



December 23, 2010

VINCENT H. DEVITO JR
VICE PRESIDENT, CONTROLLER

SUBJECT: Draft Audit Report – Fiscal Year 2010 Financial Installation Audits –
Post Offices, Stations, and Branches (Report Number FF-AR-11-005)

This report presents the results of our financial installation audits of 105 post offices, stations, and branches for fiscal year (FY) 2010 (Project Number 10BD001FF000). We conducted these audits in support of the independent public accounting (IPA) firm's overall audit opinions on the U.S. Postal Service's financial statements and internal controls over financial reporting. Our overall objective was to determine whether postal retail units complied with nine key financial reporting controls related to accountability examinations, master trust accounts, employee items, financial differences, unit closeout procedures, payroll, Voyager payments, SmartPay payments, and contract postal unit oversight. See [Appendix A](#) for additional information about this audit.

Post offices — which include 32,000 main offices, stations, and branches — are postal retail units where the Postal Service processes transactions initially recognizing revenue and expenses from operations. During FY 2010, the Postal Service recognized \$17.5 billion in retail revenue. Control over financial transactions provides assurance that the Postal Service recognizes all revenue and expense transactions in their financial statements.

Conclusion

Based on the items we reviewed, Postal Service retail units overall did not comply with all nine key financial reporting controls. [Appendix B](#) lists each issue and the number of units where the issue was reported during FY 2010. Additionally, we reported \$362,750 in monetary and \$62,378 in other impact in our individual financial installation audit reports.

Retail Controls

Postal Service personnel did not always comply with the nine key controls related to postal retail unit operations.

See Table 1 for a summary of the key controls.

Table 1. Key Controls

Key Controls	Number of Locations (out of 105) with Control Deficiencies
Accountability Examinations 45	
Master Trust Accounts	25
Employee Items	16
Financial Differences	75
Unit Closeout Procedures	85
Payroll 43	
Voyager 56	
SmartPay Purchase Card Payments	8
Contract Postal Unit Oversight	15

Source: OIG Analysis



For example, personnel at 75 of the 105 locations did not monitor and resolve all financial differences. Financial differences are generally automated transactions arising from differences detected between transactions processed at the individual units and transactions processed in higher level systems. Resolving financial differences assures that units are properly processing transactions and are aware of and correcting errors in the accounting records. See [Appendix B](#) for a detailed analysis of the key controls and tests performed. Generally, units were not complying with the controls because of insufficient oversight or because employees overlooked performing certain aspects of internal controls. The IPA used the results of these audits to assess the overall control environment and determine the amount of testing they conduct in auditing the financial statement balances.

We addressed the control issues in separate reports to unit and Postal Service district managers and made recommendations to correct the internal control issues found. District management's comments to the individual reports were responsive to the findings and recommendations. The actions taken or planned should correct the issues identified at these installations. [Appendix C](#) lists the 105 installations we audited.

The U.S. Postal Service Office of Inspector General (OIG) reported similar compliance issues in prior capping and installation audit reports related to completing accountability examinations, monitoring customer account inactivity, and restricting access to Postal Service information resources. The Postal Service has taken corrective action on these issues by revising policy to update requirements, publishing *Postal Bulletin* articles to provide clarification and guidance to field employees, and adding features and improved controls to Point-of-Service software. The actions taken should correct the issues.

We discussed our observations and conclusions with management on December 20, 2010. As we are not making recommendations in this report, management determined there was no need to provide formal comments. We

appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin Ellenberger, director, Field Financial – East, or me at 703-248-2100.

E-Signed by John Wiethop 
VERIFY authenticity with ApproveIt


for

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

cc: Joseph Corbett
Dean J. Granholm
Julie S. Moore
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Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The OIG conducted financial field audits at revenue generating units such as post offices and business mail entry units. We conducted these audits in support of the IPA's overall audit opinions on the U.S. Postal Service's financial statements and internal controls over financial reporting.

Post offices — which include 32,000 main offices, stations, and branches — are postal retail units where the Postal Service initially recognizes revenue from operations. During FY 2010, the Postal Service recognized \$17.5 billion in retail revenue. Financial activities at these installations include, but are not limited to, post office box and caller service, money orders, payments,¹ and postage sales. Field unit managers and supervisors are responsible for ensuring that employees collect all revenue due the Postal Service, account for revenue in a timely manner, and maintain the required supporting documentation.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our overall objective was to determine whether postal retail units complied with nine key financial reporting controls related to accountability examinations, master trust accounts, employee items, financial differences, unit closeout procedures, payroll, Voyager payments, SmartPay payments, and contract postal unit oversight.

To accomplish this objective, we conducted unannounced audit fieldwork at 105 statistically selected post offices, stations, and branches (units). We employed a stratified random sample from a population of 22,637 units with retail revenue of more than \$50,000. These 105 units reported \$323 million in revenue in FY 2009. [Appendix C](#) lists the locations we audited and [Illustration 1](#) shows our sample population of 22,637 locations and the 105 locations we audited.

We conducted this audit from October 2009 through December 2010 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective. We discussed our observations and conclusions with management officials on December 20, 2010, and included their comments where appropriate.

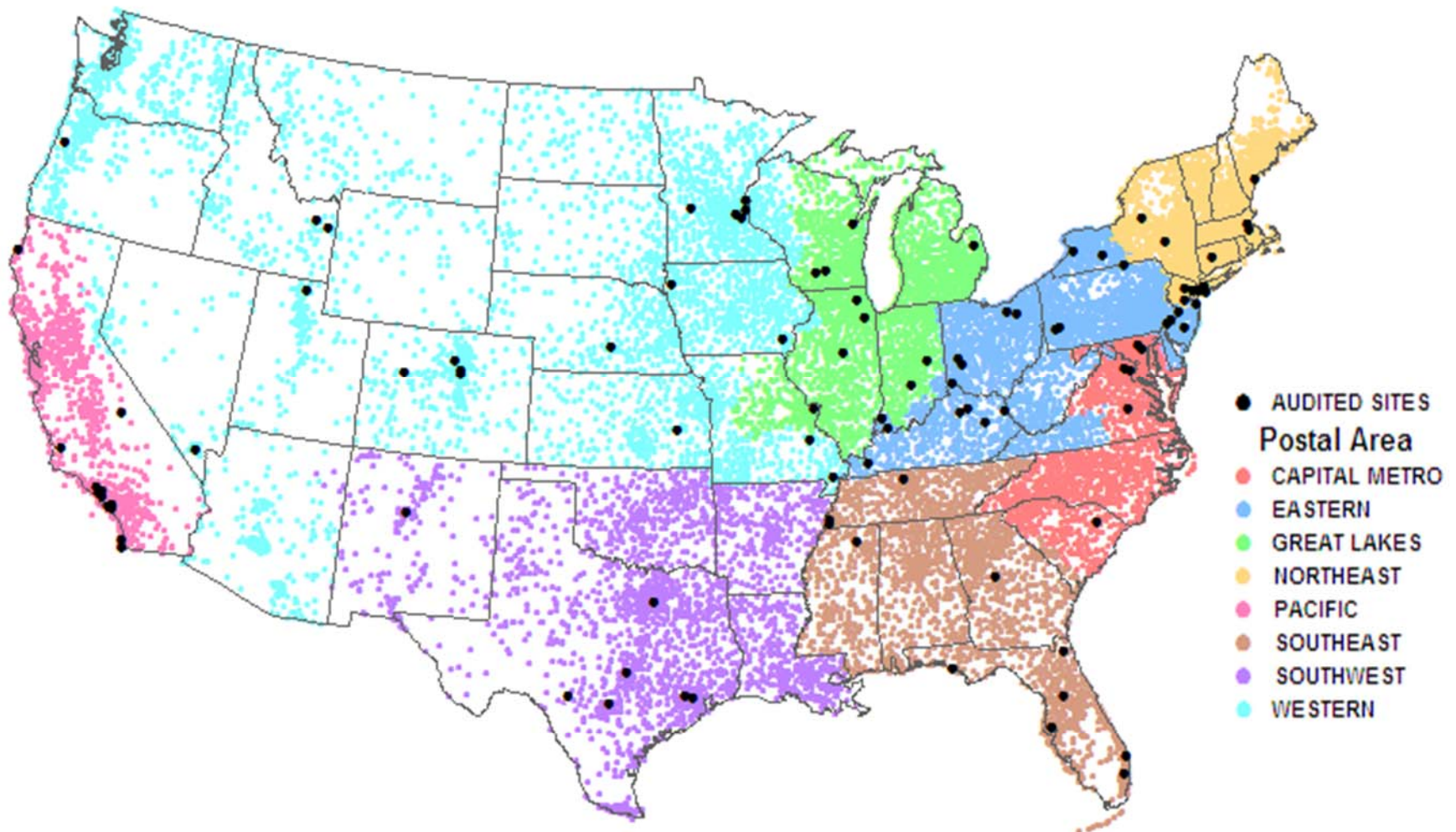
¹ A generic term used in Handbook F-101, *Field Accounting Procedures*, October 2009, for tasks related to making payments with eBuy or SmartPay, invoice payments, local payments, and temporary cash payments. It also includes requirements such as invoicing and recurring payments.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date
<i>Fiscal Year 2009 Financial Installation Audit – Post Offices, Stations, and Branches</i>	FF-AR-10-045	12/14/2009
<i>Fiscal Year 2008 Financial Installation Audit – Post Offices, Stations, and Branches</i>	FF-AR-09-055	12/26/2008
<i>Fiscal Year 2007 Financial Installation Audit – Post Offices, Stations, and Branches</i>	FF-AR-08-122	3/5/2008

The OIG reported similar compliance issues in prior audit reports related to completing accountability examinations, monitoring customer account inactivity, and restricting access to Postal Service information resources. The Postal Service took corrective action on these issues. The actions taken should correct the issues.

**Illustration 1: Map of Sample Population:
22,637 Postal Retail Units and 105 Units Audited²**



² The illustration does not display sites located outside the continental United States. We conducted one audit in Hawaii.

APPENDIX B: DETAILED ANALYSIS

Description of Control Deficiency (Bolded items represent the nine key Sarbanes-Oxley controls we evaluated in FY 2010)	Number of Locations (out of 105) with Control Deficiencies
Key Control 1 – Accountability Examinations	45
The unit did not conduct required cash retained examinations for retail associates.	2
The unit did not conduct required accountability examinations of unit cash reserve accountabilities.	23
The unit did not conduct required accountability examinations of unit reserve stamp stock.	19
The unit did not conduct required cash and stamp credit examinations.	7
The unit did not witness accountability examinations as required.	9
Key Control 2 – Master Trust Accounts	25
The unit did not monitor or reconcile master trust account balances.	7
The unit did not monitor Business Reply Mail/Postage Due accounts for inactivity.	18
Key Control 3 – Employee Items	16
The unit did not monitor and clear outstanding employee items.	16
Key Control 4 – Financial Differences	75
The unit did not monitor and resolve financial differences.	75
Key Control 5 – Unit Closeout Procedures	85
The closeout employee did not verify supporting documentation was available for information on the Postal Service (PS) Form 1412, Daily Financial Report, and review appropriate reports and make required adjustments.	17
The unit did not follow bank deposit procedures.	30
Unit management did not review the postage validation imprinter activity report for mismatch warnings and make corrections.	26
The unit did not verify disbursement transactions were supported.	77
The unit did not use preferred payment methods for local disbursements.	3
Key Control 6 – Payroll	43
Unit management did not complete PS Form 1723, Assignment Order, to support higher-level duty authorizations.	43
Key Control 7 – Voyager	56
The unit did not update the master Personal Identification Number (PIN) list for the Voyager card.	52
The unit did not maintain all receipts for Voyager purchases.	20
The unit had not conducted reconciliations of Voyager transactions.	6
The unit did not properly secure a copy of the Voyager PIN list.	5
Key Control 8 – SmartPay Purchase Card Payments	8
The cardholder or the approving official for the SmartPay Purchase Card did not verify, sign, and date purchase card statements to certify that bank statements were reconciled.	6
The unit did not process requisitions through eBuy and obtain appropriate approvals for purchases.	5

<p>Description of Control Deficiency (Bolded items represent the nine key Sarbanes-Oxley controls we evaluated in FY 2010)</p>	<p>Number of Locations (out of 105) with Control Deficiencies</p>
<p>Key Control 9 – Contract Postal Unit (CPU) Oversight</p>	<p>15</p>
<p>Unit management did not ensure that CPU stamp credit counts were conducted.</p>	<p>4</p>
<p>Unit management did not ensure that CPU credit examination results were documented on PS Form 3368-P, Accountability Examination Record.</p>	<p>4</p>
<p>Unit management did not ensure that CPU credit examination results were documented on PS Form 3294-P, Cash and Stamp Stock Count and Summary.</p>	<p>2</p>
<p>Unit management did not record overages or shortages in counts of the CPU stamp stock credit.</p>	<p>9</p>
<p>Unit management did not research and resolve the CPU's outstanding employee items.</p>	<p>1</p>
<p>Unit management did not monitor and resolve financial differences issued to the CPU.</p>	<p>10</p>
<p>Unit management did not ensure the CPU's total accountability did not exceed its bonded amount.</p>	<p>2</p>

**APPENDIX C: POST OFFICES, STATIONS, AND BRANCHES AUDITED
AND REPORTS ISSUED NATIONWIDE**

	Report Title and Number	FY 2009 Revenue	Monetary Impact ³	Other Impact ⁴
1	[REDACTED] FF-AR-10-115	\$22,896,725	—	—
2	[REDACTED] FF-AR-10-009	13,451,203	\$4,105	—
3	[REDACTED] FF-AR-10-146	11,265,325	—	—
4	[REDACTED] FF-AR-10-187	10,826,218	3,223	—
5	[REDACTED] FF-AR-10-106	10,733,253	5,967	—
6	[REDACTED] FF-AR-10-071	9,655,751	49,670	—
7	[REDACTED] FF-AR-10-055	9,332,942	—	—
8	[REDACTED] FF-AR-10-126	9,059,972	6,864	—
9	[REDACTED] FF-AR-10-213	8,560,197	74,786	\$9,506
10	[REDACTED] FF-AR-10-070	8,514,693	2,826	—
11	[REDACTED] FF-AR-10-039	7,919,634	16,633	—
12	[REDACTED] FF-AR-10-042	7,884,325	—	—
13	[REDACTED] FF-AR-10-113	7,791,331	1,977	—
14	[REDACTED] FF-AR-10-086	7,496,508	11,502	—
15	[REDACTED] FF-AR-10-096	7,403,846	6,264	6,013
16	[REDACTED] FF-AR-10-169	7,289,860	—	—
17	[REDACTED] FF-AR-10-144	6,967,364	—	—
18	[REDACTED] FF-AR-10-020	6,731,559	—	—

³ Depending on the specific nature of the findings involved, we reported these amounts as recoverable questioned costs, unrecoverable questioned costs or recoverable revenue.

⁴ Depending on the specific nature of the findings involved, we reported these amounts as assets at risk or disbursements at risk.

	Report Title and Number	FY 2009 Revenue	Monetary Impact ³	Other Impact ⁴
19	████████████████████ FF-AR-10-108	\$6,450,007	—	—
20	████████████████████ FF-AR-10-103	6,258,539	\$1,444	—
21	████████████████████ FF-AR-10-031	6,227,222	—	—
22	████████████████████ FF-AR-10-202	6,035,994	4,848	—
23	████████████████████ FF-AR-10-011	6,005,201	15,824	—
24	████████████████████ FF-AR-10-002	5,888,207	16,973	—
25	████████████████████ FF-AR-10-129	5,784,785	4,203	\$11,48 4
26	████████████████████ FF-AR-10-056	5,556,945	4,390	—
27	████████████████████ FF-AR-10-034	5,501,150	—	—
28	████████████████████ FF-AR-10-022	5,161,822	—	—
29	████████████████████ FF-AR-10-163	4,941,863	—	—
30	████████████████████ FF-AR-10-100	4,900,187	1,004	—
31	████████████████████ FF-AR-10-208	4,063,851	4,500	—
32	████████████████████ FF-AR-10-029	3,923,315	—	—
33	████████████████████ FF-AR-10-191	3,595,535	7,062	—
34	████████████████████ FF-AR-10-001	3,372,946	7,325	—
35	████████████████████ FF-AR-10-137	2,467,623	—	—
36	████████████████████ FF-AR-10-124	2,260,811	3,838	—
37	████████████████████ FF-AR-10-110	1,982,244	10,710	—
38	████████████████████ FF-AR-10-098	1,918,593	1,711	—
39	████████████████████ FF-AR-10-220	1,865,280	—	—

	Report Title and Number	FY 2009 Revenue	Monetary Impact ³	Other Impact ⁴
40	[REDACTED] FF-AR-10-186	\$1,841,799	\$1,256	—
41	[REDACTED] FF-AR-10-192	1,809,225	—	—
42	[REDACTED], FF-AR-10-130	1,783,819	62,058	\$24,171
43	[REDACTED] FF-AR-10-016	1,777,391	3,995	—
44	[REDACTED] FF-AR-10-105	1,754,222	—	—
45	[REDACTED] FF-AR-10-138	1,745,842	—	—
46	[REDACTED], FF-AR-10-043	1,709,959	1,207	—
47	[REDACTED] FF-AR-10-091	1,684,198	2,141	—
48	[REDACTED] FF-AR-10-087	1,661,715	—	—
49	[REDACTED] FF-AR-10-038	1,645,057	5,359	—
50	[REDACTED] FF-AR-10-131	1,589,802	—	—
51	[REDACTED] FF-AR-10-156	1,581,231	—	—
52	[REDACTED] FF-AR-10-111	1,557,939	—	—
53	[REDACTED] FF-AR-10-090	1,546,152	1,448	—
54	[REDACTED] FF-AR-10-155	1,524,144	—	—
55	[REDACTED] FF-AR-10-014	1,521,619	—	—
56	[REDACTED], FF-AR-10-184	1,375,168	—	—
57	[REDACTED] FF-AR-10-006	1,304,527	—	—
58	[REDACTED] FF-AR-10-116	1,256,989	—	—
59	[REDACTED] FF-AR-10-017	1,242,901	—	—
60	[REDACTED] FF-AR-10-157	1,236,304	2,211	—
61	[REDACTED] FF-AR-10-104	1,227,336	—	—

	Report Title and Number	FY 2009 Revenue	Monetary Impact ³	Other Impact ⁴
62	[REDACTED] FF-AR-10-114	\$1,221,693	—	—
63	[REDACTED] FF-AR-10-118	1,178,939	—	—
64	[REDACTED] FF-AR-10-177	1,156,040	—	—
65	[REDACTED] FF-AR-10-148	1,026,213	—	\$2,961
66	[REDACTED] FF-AR-10-121	963,094	—	—
67	[REDACTED] FF-AR-10-162	928,064	\$1,593	—
68	[REDACTED] FF-AR-10-012	882,338	—	—
69	[REDACTED] FF-AR-10-153	773,532	—	—
70	[REDACTED] FF-AR-10-200	737,317	—	—
71	[REDACTED] FF-AR-10-005	704,512	—	—
72	[REDACTED] FF-AR-10-003	670,783	—	—
73	[REDACTED] FF-AR-10-165	670,462	—	2,207
74	[REDACTED] FF-AR-10-221	653,898	3,076	515
75	[REDACTED] FF-AR-10-185	643,904	4,550	—
76	[REDACTED] FF-AR-10-159	613,433	—	—
77	[REDACTED] FF-AR-10-032	599,534	—	—
78	[REDACTED] FF-AR-10-101	592,043	—	5,521
79	[REDACTED] FF-AR-10-171	580,479	1,127	—
80	[REDACTED] FF-AR-10-094	542,847	2,830	—
81	[REDACTED] FF-AR-10-008	477,208	—	—
82	[REDACTED] FF-AR-10-182	461,832	—	—
83	[REDACTED] FF-AR-10-193	456,601	—	—

	Report Title and Number	FY 2009 Revenue	Monetary Impact ³	Other Impact ⁴
84	[REDACTED] FF-AR-10-093	\$445,726	—	—
85	[REDACTED] FF-AR-10-089	437,465	—	—
86	[REDACTED] FF-AR-10-194	321,626	—	—
87	[REDACTED] FF-AR-10-061	280,665	—	—
88	[REDACTED] FF-AR-10-172	280,614	—	—
89	[REDACTED] FF-AR-10-139	272,141	—	—
90	[REDACTED] FF-AR-10-099	267,982	—	—
91	[REDACTED] FF-AR-10-037	217,845	—	—
92	[REDACTED] FF-AR-10-004	207,413	—	—
93	[REDACTED] FF-AR-10-128	197,499	\$2,250	—
94	[REDACTED] FF-AR-10-057	164,275	—	—
95	[REDACTED] FF-AR-10-160	135,609	—	—
96	[REDACTED] FF-AR-10-183	119,931	—	—
97	[REDACTED] FF-AR-10-136	108,359	—	—
98	[REDACTED] FF-AR-10-203	97,755	—	—
99	[REDACTED] FF-AR-10-211	90,743	—	—
100	[REDACTED] FF-AR-10-119	89,823	—	—
101	[REDACTED] FF-AR-10-217	86,389	—	—
102	[REDACTED] FF-AR-10-092	79,111	—	—
103	[REDACTED] FF-AR-10-149	59,162	—	—
104	[REDACTED] FF-AR-10-023	55,821	—	—
105	[REDACTED] FF-AR-10-143	50,840	—	—
	Totals	\$322,921,725	\$362,750	\$62,378