



## AUDIT REPORT

# Internal Controls Over Segmented Inventory – El Cerrito, CA, Main Post Office

June 20, 2017



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Report Number FT-FM-17-022



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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 El Cerrito, CA, Main Post Office reported 12 perfect inventory counts from April 1, 2015, to March 31, 2016. A perfect count means the post office 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). Postal Service managers are responsible for timely and proper counts of all segmented inventory.

Inventory can be transferred between segments; therefore, we counted each accountability segment. Also, the El Cerrito Main Post Office and the Fairmount Station, also located in El Cerrito, share employee resources, so we counted the unit cash reserves and cash drawers at both retail units.

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 El Cerrito, CA, Main 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 El Cerrito Main Post Office were not always accurately presented and internal controls needed improvement.

We verified the El Cerrito Main Post Office reported 12 perfect counts from April 1, 2015, to March 31, 2016. We conducted an independent count and identified the retail floor stock had a shortage of \$6,341.29. The lead sales and services associate (LSSA) stated the shortage was due to off-sale stock that was not returned for destruction. We also identified:

- Unit cash reserve and cash drawer count differences at both locations that exceeded allowable amounts.
- Money order issues:
  - Seventy-nine money orders, valued at \$2,860, were missing from the El Cerrito unit reserve stock.
  - Money orders located at the El Cerrito unit did not exist in the

retail system, including some dating back to 2008.

- Bait money orders were missing from cash drawers at both locations. Bait money orders help authorities track offenders in the event of a robbery.
- Inventory counts not properly recorded.
- Stamp stock issues at El Cerrito:
  - Stamp stock shipments were not always accepted or recorded timely.
  - Stamp stock, valued at nearly \$7,600, and four international money orders that were obsolete and could not be sold at the unit (including some that went off sale in 2003), were commingled with the retail floor stock instead of returned or destroyed.
- Missing required or completed duplicate key and password envelopes used to open the cash drawer of an employee who is not present.
- Inadequate separation of duties and safeguarding of assets at the El Cerrito unit, including:
  - Roles in the retail system that allowed the acting LSSA to sell postal products, accept payments, and maintain the unit's inventory.
  - The main door to the segmented inventory cage at the El Cerrito unit did not close properly and

included instructions not to close the door, two of three safes containing cash drawers were open upon our arrival, and the cabinet with retail floor and non-saleable stock was unlocked.

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

As a result of our overall work on segmented inventory accountability, Postal Service Headquarters management advised they will issue an expectations letter to the field. They will also reissue Financial Accountability Standard Operating Procedures and conduct a webinar to review them with applicable managers. Finally, they will conduct unannounced random field financial audits to measure improvement.

***WHAT THE OIG RECOMMENDED:***

We recommended district management reiterate policies for segmented inventory counts, stamp shipments, duplicate key envelopes, bait money orders, separation of duties, and accountable items security.

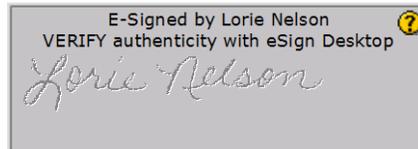
We also recommended management determine the status of money orders at the unit but not included in the retail system and those that were included in the retail system but not at the unit; destroy obsolete stamp stock and money orders; and repair the safe door, change safe combinations, and provide combinations to appropriate personnel.

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



June 20, 2017

**MEMORANDUM FOR:** JAGDEEP K. GREWAL  
ACTING MANAGER, BAY-VALLEY DISTRICT



**FROM:** Lorie Nelson  
Director, Finance

**SUBJECT:** Audit Report – Internal Controls Over Segmented Inventory  
– El Cerrito, CA, Main Post Office  
(Report Number FT-FM-17-022)

This report presents the results of our audit of Internal Controls Over Segmented Inventory – El Cerrito, CA, Main Post Office (Project Number 16BFM004FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dianna Smith, Acting Deputy Director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our self-initiated audit of Internal Controls over Segmented Inventory at the El Cerrito, CA, Main Post Office (Project Number 16BFM004FT000). The El Cerrito Main Post Office is in the Bay-Valley District of the Pacific Area. This 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 accountability segment. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

We reviewed accounting records for segmented inventory at the El Cerrito Main Post Office from April 1, 2015, to March 31, 2016. To determine the validity of the reported inventory counts, we conducted unannounced counts of inventory segments,<sup>1</sup> evaluated the segmented inventory process, and interviewed the customer service supervisor and other personnel responsible for oversight of the process. The El Cerrito Main Post Office and the Fairmount Station share employee resources, so we counted the unit cash reserves and cash drawers at both retail units.

We relied on computer-generated data maintained in the Postal Service Enterprise Data Warehouse (EDW),<sup>2</sup> Time and Attendance Collection System,<sup>3</sup> and the 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 management. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from August 2016 through June 2017, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions

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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.

based on our objectives. We discussed our observations and conclusions with management on May 24, 2017, and included their comments where appropriate.

### Segmented Inventory

Our tripwire<sup>5</sup> showed the El Cerrito Main Post Office reported 12 perfect counts<sup>6</sup> of the retail floor stock<sup>7</sup> between April 1, 2015, and March 31, 2016. On August 9, 2016, we conducted an independent count of segmented inventory at the station. Specifically, we counted retail floor stock, unit reserve stock,<sup>8</sup> unit cash reserve,<sup>9</sup> and all cash drawers,<sup>10</sup> and found retail floor stock had a shortage of \$6,341.29. There is no tolerance<sup>11</sup> for retail floor stock counts. The El Cerrito Main and Fairmount Post Offices share employee resources so we counted the cash drawers and unit cash reserves at both retail units. See Table 1 for the results of our segmented inventory counts that resulted in differences.

**Table 1. Segmented Inventory Count Results**

Inventory Segment	RSS System Total	Actual Count	Difference
Retail Floor Stock	\$11,132.75	\$4,791.46	(\$6,341.29)
Unit Cash Reserve – El Cerrito	200.00	205.00	5.00
Unit Cash Reserve - Fairmount	200.00	195.00	(5.00)
Cash Drawer 03 – Fairmount	100.21	118.90	18.69
Cash Drawer 04 – Fairmount	100.68	124.41	23.73
Cash Drawer 10 - Fairmount	100.85	129.41	28.56

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

### Retail Floor Stock

We conducted a count of the retail floor stock and identified a shortage of \$6,341.29. Upon completion of our count, the acting lead sales and service associate (LSSA) entered an adjustment<sup>12</sup> for the amount of the shortage in RSS and advised the adjustment was for off-sale stock<sup>13</sup> that should have been returned for destruction.

<sup>5</sup> Tripwires are analytic tools that look at specific behaviors and patterns that are strong indicators of improper activity.

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

<sup>7</sup> The 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.

<sup>8</sup> The unit reserve custodian is accountable for the value of all items in the unit reserve stock.

<sup>9</sup> Authorized funds on hand for making change. There is no tolerance for differences in the unit cash reserve accountability.

<sup>10</sup> RAs that are assigned a cash credit are authorized a cash retained amount up to \$100.99.

<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.

<sup>12</sup> Item 9100 Adjustment converts off-sale stamp stock to 1 cent.

<sup>13</sup> Stock not allowed to be sold to customers.

However, the LSSA should not have entered the adjustment since the off-sale stock was not part of the current retail floor inventory and the value could not be verified. We also found this same adjustment was made in prior counts, each for different amounts. Each time it was applied, the unit did not report any differences. See Table 2 for prior retail floor counts where adjustments were applied and no differences were reported.

**Table 2. Prior Retail Floor Counts with Off-Sale Stock Adjustments**

Retail Floor Stock Count Date	RSS System Total	Off-Sale Stock Adjustment	Reported Difference
July 13, 2016	\$11,321.07	6,418.53	\$0
July 15, 2016	10,328.18	6,838.38	0
April 14, 2016	11,377.15	6,683.89	0
January 14, 2016	10,470.41	6,498.11	0
October 7, 2015	11,417.22	6,748.89	0
April 8, 2015	9,868.78	6,938.38	0

Source: OIG analysis.

### Unit Cash Reserve

We conducted a count of the unit cash reserve and identified an overage of \$5 at the El Cerrito Main Post Office and a shortage of \$5 at the Fairmount Post Office. There is no authorized tolerance for unit cash reserve. The LSSAs at both retail units could not explain why the overage or shortage existed. According to Postal Service policy, management is responsible for all stamp stock and cash credits.<sup>14</sup>

### Cash Drawers

We counted all eight drawers at the El Cerrito Main Post Office and all were within the \$10 tolerance for each cash drawer; however, for all six cash drawers counted at the Fairmount Station, three of the drawers were out of tolerance:<sup>15</sup>

- One cash drawer had an overage of \$18.69
- One cash drawer had an overage of \$23.73
- One cash drawer had an overage of \$28.56

The LSSA at the Fairmount Station could not explain why the overages existed.

When units do not properly conduct inventory counts, the Postal Service is at increased risk of undetected theft and losses. Additionally, if internal controls over cash accountabilities are not maintained, irregularities could go undetected and cash could be misappropriated.

<sup>14</sup> Handbook F-101, *Field Accounting Procedures*, Section 13-1.2, June 2016.

<sup>15</sup> Handbook F-101, Section 13-8.4.

**Money Orders<sup>16</sup>**

We conducted a count of the unit reserve stock and identified 2,578 domestic money orders that were included as part of the unit reserve stock in RSS but were not at the unit (see Table 3). The LSSA stated he inadvertently entered the wrong quantity in RSS when a money order shipment was received in January 2016. At the time of our visit, the discrepancy was still unresolved. We verified that 2,499 of the 2,578 money orders were part of an inventory shipment sent to the Reedley, CA, Post Office. The LSSA was unable to explain the remaining 79 money orders.

**Table 3. Missing Money Orders – Unit Reserve Stock**

Starting Serial Number	Quantity
2356385000-5	1,263
2356386264-0	1,236
0166610404-1	1
0166611600-0	1
0166619000-3	1
0204415527-3	73
0865925532-0	1
2021535099-0	1
2167146610-7	1
<b>TOTAL</b>	<b>2,578</b>

Source: OIG analysis.

Further, we identified 575 money orders that were at the unit but were not included in the POS/RSS system, including some dating back to 2008 (see Table 4). In addition, the LSSA’s cash drawer at El Cerrito contained six domestic money orders and four international money orders, and one SSA had three money orders (see Table 5). The money orders did not exist in their assigned inventory. The LSSA stated the money orders in the unit reserve stock needed to be returned to the stamp distribution office (SDO).<sup>17</sup> The LSSA stated RSS does not accept international money orders.

<sup>16</sup> Money orders only reviewed at El Cerrito Post Office.

<sup>17</sup> The SDO and Stamp Distribution Centers are responsible for sending stamp stock to retail units. They also authorize destruction or return of old, obsolete stamp stock.

**Table 4. Money Orders in Unit Reserve Stock But Not In RSS**

Starting Serial Number	Quantity	Money Order Value	Explanation in RSS
8695860687-0	1	\$210	Does not exist in unit reserve
8695860685-7	1	210	Does not exist in unit reserve
2208091760-8	1		Does not exist in unit reserve
1741246131-3	69		Does not exist in unit reserve
2014397000-8	500		Does not exist in unit reserve
1701515993-5	1		Money order will not process
1701517099-4	1		Listed as lost/stolen
2208081778-8	1		Does not exist in unit reserve
<b>TOTAL</b>	<b>575</b>		

Source: OIG analysis.

**Table 5. Money Orders in Cash Drawer Accountability But Not in RSS<sup>18</sup>**

LSSA Cash Drawer Domestic Money Orders	LSSA Cash Drawer International Money Orders	SSA Cash Drawer Domestic Money Orders
2167147624-4	7404779134-1	2272641426-0
2167145637-6	7404745448-2	2073899242-1
2167148236-4	7404745449-3	2073899240-8
1741245613-7	7404745450-1	
0712190068-7		
0712190069-8		

Source: OIG analysis.

Postal Service policy states the postmaster or unit manager is responsible for ensuring controls are in place to maintain an accurate inventory of all accountable paper within the retail unit. Postal Service policy also requires a review of the money order report during the daily unit closeout<sup>19</sup> as follows:

- Verify the money order serial numbers.
- Verify spoiled and voided money orders, and submit them to the unit manager for destruction.
- Report any missing money orders to the U.S. Postal Inspection Service immediately.
- Identify any sequentially missing money orders at closeout.

<sup>18</sup> The explanation in RSS for all of these money orders is “Serial Number Does Not Exist.”

<sup>19</sup> All postal retail units (PRU), regardless of size or revenue, must report their financial activity on Postal Service (PS) Form 1412, Daily Financial Reporting, and electronically transmit to Accounting Services at the close of each business day.

Additionally, Postal Service policy states that PRUs must send all international money orders that cannot be sold and blank domestic money orders that cannot be reissued to the SDO for redistribution or destruction.<sup>20</sup>

If controls over money orders are not followed, there is an increased risk of undetected theft and lost revenue. We consider the 79 missing money orders, valued at \$2,860.44, that were part of the unit reserve stock in RSS as questioned costs.<sup>21</sup>

### Bait Money Orders

Four cash drawers at the El Cerrito Main Post Office and four cash drawers at the Fairmount Post Office did not contain bait money orders. Some of the RAs stated they were not assigned bait money orders.

Postal Service policy states field units that provide retail services must strictly adhere to bait money order procedures.<sup>22</sup> Specifically, each RA's cash drawer must include three bait money orders mixed with large bills.<sup>23</sup> Bait money orders help law enforcement identify and apprehend criminals if the money orders are stolen and cashed.

When Postal Service Bait Money Order Program is not followed, there is an increased risk investigative leads could be delayed.

### Non-Saleable Inventory<sup>24</sup>

The unit did not return or destroy stamp stock, valued at \$7,591.28, and four international money orders that were obsolete and could not be sold at the station. The non-saleable stamp stock<sup>25</sup> was stored in an unsecured cabinet with the retail floor stock, including some that went off sale in 2003 (see [Figure 1](#)). The LSSA explained the stock had been there a while, and he did not return the inventory for destruction.

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<sup>20</sup> Handbook F-101, Section 11-6.11.1 and 11-6.11.2

<sup>21</sup> For our scope period of April 1, 2015, through March 31, 2016, fraudulently cashed money orders had an average value of \$608.54 per money order. The money orders, then, had a potential value of \$57,202.56. However, only 5.95 percent of fraudulent money orders were cashed at Postal Service locations. As a result, we valued the 79 money orders at \$2,860.44.

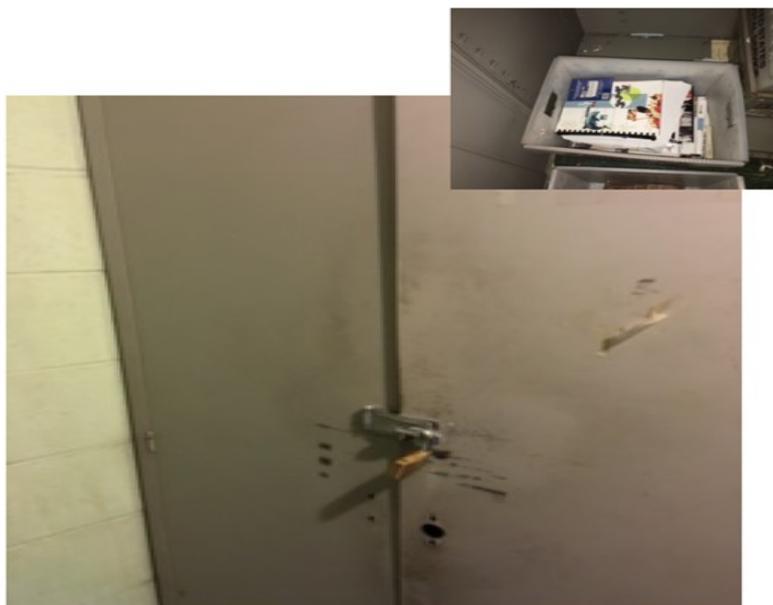
<sup>22</sup> Handbook F-1, *Accounting and Reporting Policy*, Section 2-5.2.4.1.

<sup>23</sup> Publication 348, *Window Services Crime Prevention Booklet*, October 2008, Section 3.

<sup>24</sup> Non-saleable inventory only reviewed at El Cerrito Post Office.

<sup>25</sup> Non-saleable stock includes stamp stock items and products, any partial packages of stamps, stamped envelopes or postal cards that are removed from sale because they were obsolete, defected, or damaged.

**Figure 1. Non-saleable Stock**



Source: OIG photo taken August 9, 2016.

Postal Service policy states non-saleable stock should not be commingled with saleable stock.<sup>26</sup> Additionally, PRUs must send all international money orders that cannot be sold to the SDO for redistribution.<sup>27</sup>

When Postal Service personnel do not properly safeguard and return non-saleable stock for destruction, there is an increased risk of undetected theft of accountable items.

### **Receipt of Stamp Stock<sup>28</sup>**

The unit did not always receive or record stamp stock shipped by the SDO timely. It accepted eight shipments, valued at \$39,654.70, from March 2015 through January 2016, from 17 to 40 days after the SDO transferred the stock. Also, Accounting Services<sup>29</sup> expensed seven of those eight shipments because the unit did not accept them within 15 days (see Table 6).

<sup>26</sup> Handbook F-101, Section 11-6.5.c.

<sup>27</sup> Handbook F-101, Section 11-6.11.1.

<sup>28</sup> Receipt of stamp stock only reviewed at El Cerrito Post Office.

<sup>29</sup> Accounting Services manages accounting processes and procedures in three locations (Eagan, MN; St. Louis, MO; and San Mateo, CA) and the Accounting Center Support group, which consists of the Accounting Help Desk and Accounting Service Management.

**Table 6. Delayed Acceptance – Stamp Stock Shipment**

Shipment Number	Date of Transfer from SDO	Date of Receipt of Transfer by Unit	Elapsed Days	Date Expensed	Amount
1206102650	January 22, 2016	February 9, 2016	18	February 8, 2016	\$147
1205941002	January 11, 2016	January 29, 2016	18	January 27, 2016	323
1202337224	January 21, 2015	March 2, 2015	40	*	529
1205842766	December 30, 2015	January 21, 2016	22	January 15, 2016	570
1203501422	May 19, 2015	June 5, 2015	17	June 4, 2015	980
1202634942	February 21, 2015	March 16, 2015	23	March 9, 2015	11,760
1205841236	December 28, 2015	January 28, 2016	31	January 13, 2016	11,970
1205841089	December 28, 2015	February 1, 2016	35	January 13, 2016	13,376
<b>TOTAL</b>					<b>\$39,655</b>

\* We did not determine why Accounting Services did not expense this stock shipment.  
 Source: OIG analysis.

According to the LSSA, he delayed acceptance of the stock shipments because he did not have time to accept them. Stock shipped to a PRU from an SDO creates an in-transit item for the receiving retail unit. After 10 days, Accounting Services sends a report requesting the unit to research items that do not clear in-transit stock shipments. If a retail unit does not clear a shipment within 15 days, Accounting Services clears the in-transit item by issuing an expense to the retail unit.<sup>30</sup>

Each stock shipment received from the SDO must be counted and verified with a witness. The total value of the shipment must be entered on PS Form 17, Weekly Listing of Shipments, and signed and dated.<sup>31</sup> The postmaster, manager, or supervisor must contact the OIG for an investigation of any lost or stolen stock shipments.<sup>32</sup> Shipments not accepted within a reasonable time places Postal Service assets at risk of theft or loss.

### Inventory Count Records

The postmaster at the El Cerrito Main Post Office did not properly record all of the unit's inventory counts. Specifically, of the nine accountability files that should exist:<sup>33</sup>

- One accountability file was not established.
- Seven accountability files had incomplete PS Forms 3368-P, Accountability Examination Record. PS Form 3368-P provides a summary of the results for all inventory counts at the post office for the last 2 years.
- Three accountability files had outdated PS Forms 3368-P, dating as far back as 2007.

<sup>30</sup> Handbook F-101, Section 11-5.8.

<sup>31</sup> Handbook F-101, Section 11-5.1.

<sup>32</sup> Handbook F-101, Section 8-7.3.

<sup>33</sup> Accountability files are required for each of the eight RAs and the unit reserve stock.

- One or more of the PS Forms 3294, Cash and Stamp Stock Count and Summary, were missing for four of seven RAs and the unit reserve stock. PS Form 3294 records the current inventory count for all unit cash reserve and cash and stamp stock counts.

This occurred because management did not always conduct inventory counts as required. Postal Service policy states the postmaster, manager, or supervisor is responsible for managing stamp stock and cash credits and must ensure timely performance of counts. The postmaster is also responsible for establishing and maintaining a file for each stamp or cash credit assigned to employees. Stamp and cash credit files must contain the following (if applicable):<sup>34</sup>

- PS Forms 3294, along with the system-generated counts sheets for each count.
- PS Forms 3368-P.
- PS Form 3369, Consigned Credit Receipt.
- PS Forms 571, Discrepancy of \$100 or More In Financial Responsibility.
- Letters of demand for payment

If inventory files are not maintained and updated it may be difficult to trend or timely address shortages or overages of Postal Service segmented inventory.

### **Duplicate Key and Password Envelope**

The unit did not have the required or completed PS Form 3977, Duplicate Key Combination, or Password Envelopes for eight RAs at the El Cerrito Main Post Office. The duplicate key is used to open the cash drawer of an employee who is not present, and the password is used to access the employee's RSS login. Specifically:

- Two of eight RAs did not have envelopes.
- Six envelopes were not dated.
- Six envelopes did not have log-on IDs or passwords.

Further, the unit completed its last examination of the PS Forms 3977 in June 2014.

Postal Service policy states field units must complete a PS Form 3977 envelope to protect each duplicate key, combination, and password. The responsible employee (and a witness to the enclosure of the combination, password, or keys) signs the envelope and postmarks it as instructed on the form. Field unit managers must review PS Forms 3977 semiannually and must conduct annual examinations of all other locks and keys.<sup>35</sup>

If an employee is absent and management cannot access the employee's duplicate key and updated password from the PS Forms 3977, management cannot conduct timely cash counts, decreasing their ability to mitigate the risk of theft of cash or money orders.

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<sup>34</sup> Handbook F-101, 13-1.3.

<sup>35</sup> Handbook F-101, Section 3-8.2.1 and 3-8.2.2.

## Separation of Duties<sup>36</sup>

The LSSA, acting for the postmaster who was on leave for over a year, was authorized in RSS to sell postal products; accept payments; and oversee the unit cash reserve, retail floor, and passports inventory segments.

Postal Service policy states field unit management must maintain adequate internal controls to the maximum extent possible to separate duties. Employees who sell and accept payments for products and services should not also monitor the overall unit financial transactions and maintain the unit inventory and customer accounts.<sup>37</sup>

When employee duties are not properly separated, it is difficult for the Postal Service to identify owners of key transactions or manage errors and fraud risk.

## Safeguarding of Assets

The unit did not properly safeguard Postal Service assets. We observed the areas where cash, stamps, stamped envelopes, and money orders were stored and found (see [Figure 4](#)):

- The main door to the safes had a chain attached to it to prevent it from closing, and a note that read, "do not close this door."
- Two of the three safes that contained cash drawers were left open during our visit.
- The cabinet with the retail floor stock and non-saleable stock was unlocked.

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<sup>36</sup> Separation of duties and safeguarding of assets only reviewed at El Cerrito Post Office.

<sup>37</sup> Handbook F-101, Section 2-4.7.

**Figure 4. Open Safes – Cash, Registry, and Unit Reserve**



Source: OIG photo taken August 9, 2016.

The safes remained open because the safe door was broken. Further, neither the RAs nor the customer service supervisor knew the combinations to the locks, and management did not change the combinations. Field unit management must provide adequate security for all accountable items and must ensure combinations and locks are uncompromised and changed when equipment or employees are reassigned.<sup>38</sup>

Cash, money orders, and stamps are easy to steal and if they are not adequately secured, there is increased risk of undetected theft. We considered the retail floor stock (\$4,791.46) and non-saleable items (\$7,591.28) at risk of potential loss or theft because they were not properly safeguarded.

<sup>38</sup> Handbook F-101, Sections 3-1.1 and 3-9.2.

## Recommendations

We recommended the Manager, Bay-Valley District, instruct management at the El Cerrito Main Post Office to:

1. Reiterate policies for segmented inventory counts, stamp shipments, duplicate key envelopes, bait money orders, separation of duties, and accountable items security.
2. Determine the status of the money orders that were at the unit but were not included in the Retail Systems Software, and the money orders that were included in the Retail Systems Software but not at the unit and take appropriate action based on the status.
3. Destroy obsolete stamp stock and money orders.
4. Repair the door to the safe, change safe combinations, and provide combinations to appropriate personnel.

## Management's Comments

Management agreed with the findings and recommendations but disagreed with the methodology for calculating the worth of the missing blank money orders. They stated blank money orders have no value, and the majority of them are not cashed by the Postal Service. The risk is assumed by the institution that cashes the check, so the financial risk to the Postal Service is low.

Regarding recommendation 1, management stated the staff at the unit will receive the Postal Retail Unit Controls training by June 15, 2017. Management subsequently provided documentation to show the training was completed.

Regarding recommendation 2, management plans to have a complete investigation on all money orders and take appropriate actions by June 30, 2017. The postmaster stated that after the OIG audit, 73 of the 79 missing money orders were found in a locked cabinet inside the vault, and two of the remaining six missing money orders were found spoiled/voided.

Regarding recommendation 3, management will have a complete inventory done on obsolete stamp stock and money orders and take appropriate actions. They plan to prepare the obsolete items for destruction or return to the distribution center by June 30, 2017.

Regarding recommendation 4, management will ensure that work orders for the repair of the safe, changing the combinations to the safe, and providing access to authorized personnel are completed by June 9, 2017. Management subsequently provided evidence of completed work orders. 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.

Regarding the monetary impact, we acknowledge that money orders are blank, that the majority of money orders are not cashed by the Postal Service, and that the financial risk is generally assumed by the institution that cashes it. Consequently, our calculation for monetary impact considered the amount of fraudulent money orders cashed at Postal Service locations only. The risk for fraudulently cashed money orders existed because these accountable items were missing at the time of our audit.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 2 and 3 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.

We consider recommendations 1 and 4 closed with issuance of this report.

## Appendix A. Management's Comments

DISTRICT MANAGER  
BAY-VALLEY CUSTOMER SERVICE AND SALES



June 6, 2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Segmented Inventory  
El Cerrito, CA, Main Post Office  
Report Number FT-FM-17-DRAFT

The Bay-Valley District agrees with the OIG findings and/or observations.

Management, however, disagrees with the methodology of calculation used for the monetary impact statement on what the missing blank money orders are worth. Blank money orders have no value and 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.

The postmaster stated that after the OIG audit, 73 were found in a locked cabinet inside the vault (MO #0204415527-3) and two (MO # 2167146610-7 and 0865925532-0) were found spoiled/voided.

### **Recommendation 1:**

- Reiterate policies for segmented inventory counts, stamp shipments, duplicate key envelopes, bait money orders, separation of duties, and accountable items security.

### Management Response/Action Plan:

Management agrees with the recommendation. The El Cerrito Post Office staff will receive the Postal Retail Unit (PRU) Controls training.

### Target Implementation Date:

PRU Controls training will be completed by June 15, 2017.

### Responsible Official:

The Manager, Post Office Operations (MPOO), Group A, will ensure that the training is completed.

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OAKLAND CA 94615  
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**Recommendation 2:**

- Determine the status of the money orders that were at the unit but were not included in the Retail Systems Software, and the money orders that were included in the Retail Systems Software but not at the unit and take appropriate action based on the status.

Management Response/Action Plan:

Management agrees with the recommendation. The MPOO will have a complete investigation on all money order issues and will take appropriate actions.

Target Implementation Date:

Money Order deficiencies/discrepancies will be completed by June 30, 2017.

Responsible Official:

The MPOO will ensure completion of the task.

**Recommendation 3:**

- Destroy obsolete stamp stock and money orders.

Management Response/Action Plan:

Management agrees with the recommendation. The MPOO will have a complete inventory done on obsolete stamp stock and money orders and take the appropriate actions.

Target Implementation Date:

The obsolete stamps stock and money orders will be inventoried and prepared for destruction/return to the distribution center by June 30, 2017.

Responsible Official:

The MPOO will ensure completion of the task.

**Recommendation 4:**

- Repair the door to the safe, change safe combinations, and provide combinations to appropriate personnel.

Management Response/Action Plan:

Management agrees with the recommendation. The MPOO will ensure that work orders for the repair of the safe, changing the combinations to the safe, and providing access to authorized personnel are completed.

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Target Implementation Date:

The tasks will be done immediately to be completed no later than June 9, 2017.

Responsible Official:

The MPOO will ensure completion of the task.



Jagdeep Grewal  
District manager (A)

cc: AVP, Pacific Area (A)  
Controller, Pacific Area  
Manager, Corporate Audit Response Management  
Manager, Pacific Area Accounting  
Manager, District Finance  
Manager, Post Office Operations, Group A  
Postmaster, El Cerrito