shortages in May and July 2016, respectively.

⁸ 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.

⁹ Stamp stock inventory; the unit reserve custodian is accountable for the value of all items in the unit reserve stock.

¹⁰ 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.

¹¹ 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.

differences but were within tolerance. However, one cash drawer was \$11.84 short and another cash drawer was \$22.52 over. For the 24 RA cash drawer counts conducted by the Postal Service from April 2015 through July 2016, the unit reported that all counts were within tolerance.

The retail floor stock count documentation identified the postmaster as one of the two independent counters for each of the perfect counts. However, the postmaster stated she was on a temporary detail assignment and not on site for the counts. In addition, the documentation did not identify a second independent counter and we could not locate the required completed count sheets from a second counter.

The officer in charge (OIC) acknowledged that he independently performed the counts when the postmaster was not on site by using the postmaster's logon and password information. The postmaster stated she shared her logon and password information with the OIC, she did not establish retail floor stock count procedures for her unit, and she did not monitor operations.

Postal Service policy requires employees to protect and secure logon and password information,¹² and the retail floor stock count must be performed by two independent counters, of which one must be the postmaster, manager, or supervisor responsible for the unit.¹³ Postal Service policy also requires personnel to use the system-generated Postal Service (PS) Form 3294, Cash and Stamp Stock Count and Summary, and count sheets to document the counts.¹⁴ If controls over stamp stock are not established and followed, there is an increased risk of undetected theft and losses.

Required Quarterly Counts

The unit did not always perform the required quarterly retail floor stock, unit reserve stock, and unit cash reserve counts. The unit did not perform any counts for fiscal year (FY) 2015, Quarter (Q) 4, and did not count the unit cash reserve for FY 2016, Q1. The postmaster stated this occurred because she did not monitor completion of required counts or remind the OIC to complete the counts.

Postal Service policy states the retail floor stock count must be conducted at least once each quarter.¹⁵ When unit management does not perform count examinations at the required frequencies, the unit cannot ensure that its financial records are accurate.

Retail Systems Software Roles

Unit management did not properly monitor and update RSS roles. The postmaster assigned the lead sales and services associate (LSSA) the unit reserve stock RSS role because he was detailed as the OIC while the postmaster was not on site. The LSSA

¹² Handbook F-101, *Field Accounting Procedures*, Section 3-8.2.1-2, June 2016.

¹³ Handbook F-101, Section 14-2.6.

¹⁴ Handbook F-101, Section 14.2-7.

¹⁵ Handbook F-101, Section 14-2.5.

maintained RSS roles to sell stock and maintain the unit's inventory after his OIC detail ended. The postmaster stated she failed to monitor and update the RSS roles to remove the LSSA's unit reserve stock role.

Postal Service policy states employees that sell and accept payments for products and services may not maintain the unit inventory and the LSSA may only be assigned the unit reserve at a finance station without a domiciled supervisor.¹⁶ If employee roles in RSS are not monitored and updated timely, there is an increased risk of undetected theft or loss of cash, money orders, or stamp stock.

Duplicate Key and Password Envelope

The unit did not have the required PS Form 3977, Duplicate Key, Combination, and Password Envelopes, for four out of five 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. The postmaster stated she did not complete and regularly monitor the PS Forms 3977.

Postal Service policy states that field units must complete a PS Form 3977 envelope to protect each duplicate key, combination, and password.¹⁷ If an employee is absent and management cannot access the employee's duplicate key and updated password from the PS Forms 3977, management will not be able to conduct cash counts timely. Untimely counts decrease management's ability to mitigate risks of theft of cash or money orders.

As a result of our audit, on August 12, 2016, the postmaster completed the missing duplicate key and password envelopes.

Recommendations

We recommend the manager, Nevada-Sierra District:

1. Establish controls to ensure the postmaster, Laughlin Post Office, properly executes and documents inventory counts.
2. Establish controls to ensure the postmaster, Laughlin Post Office, monitors count completion, Retail Systems Software roles, and duplicate key and password envelopes.

¹⁶ Handbook F-101, Section 2-4.7 and 13-2.5.

¹⁷ Handbook F-101, Section 3-8.2.1.

Management's Comments

Management agreed with the findings and recommendations.

Regarding recommendation 1, the district finance manager (DFM) began monitoring counts and will continue to on a weekly basis. The DFM will request copies of the unit's inventory count documentation at the end of each quarter to ensure all counts are properly completed and documented. Management provided documentation to show the Laughlin Post Office cleared all counts timely for FY 2017, Q1, to date.

Regarding recommendation 2, in addition to requesting copies of the unit's inventory count documentation to ensure that all counts for the quarter have been completed and documented, the DFM will request copies of RSS roles reports and PS Forms 3977 at the end of each quarter to verify that the RSS roles are appropriate and that current PS Forms 3977 are on file. Management provided documentation to show appropriate RSS roles and current PS Forms 3977 for FY 2017, Q1, to date.

Management completed these actions as of the date of this report.

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

Appendix A. Management's Comments

DISTRICT MANAGER
NEVADA-SIERRA DISTRICT



December 14, 2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Segmented Inventory – Laughlin Post Office,
Laughlin, NV (Report Number FT-FM-17-DRAFT)

Management agrees with the finding in the subject Audit. Managements responses are as follows:

Recommendation 1:

Establish controls to ensure the postmaster, Laughlin Post Office, properly executes and documents inventory counts.

Management Response/Action Plan:

Management agrees with the recommendation. The district finance manager (DFM) has begun and will continue to monitor the Western Area Snapshot weekly to ensure all counts are completed by quarter's end. Laughlin Post Office cleared all counts timely for Quarter I FY2017 to date. Snapshot is located at:

<http://western.blueshare.usps.gov/sites/waf/Snapshot>.

The DFM will request copies of the unit's count documentation (PS Forms 3368) at the end of each quarter to verify that all counts for the quarter have been properly completed and documented. Copies are attached for Quarter I FY2017 to date.

Target Implementation Date:

Completed

Responsible Official:

Valerie Catalozzi, District Finance Manager

- 2 -

Recommendation 2:

Establish controls to ensure the postmaster, Laughlin Post Office, monitors count completion, Retail Systems Software roles, and duplicate key and password envelopes.

Management Response/Action Plan:

Management agrees with the recommendation. The DFM will request copies of the unit's 3368-P's, RSS roles reports, and 3977 password envelopes at the end of each quarter to verify that all counts for the quarter have been completed and documented, that the roles are appropriate, and that current 3977's are on file. Copies of all are attached for Quarter I Fy 2017 to date.

The 3977's submitted are dated between August - October 2016. The Postmaster of Laughlin will update immediately.

Target Implementation Date:

Completed

Responsible Official:

Valerie Catalozzi, District Finance Manager



Belinda Olson
District Manager

cc: Maura McNerney, VP Controller
Kelly Sigmon, VP Retail & CS Operations
Greg Graves, Western Area AVP
Kevin Romero, Western Area Controller
Marilyn Ross, Western Area Mgr Accounting
Manager, Corporate Audit & Response Management