



March 31, 2005

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VICE PRESIDENT, DELIVERY AND RETAIL

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VICE PRESIDENT, TREASURER

SUBJECT: Audit Report - Fiscal Year 2004 Financial Installation Audit – Contract
Postal Units (Report Number FF-AR-05-100)

This report summarizes the results of our financial installation audit of 15 statistically selected contract postal units for fiscal year (FY) 2004 (Project Number 04XD007FF000). We conducted this audit in support of the audit of the Postal Service financial statements.

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective. However, there were internal control and compliance issues related to accountability over cash and stamps, safeguarding assets, bait money orders, and Bank Secrecy Act provisions. We made recommendations to district management addressing the findings at each installation. District management comments were responsive to our findings and recommendations, and the actions taken or planned should correct the issues identified at these installations.

Some of these issues were also included in our summary report for contract postal units for FY 2003. In September 2004, management took actions at the headquarters level to address the issues identified in our FY 2003 report. However, because we completed our FY 2004 audits before September 2004, management's actions did not impact contract postal units we audited. Therefore, we did not make additional recommendations in this report for conditions we previously identified in the FY 2003 report.

We recommended management reinforce instructions to contracting officer representatives regarding accountability procedures at contract postal units, specifically maintaining excess cash and safeguarding assets, to improve compliance with Postal Service procedures.

Management agreed with our recommendation and plans to send a letter to the field organizations reinforcing proper accountability procedures at contract postal units by the spring of FY 2005. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information please contact Linda Libician-Welch, Director, Field Operations - West, or me at (703) 248-2300.

/s/ Colleen A. McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
for Field Operations

Attachments

cc: Richard J. Strasser, Jr.
Lynn Malcolm
Margaret A. Weir
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EXECUTIVE SUMMARY

Introduction

This report summarizes the results of our audits of 15 statistically selected contract postal units for fiscal year (FY) 2004. The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. We conducted these audits in support of the audit of the Postal Service financial statements. The audits at each of the contract postal units were unannounced.

Our overall objectives were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records and whether internal controls were in place and effective at the 15 statistically selected contract postal units.

Results in Brief

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective. However, there were internal control and compliance issues related to accountability over cash and stamps, safeguarding assets, [REDACTED] and provisions of the Bank Secrecy Act. We made recommendations to district management addressing the findings at each installation. District management comments were responsive to our findings and recommendations, and the actions taken or planned should correct the issues identified at these installations.

Some of these issues were also included in our FY 2003¹ summary report for contract postal units. In September 2004, management took actions at the headquarters level to address the issues identified in our FY 2003 report. Management's actions did not affect the contract postal units examined in FY 2004 since the audits were completed prior to September 2004. We are not making additional recommendations at this time for conditions identified in the FY 2003 report.

¹ Fiscal Year 2003 Financial Installation Audit – Contract Postal Units (Report Number FF-AR-04-230, dated July 19, 2004).

Summary of Recommendations	In this summary report, we recommended the vice president, Delivery and Retail, reinforce instructions to contracting officer representatives regarding accountability, specifically maintaining excess cash and safeguarding assets at contract postal units, to improve compliance with Postal Service procedures.
Summary of Management's Comments	Management agreed with our recommendation. Management stated they will reiterate the necessity of maintaining proper accountability procedures with the field organizations. In addition, we received additional information in an email dated March 28, 2005, that management plans to send a letter to the field organizations by the spring of FY 2005 reinforcing proper accountability procedures at contract postal units.
Overall Evaluation of Management's Comments	Management's action is responsive to our recommendation and should address the issues identified in the finding.

INTRODUCTION

Background

Beginning with fiscal year (FY) 2001, the Office of Inspector General (OIG) began conducting financial audits at financial installations, consisting of revenue generating units² and stamp distribution offices. These audits were conducted in support of the overall audit of the Postal Service financial statements.

A contract postal unit is a contractor-owned and operated facility, under contract to the Postal Service and under the jurisdiction of an administrative post office. The units provide selected Postal Services to the public, which can include accepting mail and selling postage, supplies, and Postal Service money orders. Contract postal units are usually located in a store or place of business. Contracting officer representatives are required to perform periodic on-site reviews and annually examine the contractor's accountability to ensure compliance with the contract.

The contractor must provide a surety bond for an amount not less than the average daily value of Postal Service funds and accountable paper on hand, plus the value of postage in any Postal Service meter, excluding blank money orders. The contracting officer representative should monitor a contract postal unit's accountability regularly to ensure it does not exceed the current bond amount.

Postal Service policy³ and the unit's contract with the Postal Service set the procedures for operations and oversight of contract postal units.

Objectives, Scope, and Methodology

Our overall objectives were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records and whether internal controls were in place and effective.

² Includes post offices, contract postal units, self-service postal centers, and business mail entry units.

³ Handbook AS 707-F, Contracting for Contract Postal Units, July 1989; Handbook F-1, Post Office Accounting Procedures, November 1996 (updated with Postal Bulletin revisions through September 2003); Publication 116, Contract Postal Unit Operations Guide.

To accomplish these objectives, we performed fieldwork during FY 2004. The audits at each of the contract postal units were unannounced. We statistically selected 15 contract postal units for review from a population of 4,123 units. The 15 units reported revenue of \$3.3 million in FY 2003. (Appendix A lists the sites we selected.)

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We also evaluated whether the internal control structure over financial reporting and safeguarding of assets was implemented and functioning as designed. We interviewed supervisors and employees and observed operations at the statistically selected contract postal units.

We conducted our audit from October 2003 through March 2005 in accordance with generally accepted government auditing standards and included tests of internal controls that were necessary under the circumstances. We issued individual reports to management at each statistically selected site. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

Prior Audit Coverage

The Postal Inspection Service conducted financial installation audits prior to FY 2001. We evaluated all findings in individual site reports issued by the Postal Inspection Service from FYs 1999 through 2000 and by the OIG in FYs 2001 through 2003; and we reported the status of recommendations in the individual site reports.

In our summary report on contract postal units for FY 2003, we reported that management could strengthen its internal controls over stamps, cash, and money orders to reduce future losses. Management issued a memorandum dated September 15, 2004, to the vice presidents, Area Operations, advising them of the audit findings and

requesting that existing policy and procedures be enforced by appropriate field management. Management also stated that Retail Marketing completed an initial draft of Publication 156, which will replace Handbook AS 707-F as the manual for contract postal unit operations. Because we completed our FY 2004 audits before management issued the September 15, 2004, memorandum, management's actions did not affect the contract postal units we audited. As such, we have not determined if management's actions were effective in addressing the issues identified in our FY 2003 report.

AUDIT RESULTS

Accountability Procedures Were Not Always Followed	Contract postal units did not always follow accountability procedures prescribed by the Postal Service for cash and stamps, safeguarding of assets, and [REDACTED]. Contract postal unit officials were not always aware of prescribed procedures, and contracting officer representatives did not ensure that the units adhered to the procedures. Until these controls are functioning as prescribed, there is an increased risk of loss.
Cash and Stamp Accountability Procedures Needed Improvement	<p>Contract postal units and administering post offices did not always follow accountability procedures. Not following procedures may have contributed to overages and shortages found at the units. Five contract postal units had shortages ranging from \$248 to \$1,876, totaling \$4,333, and two units had overages of \$2,522 and \$2,400, totaling \$4,922. Units that did not follow prescribed cash and stamp accountability procedures included:</p> <ul style="list-style-type: none">• Three contract postal units that retained from \$408 to \$3,200, more cash than the allowable limit, for a total of \$5,105. Contractors can keep stamp funds up to 10 percent of the stamp credit, but not more than \$100, as a change fund for conducting Postal Service business.⁴ Holding excess cash increases the potential loss due to theft or fraud.• Two contract postal units where the administering units did not conduct the annual examination of cash and stamp stock accountability. The administering post office must annually inventory the contract postal unit's accountability.⁵ When internal controls are not functioning as prescribed, there is an increased risk that the financial records could be misstated, or stamp stock or cash could be lost or stolen without detection.

⁴ Handbook F-1, Section 426.42.

⁵ Handbook F-1, Section 429.3.1.

We are making no additional recommendations at this time, because these issues were identified in our FY 2003 report.

Postal Service Assets
Were Not Always
Protected

Contract postal units did not always safeguard Postal Service assets. Furthermore, some units did not maintain adequate bonding or prepare bank deposits properly. Unsecured assets increase the risk of loss to the Postal Service. We found:

- Four contract postal units did not adequately safeguard assets at their locations. For example, personnel left assets, including cash, stamps, and a round date stamp, unattended during business hours and left money order imprinters unsecured during nonbusiness hours. Publication 116, Section 1-3.1, states that all accountable items must be stored under lock and key when the unit is unattended. Also, Handbook PO-208, Retail Operations – Focus on Retail, February 1999 (updated with Postal Bulletin revisions through October 4, 2002), requires clerks to follow procedures for locking their cash drawers and securing loose stock when they leave the counter. ■



- Two contract postal units' bonds did not consistently cover stamp and cash accountabilities. One unit's stamp stock and meter accountabilities exceeded the contract postal unit's bond five times during January 2004, by an average of \$946. The other unit exceeded its \$10,000 bond amount by \$767 once in 2004. Handbook PO-208, Section 242, February 1999, states the bond amount must be sufficient to cover stamp stock and unused funds on the postage meter.

- Personnel at three contract postal units did not properly prepare bank deposits. Specifically, unit personnel did not count the bank deposits in the presence of a witness. Handbook F-1, Section 221.21, requires that Postal Service (PS) Form 1412, Daily Financial Report, be prepared each business day. Section 333.2 states that the unit should count funds in the presence of a witness, then have the witness make an independent count in the presence of the preparer.

The issues of unit accountability exceeding the bond amount and improper bank deposit preparation were identified in our FY 2003 report. As discussed earlier, we are making no additional recommendations at this time.

██████████
Program Procedures
Were Not Followed

Contract postal units did not always follow procedures for ██████████. If these procedures are not followed and a theft occurs, the Postal Service has reduced assurance that the stolen items can be traced. Specifically:

- Four contract postal units did not maintain ██████████ ██████████ Logs. Handbook PO-208, Section 437, states that units must maintain a current ██████████ Control Log.
- Three contract postal units did not control ██████████ ██████████. The contract postal units did not monitor missing ██████████ or place ██████████ ██████████. In addition, an administering post office did not issue ██████████ ██████████ to one contract postal unit. ██████████, establishes guidelines and controls for administering the ██████████

██████████ were identified in our FY 2003 report and the Postal Service has taken actions, which should address this issue. Therefore, we are not making any additional recommendations for this issue.

Recommendation	We recommend the vice president, Delivery and Retail: 1. Reinforce instructions to contracting officer representatives regarding maintaining excess cash and safeguarding assets, to increase compliance with Postal Service procedures.
Management's Comments	Management agreed with our recommendation. Management stated they will reiterate the necessity of maintaining proper accountability procedures with the field organizations. In addition, we received additional information in an email dated March 28, 2005, that management plans to send a letter to the field organizations by the spring of FY 2005 reinforcing proper accountability procedures at contract postal units.
Evaluation of Management's Comments	Management's action is responsive to our recommendation and should address the issues identified in the finding.
Lack of Compliance With Bank Secrecy Act Provisions	Personnel at contract postal units were not aware of their responsibilities and the reporting requirements under the Bank Secrecy Act. If contract personnel are not aware of the act's provisions, there is an increased risk that criminal activity could occur and not be detected. Personnel at eight contract postal units were not aware of their responsibilities and the reporting requirements under the Bank Secrecy Act. <u>Administrative Support Manual (ASM)</u> , Issue 13, dated July 1999, requires contract personnel to complete PS Form 8105-A, Funds Transaction Report, when selling money orders totaling \$3,000 or more to the same customer in the same day. [REDACTED] Unit personnel should complete and forward both forms to the address listed on the form.

Generally, unit personnel had not received training or instructions on the provisions of the Bank Secrecy Act. ASM Section 229.13, requires contract employees assigned to retail sales positions to participate in a formal training program that includes instructions on the essential elements of the Bank Secrecy Act, [REDACTED]
[REDACTED]

Audit Comment

Beginning in October 2004, the Postal Service began training contract postal unit managers and contracting officer representatives in Bank Secrecy Act provisions. The Postal Service sent training packets to seven of the contract Postal Service units we identified in our individual audits. The eighth unit closed in September 2004. Additionally, the Bank Secrecy Act Compliance Office has contacted Delivery and Retail and requested any new contract postal units, prior to selling postal money orders, be required to provide all employees with Bank Secrecy Act training. In addition, Postal Service officials published a Postal Bulletin article on the training requirement. The Postal Service plans to mail a training packet to every contract postal unit that sells Postal Service money orders and the Bank Secrecy Act Compliance Office plans to follow-up to ensure training is completed and documented. These actions should address the issues we identified in our audits and as such, we are not making any recommendations at this time.

APPENDIX A. SITES VISITED

Contract Postal Unit	FY 2003 Revenue	Location
[REDACTED]	[REDACTED]	[REDACTED] Washington
[REDACTED]	[REDACTED]	[REDACTED], Florida
[REDACTED]	[REDACTED]	[REDACTED], Oregon
[REDACTED]	[REDACTED]	[REDACTED], New York
[REDACTED]	[REDACTED]	[REDACTED], New Mexico
[REDACTED]	[REDACTED]	[REDACTED], South Carolina
[REDACTED]	[REDACTED]	[REDACTED], Florida
[REDACTED]	[REDACTED]	[REDACTED], Michigan
[REDACTED]	[REDACTED]	[REDACTED], Florida
[REDACTED]	[REDACTED]	[REDACTED], Florida
[REDACTED]	[REDACTED]	[REDACTED], Louisiana
[REDACTED]	[REDACTED]	[REDACTED], Utah
[REDACTED]	[REDACTED]	[REDACTED] Arkansas
[REDACTED]	[REDACTED]	[REDACTED], Oklahoma
[REDACTED]	[REDACTED]	[REDACTED], Washington

APPENDIX B. MANAGEMENT'S COMMENTS

VICE PRESIDENT, DELIVERY AND RETAIL



March 23, 2005

COLLEEN A. MCANTEE
KIM STROUD

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2004 Financial
Installation Audit – Contract Postal Units (Report Number
FF-AR-05-DRAFT)

We agree with the recommendation that management reinforce instructions to Contracting Officer Representatives regarding accountability procedures at contract postal units, specifically maintaining excess cash and safeguarding assets, to improve compliance with Postal Service procedures.

Recommendation: Management reinforce instructions to Contracting Officer Representatives regarding accountability procedures at contract postal units, specifically maintaining excess cash and safeguarding assets, to improve compliance with Postal Service procedures.

Response: There were no additional specific recommendations as a result of this audit. Headquarters management will reiterate with the field organizations the necessity of maintaining proper accountability procedures at contract postal units.

A handwritten signature in black ink, appearing to read "William P. Galligan".

William P. Galligan

cc: Mr. Strasser, Jr.
Ms. Malcolm
Ms. Weir

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