OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Contract Postal Unit Operations Oversight

Audit Report

Report Number
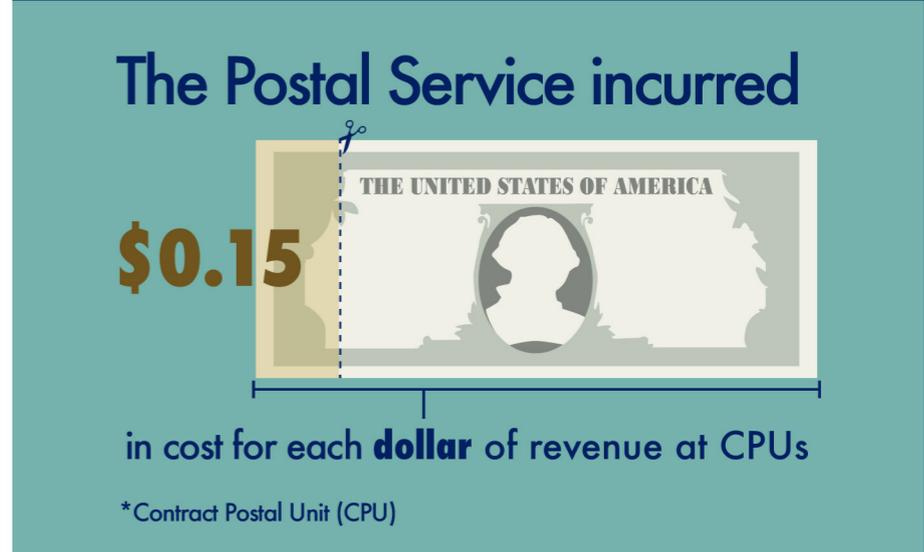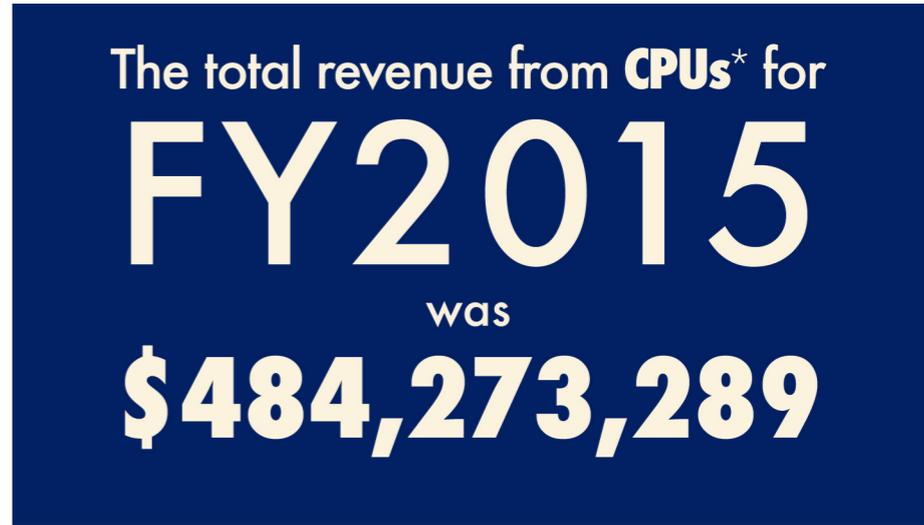FT-AR-17-002

November 3, 2016

Highlights

CPUs enhance service by being located closer to customers' homes and workplaces and operating at hours when post offices may not be open. They also provide postal services to areas with rapid population growth or where opening new post offices may be cost prohibitive.

Background

A contract postal unit (CPU) is a retail establishment under contract to the U.S. Postal Service to provide postal services to the public. The objective of the CPU program is to reduce customer wait time in post offices, retain and increase Postal Service market share, reduce operational costs, improve customer satisfaction, and grow retail revenue.

Although CPUs have declined in number from 5,290 in fiscal year (FY) 2002 to 2,656 in FY 2016, they enhance service by being located closer to customers' homes and workplaces and operating at hours when post offices may not be open. They also provide postal services to areas with rapid population growth or where opening new post offices may be cost prohibitive. In FY 2015, total revenue from CPUs was $484,273,289, and the Postal Service incurred $0.15 in cost for each dollar of revenue at CPUs.

The Postal Service's host administrative office (host office) administers CPU contracts, provides training to the CPUs, monitors CPU operations, and ensures contract compliance. Host offices conduct quarterly performance reviews to promote continuous quality performance and improve the business relationship among the host office, CPU, and public. District management oversees the host office.

The total revenue from **CPUs*** for

FY2015

was

$484,273,289

The Postal Service incurred

$0.15

in cost for each **dollar** of revenue at CPUs

*Contract Postal Unit (CPU)

Our objective was to determine whether the Postal Service's oversight controls over CPUs and accountable property at the CPUs were adequate, effective, and followed.

What the OIG Found

Postal Service controls over CPUs and accountable property at the 21 CPUs we visited were not always adequate, effective, or followed. We found:

- District personnel did not adequately monitor operations at the 21 host offices visited. For example, personnel at all districts visited were not always aware of host office personnel changes. In addition, in four of 67 quarterly performance review certifications evaluated, district personnel did not verify the accuracy of the information.

- Personnel at all 21 host offices visited did not effectively monitor overall CPU operations. They were unaware of available resources and, at 16 of 21 CPUs, did not adequately perform quarterly performance reviews. In addition, personnel at three host offices did not maintain adequate contact with CPUs and personnel at two host offices did not adequately train CPU employees.

- The quarterly performance review was not an effective oversight tool. Personnel did not review the required number of packages in eight of 23 Quarter 3, FY 2016 reviews, and words or phrases were not always defined. Further, the tool did not allow for review comments or follow-up for exceptions, and the quarterly performance reviews did not sufficiently address accountable items.

- CPU census data, which includes critical information such as hours of operation, bond, and CPU employee information to help the Postal Service better understand and support the CPU, was not always complete or accurate. For three of 21 CPUs, census data was blank and, for one CPU, host office personnel did not enter the date of the annual financial audit.

- Personnel at host offices did not maintain complete CPU administrative files. None of the 21 CPU administrative files we reviewed contained all of the required documentation, such as contracts and contract modifications, host office operating instructions, and property and equipment information. Further, CPU administrative files did not exist or were not available for three CPUs.

As a result, customer loyalty, good will towards the Postal Service, and the Postal Service's business relationships with CPUs and its customers could significantly decline, which could result in substantial revenue loss. CPUs should always act in the Postal Service's best interest to uphold the Postal Service's brand and increase customer satisfaction.

We identified best practices used by some district and host office personnel that could improve CPU operations. For example, a district communicated information to a ZIP Code email address instead of a specific person. We also included suggested program improvements provided from district and host office personnel. For example, a host office suggested creating a help desk for host offices and CPU personnel to ask questions or report issues.

What the OIG Recommended

We recommended management:

- Enhance formal policies and procedures for districts.

- Develop a formal training program for host offices.

- Enhance the quarterly performance review to include steps on how to specifically account for money orders. Additionally, using threshold guidelines, include steps to conduct stamp counts, and ensure minimum package review.

- Consider implementing suggestions and best practices identified in this report.
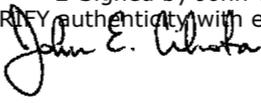
Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

November 3, 2016

MEMORANDUM FOR: KELLY M. SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER SERVICE
OPERATIONS

E-Signed by John Cihota
VERIFY authenticity with eSign Deskto

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance, Pricing, and Investments

SUBJECT: Audit Report – Contract Postal Unit Operations Oversight
(Report Number FT-AR-17-002)

This report presents the results of our audit of the U.S. Postal Service's Contract Postal Unit Operations Oversight (Project Number 16BG008FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Findings

Introduction

This report presents the results of our audit of the U.S. Postal Service's Contract Postal Unit Operations Oversight (Project Number 16BG008FT000). Based on concerns raised by Postal Service management, the U.S. Postal Service Office of Inspector General (OIG) reviewed the effectiveness of controls over contract postal units (CPU) as a result of previous issues regarding money order sales at CPUs. Our objective was to determine whether the Postal Service's oversight controls over CPUs and accountable property at the CPUs were adequate, effective, and followed. See Appendix A for additional information about this audit.

A CPU[1] is a supplier-owned or supplier-leased facility under contract to the Postal Service to provide postal services to the public. CPUs are typically located in retail establishments and staffed by the retailer's employees. The objective of the CPU program is to reduce customer wait time in post offices, retain and increase Postal Service market share, reduce operational costs, improve customer satisfaction, and grow retail revenue.

There are two types of CPU contracts:

1. A firm-fixed-price contract, which pays the supplier a fixed amount over the term of the contract.

2. A performance-based percentage payment contract, which pays the supplier for the revenue generated from the sale of postal products and services. CPUs under these types of contracts use the Contract Access Retail System (retail system) to weigh, meter, and calculate postage on mailpieces.[2]

The Postal Service approves the establishment of a CPU based on demonstrated need and value to the consumer and the Postal Service. The CPU Program Office oversees the CPU program. It reviews new CPU requests and CPU terminations. The host administrative office (host office), appointed at the time of contract award, administers CPU contracts, trains the CPUs, monitors CPU operations, performs quarterly performance reviews (Reviews),[3] and ensures contract compliance. District personnel oversee the host office by verifying the completion of Reviews and working with the host office to ensure CPU compliance.

Although CPUs have declined in number from 5,290 in fiscal year (FY) 2002 to 2,656 in FY 2016, they can enhance service by being located closer to customers' homes and workplaces and operating at hours when post offices may not be open. They can also alleviate long lines at existing post offices and provide postal services to areas with rapid population growth or where opening new post offices may be cost prohibitive. In FY 2015, total revenue from CPUs was $484,273,289,[4] and the Postal Service incurred $0.15 in cost for each dollar of revenue at CPUs.

We used geographical information system (GIS) mapping to locate CPUs. We then judgmentally selected CPUs for review based on the largest concentration of CPUs, considering CPUs that sold money orders.[5] As a result, we visited 21 host offices and 21 CPUs, located within eight districts, as shown in Figure 1. We discussed the control environment with district and host office management and tested CPU controls.

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1   For report purposes, CPUs also encompass community post offices (CPO), which are CPUs usually located in small, rural communities.
2   CPUs report Post Office Box and postal money order revenue on Postal Service (PS) Form 1412, Daily Financial Report.
3   As part of their oversight responsibilities, host offices conduct Reviews to promote continuous quality performance and improve business relationships.
4   Includes sales revenue and Post Office Box revenue.
5   CPUs that sell money orders report financial activities through the PS Form 1412 to the St. Louis, MO, Accounting Services and not through the retail system. The PS Form 1412 provides individual retail units, including CPUs, with a uniform method to report financial transactions.

Summary

Postal Service controls over CPUs and accountable property at the 21 CPUs we visited were not always adequate, effective, or followed. We found:

Postal Service controls over CPUs and accountable property at the 21 CPUs we visited were not always adequate, effective, or followed.

- District personnel did not adequately monitor operations at the 21 host offices visited. Specifically, personnel at all districts visited were not always aware of host office personnel changes, and district personnel in one district sometimes bypassed the host office and dealt directly with CPU personnel. In addition, in four of 67 Review certifications evaluated, district personnel did not verify the accuracy of the information. Finally, in one district, personnel did not follow up on compliance issues identified.

- Host office personnel did not adequately monitor overall CPU operations. Specifically, personnel at all of the 21 host offices visited did not effectively monitor overall CPU operations. They were unaware of available resources and, at 16 of 21 CPUs, did not adequately perform Reviews. In addition, personnel at three host offices did not maintain adequate contact with CPUs, and personnel at two host offices did not adequately train CPU employees.

- The quarterly performance reviews were not an effective oversight tool. Personnel did not review the required number of packages in eight of 23 Quarter (Q) 3, FY 2016 Reviews, and words or phrases were not always defined. Further, the tool did not allow for review comments or follow-up for exceptions, and the Reviews did not sufficiently address accountable items.

- CPU census data, which includes critical information such as hours of operation, CPU employee information to help the Postal Service better understand and support the CPU, and other compliance-related data[7] were not always complete or accurate. For three of 21 CPUs, census data was blank, and host office personnel did not enter the current date of the annual financial audit[8] for one CPU.

Figure 1. CPU Site Visits
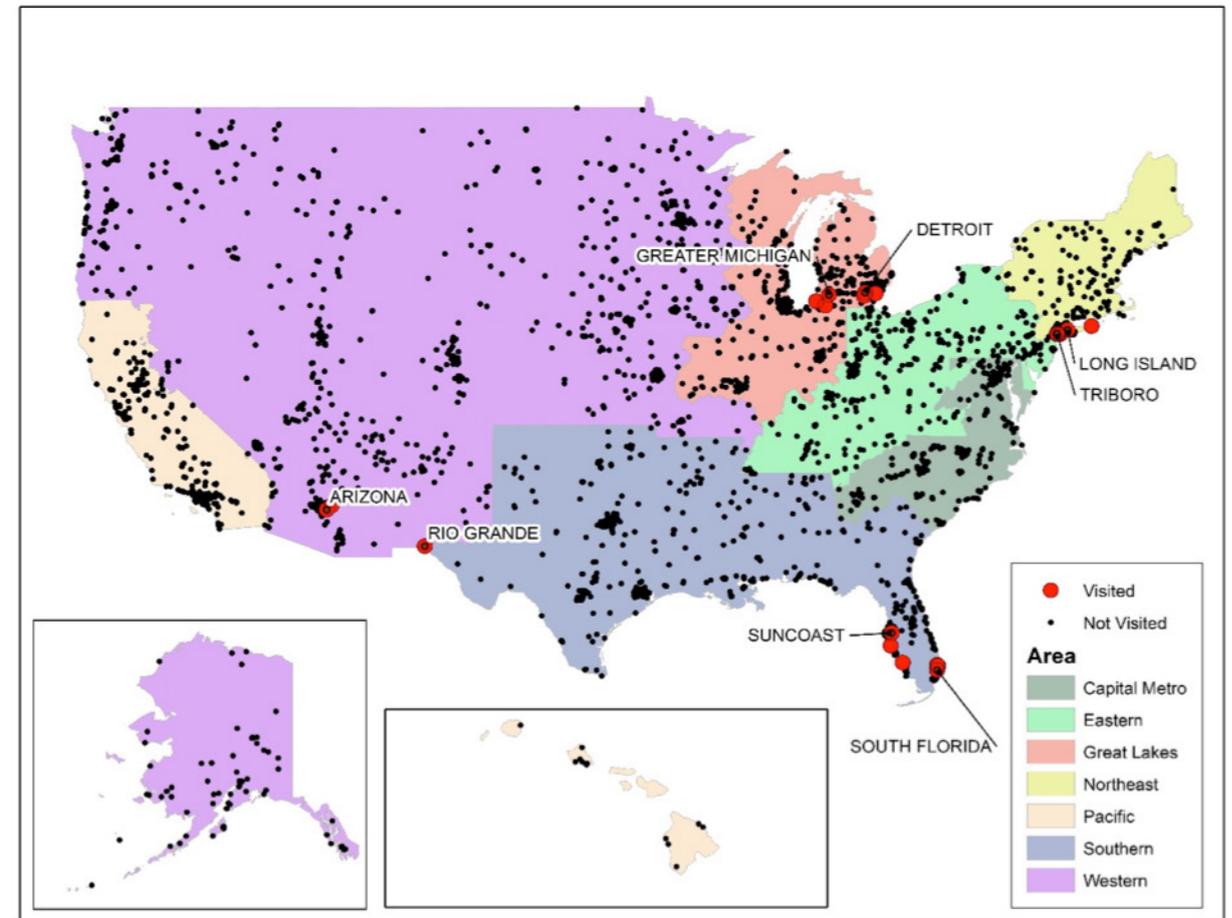
Source: Contract Postal Unit Technology (management system),[6] GIS Mapping, and OIG site visits.

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6 This management system is a web-based application to manage, monitor, and report on the performance and compensation of CPUs.
7 Annual financial audit and bond information.
8 Financial audits are conducted once a year for firm-fixed-price and performance-based CPUs that do not use the retail system.

■ Personnel at host offices did not maintain complete CPU administrative files. None of the 21 CPU administrative files we reviewed contained all of the required documentation, such as the contract and contract modifications, host office operating instructions, and property and equipment information. Further, required files did not exist or were not available for three CPUs.

As a result, customer loyalty, Postal Service goodwill, and the Postal Service's business relationships with CPUs and its customers could significantly decline, which could result in substantial revenue loss. CPUs should always act in the Postal Service's best interest to uphold the Postal Service's brand and increase customer satisfaction.

We identified best practices used by some district and host office personnel that could improve CPU operations. For example, a district communicated information to a ZIP Code email address instead of a specific person. We also included suggested program improvements provided from district and host office personnel. For example, a host office suggested creating a help desk for host offices and CPU personnel to ask questions or report issues.

Host Administrative Office Oversight

District personnel did not always adequately monitor host office operations. We found:

■ District personnel at the seven districts[9] we visited were unaware of changes in personnel responsible for oversight of the CPUs. Also, personnel in one district[10] bypassed the host office and dealt directly with CPU personnel.

■ District personnel ensured Reviews and Review certifications were performed and uploaded into the management system but did not verify the accuracy of the information. For example:

● For four[11] of 67 Review certifications evaluated, the reviewer's name was not the same as the name provided on the signature line.

● One Review certification[12] did not include the CPU owner's signature.

■ District personnel[13] did not always follow up on compliance issues identified in the Reviews. For example, a reviewer indicated "no" for the Review question, "Are (retail systems) onsite installed and in daily use?" On another Review, a reviewer indicated "no" for the Review question, "Is there a designated letter drop for mail that is out of the reach of the customer area and secure?"

Operating Instructions for the Administrative Office for all Contract Postal Units states the district manager is responsible for overseeing the host office. However, the policies only state the district will be notified of any noncompliance. Formal district policies and procedures could be enhanced to follow up on identified compliance issues.

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9   We did not visit the Rio Grande District.
10 South Florida District.
11 Three at Apache Junction Host Offices and one at Anthony Host Office.
12 Arizona District.
13 Triboro District.

Contract Postal Unit Oversight

Personnel at host offices we visited did not adequately monitor overall CPU operations. We found:

- Host office personnel were not always aware of the resources available to help them oversee the CPUs. These resources included:

  - *Guide to Contract Postal Units for Postal Service Employees*, dated January 2014, helps establish and manage a CPU.

  - *Retail Partner Quarterly Performance Review, Host Administrative Office Guide*, dated April 2016, defines the Review process and ensures host offices have the tools needed to provide support and guidance to CPUs.

  - The Blueshare[14] page includes a support station for the host offices and contains procedures, documents, tools, and resources regarding CPU activities.

Host office personnel did not always perform high quality Reviews. We found 16 Reviews had at least one instance where the reviewers did not correctly respond to a question.

- Host office personnel did not always perform high quality Reviews. We found 16 Reviews[15] had at least one instance where the reviewers did not correctly respond to a question. For example:

  - The signage at one CPU was not in good condition, as shown in Figure 2. However, the reviewer[16] indicated "yes" during the Review for, "Is the signage current, properly maintained, and with a professional appearance?"

  - Six[17] of 21 reviewers indicated "yes" to a question asking whether there was a separate staging area for hazardous materials and anonymous mail. However, we found the associated CPUs did not have separate staging areas.

- One reviewer[18] stated he did not have the knowledge to adequately conduct the package review portion of the Review. Specifically, he did not know how to use equipment at the CPU to check the postage on each package.

Figure 2. Damaged Signage.
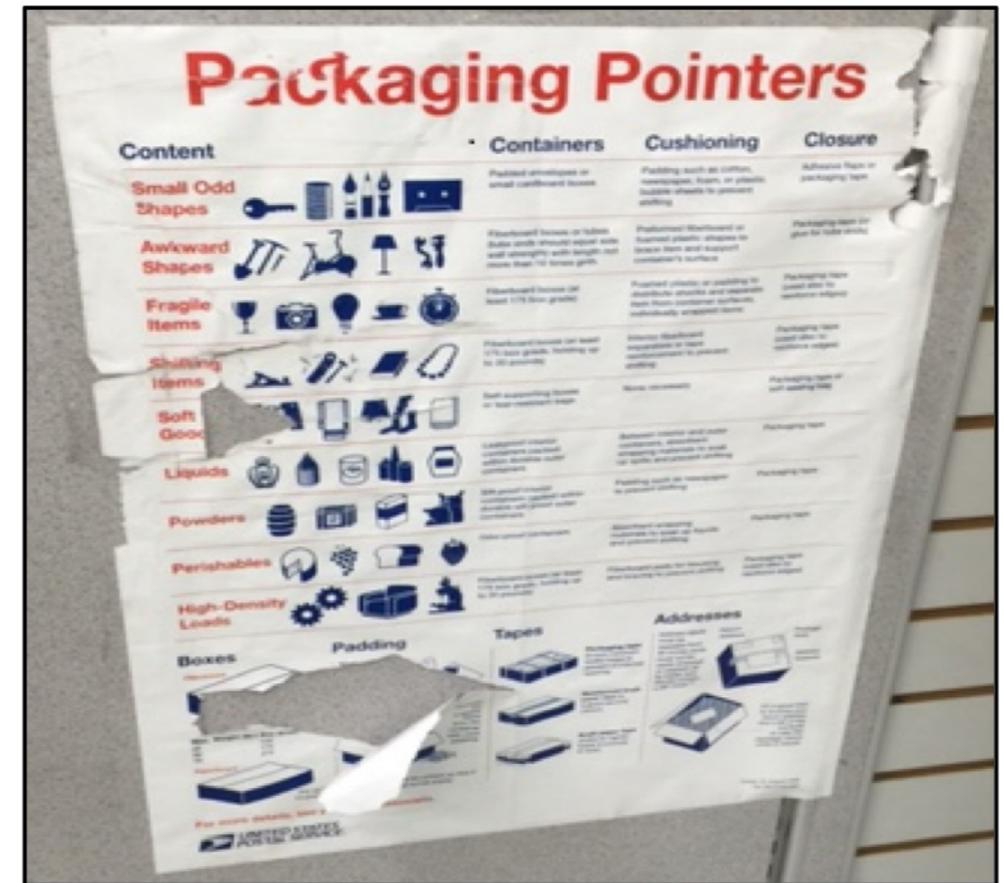
Source: OIG photograph taken on June 9, 2016.

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14 Postal Service suite of folders that store working papers and other documentation related to CPU activities.
15 We performed Reviews at 17 of the 21 CPUs we visited. For the remaining four CPUs, we accompanied the reviewer on the Review. We could not address package review questions for the 17 CPUs because the packages were no longer at the CPUs.
16 Brooklyn – Rochdale Host Office.
17 Brooklyn – Brownsville Station Host Office, Brooklyn – Rochdale Host Office, Jamaica - St. Johns Station Host Office, Huntington Station Host Office, Boca Raton Host Office, and Delray Beach Host Office.
18 Fort Myers Host Office.

■ Custodians at two host offices[19] performed Reviews. Instructions do not specify who should perform the Reviews; however, we believe it makes good business sense to have management perform the Review or partner with trainees.

■ Host office personnel did not always provide or update contact information for CPUs. Personnel at one CPU stated they had a previous issue where the retail system was not operational, and the CPU was unable to contact the host office personnel.[20] Therefore, that CPU could not conduct business for 2 days. Additionally, three CPUs stated packages were picked up late or not picked up at all, and they were unable to reach host office personnel.[21]

■ Personnel at one host office[22] were unaware the CPU did not have any stamps available for sale, as shown in Figure 3.

■ Two CPUs[23] did not take the required annual training.[24] Host office personnel are responsible for ensuring CPUs complete the required annual training.

Figure 3. No Stamps Available For Sale

Source: OIG photograph taken on June 9, 2016.

These issues occurred because there is no formal training program for host office personnel. Further, host offices have personnel on detail assignment who may not be trained in CPU operations.

Quarterly Performance Reviews

The Reviews were not an effective oversight tool because they were not designed to ensure CPUs were operating efficiently. Host office personnel evaluate and discuss the following aspects of the CPU's performance during these Reviews:

■ Operational efficiency.

■ Aviation security.

■ Hazardous materials acceptance.

■ Bank Secrecy Act (BSA),[25] if applicable.

■ Sales skills and product knowledge.

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19 Apache Junction Host Office and Anthony Host Office.
20 Brooklyn – Rochdale Host Office.
21 Brooklyn - Rochdale Host Office, Jamaica - St. Johns Station Host Office, and Brooklyn - Metropolitan Station Host Office.
22 Pompano Beach Host Office.
23 WL Printing House and The Better Letter CPUs.
24 Hazardous material and aviation security.
25 BSA was enacted to combat money laundering in the U.S and requires financial services businesses to deter, track, and report certain transactions to the U.S. Department of the Treasury. Because the Postal Service sells money orders, it must comply with all BSA requirements.

- Retail products and services.

- Facility image.

- Revenue performance.

The results of these Reviews help determine if the CPU is performing according to contractual requirements.

We independently re-performed 17 Reviews[26] and found:

- As shown in Table 1, eight of the 23 Q3, FY 2016, Reviews we evaluated involved a review of fewer than five packages.[27] The Review requires a review of five packages from the collection bin.

Table 1. Packages Reviewed

Host Office	CPU	Packages Reviewed					
		0	1	2	3	4	5
Apache Junction	Tortilla Flat	X					
Saline	Bridgewater	X					
Kalamazoo–Westwood Branch	Texas Corner Ace Hardware		X				
Edwardsburg	Union			X			
Taylor	Norm's Food Market			X			
Sarasota Post Office	Gold Tree			X			
Apache Junction	Above All Insurance					X	
Berrian Springs	Andrews University					X	
All other host offices reviewed (15)							X

Source: OIG analysis of Q3, FY 2016, Reviews.

- Key words or phrases in the Review were not always defined. For example, the Review asks, "Is the mail that is accepted after the last dispatch of the day kept in a secure location overnight?" But, the term "secure" is subjective. At one location, the reviewer indicated the mail was secure; however, when we inquired about the location of this mail, the CPU showed us the mail was on an open shelf under a counter.

- The Reviews did not allow reviewer comments. For example, the Review asks, "Are stamps and cash kept secure during the day and locked up and secured at night?" A reviewer may find that stamps and cash are not secured during the day but are secured at night but cannot annotate the Review with a comment to adequately explain the situation.

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26   For four Reviews, we accompanied the host offices during the Q3, FY 2016, Reviews for the Arizona and Rio Grande districts.
27   Reviewers responded N/A where no packages were reviewed.

In another example, the Review notes to, "Check the package for evidence of potentially hazardous, restricted or perishable contents, hazardous materials labels such as diamond shaped U.S. Department of Transportation, other regulated material, biohazard, alcoholic beverages, bleach, chemical company. Have old marking and labels been removed or completely obliterated?" We found, in four[28] of 23 Reviews, the reviewers indicated "not applicable"; however, they addressed two other questions pertaining to the same package. Since the Review did not allow comments, it is not clear why the reviewers could not answer this question.

■ The Reviews did not adequately address accountable items. For example:

- The Review asks, "Are all blank money orders accounted for?" However, there were no guidelines on how to properly account for the money orders.

- Reviews did not include quarterly stamp counts. Host office personnel were only required to perform a stamp count annually during the financial audit. We believe quarterly stamp counts during Reviews could identify issues more timely, and allow management to implement corrective action and mitigate fraud risks.

■ The Review process did not identify exceptions. The process requires the reviewer to input the Review data into the management system but does not include procedures to identify exceptions noted by the reviewer.

Census Data

Census data was not always complete or accurate. Census data helps the Postal Service better understand and support the CPU. Census data contains relevant CPU information, such as hours of operation, bond, and CPU employee information, used for the Review and other compliance related issues. It also provides the capability to create, query, and audit data by the area, district, host office and CPU program office. In three[29] of the 21 CPUs we visited, host office personnel did not enter critical census information such as bond information, annual financial audits and results, and contacts. See Figure 4 for census data for the Pompano Beach Gift Shop CPU.

We also found personnel at one host office[30] did not update the date of the annual financial audit. The management system showed the financial audit as January 3, 2015. However, a more recent financial audit was conducted on January 30, 2016.

Operating Instructions for the Administrative Office for all Contract Postal Units state that payment problems are to be researched in the management system; however, the instructions do not address census data input and updates. The *Contract Postal Unit Technology User Manual* states that the auditor must review the census data with the CPU during the performance review and update the census information in the management system to keep the census information current.

On September 14, 2016, the Postal Service updated the *Operating Instructions for the Host Administrative Office for all Contract Postal Units*, which includes specific instructions to enter and update census data in the management system. Accordingly, we are not making a recommendation.

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28 Anthony Host Office, Brooklyn-Metropolitan Station Host Office, Tampa Host Office, and Fort Myers Host Office.
29 Brooklyn – Metropolitan Station Host Office, Brooklyn – Brownsville Station Host Office, and Pompano Beach Host Office.
30 Fort Myers Host Office.

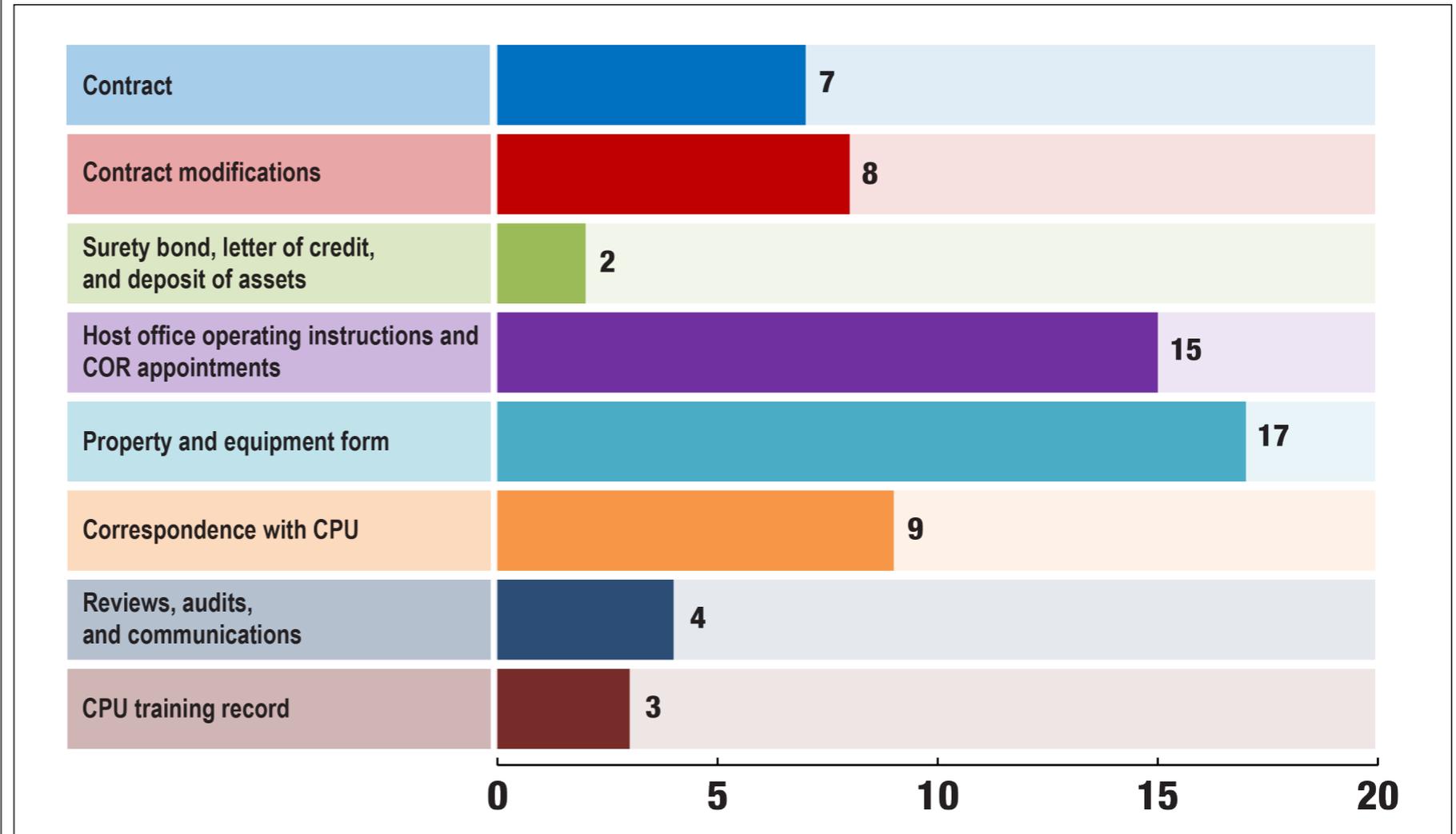**Figure 4. Census Data Not Entered for Pompano Beach Gift Shop CPU**

Source: Management system census data.

Contract Postal Unit Administrative Files

None of the 21 CPU administrative files[31] we reviewed contained all of the required documentation. See Figure 5 for details. Further, required CPU administrative files did not exist or were not available for three CPUs.

Figure 5. CPU Administrative Files Missing Documentation

None of the 21 CPU administrative files we reviewed contained all of the required documentation.

Category	Value
Contract	7
Contract modifications	8
Surety bond, letter of credit, and deposit of assets	2
Host office operating instructions and COR appointments	15
Property and equipment form	17
Correspondence with CPU	9
Reviews, audits, and communications	4
CPU training record	3

Source: OIG Analysis.

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31 We reviewed administrative files at the CPUs we visited, except for the Best Wishes, Executive Office Products, and WL Printing House CPUs.

As part of their oversight responsibilities, host offices are required to maintain an administrative file for each CPU that includes the following information:

- A copy of the contract.

- Copies of contract modifications.

- The original surety bond,[32] letter of credit,[33] or record of deposit of assets[34] (for non- retail system CPUs only).

- The host office operating instructions and contracting officer's representative[35] appointment.

- A copy of the property and equipment form signed by the CPU and host office. For example, money order printer or credit and debit acceptance machine.

- A copy of all correspondence to and from the CPU.

- The original Reviews, annual financial audits, and records of phone calls and other meetings or conversations about contract performance.

- A copy of the CPU's training record.

Personnel at host offices we visited were not always aware of what was required in the CPU administrative file or that an administrative file was required at all.

Personnel at host offices we visited were not always aware of what was required in the CPU administrative file or that an administrative file was required at all. When CPU administrative files are not complete, host office personnel cannot ensure CPUs are in compliance with contract provisions or account for Postal Service property. The Postal Service has the management system in place to provide the capability to create, query, and audit data. Management could consider enhancing the management system to include administrative file information. This would create a comprehensive consolidated CPU information database to allow for greater oversight.

We also identified best practices to improve the oversight of the CPUs.

Suggested Improvements and Best Practices

During our fieldwork, district and host office personnel offered suggestions to improve CPU operations. Specifically:

- Offer Contract Postal Unit Technology system webinars and ongoing training.

- Provide host office personnel with a condensed version of Publication 156, *Guide to Contract Postal Units for Postal Service Employees,* to include key information.

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32 A written instrument executed for the benefit of the Postal Service as security for the CPU's obligations and to assure payment of any bonded loss.
33 A written commitment by a federally insured financial institution to pay all or part of a stated amount of money on demand by the Postal Service until the expiration date of the letter.
34 Assets acceptable in place of a surety bond include certified checks, cashier's checks, bank drafts, postal money orders, or currency and must be at least equal to the penal amount of the surety bond and payable solely to the Postal Service.
35 A government official appointed in writing by the contracting officer who provides technical direction, clarification, and guidance with respect to the contract specifications and statement of work.

- Create a help desk for host offices and CPU personnel to ask questions or report issues.

- Share helpful information among host office personnel regarding problem areas and include solutions.

- Increase the frequency of financial audits to reduce the risk of shortages of accountable items.

During our site visits, we also identified best practices used by some district and host office personnel to improve the oversight of the CPUs. Specifically:

- One district[36] held telecoms with new host offices.

- One district[37] communicated information to positional email addresses, such as "postmaster," instead of to the employee holding the position of postmaster at a given point in time.

- One district[38] communicated information to a ZIP Code email address instead of a specific person.

- One newly appointed host office designee[39] visited the CPU to develop rapport and strengthen the business relationship.

- Personnel at one host office[40] included CPU employees in a clerk training session.

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36 Suncoast District.
37 Suncoast District.
38 Triboro District.
39 Brooklyn – Rochdale Host Office.
40 Edwardsburg Host Office.

Recommendations

We recommend the vice president, Retail and Customer Service Operations:

1. Enhance formal policies and procedures for district oversight of host administrative offices that includes follow up and accountability for compliance issues.

2. Develop a formal training program for host administrative offices, including administrative file maintenance, and establish a process to ensure personnel on detail assignment are trained in contract postal unit operations.

3. Enhance the quarterly performance review to include steps on how to specifically account for money orders. Additionally, develop and use threshold guidelines to conduct stamp counts, and ensure minimum package review.

4. Consider implementing suggestions and best practices identified in this report.

Management's Comments

Management agreed with recommendations 1 and 2 but disagreed with recommendations 3 and 4. Management views the OIG's recommendations as an opportunity to improve customer service and strengthen partnerships. However, they questioned the OIG's sample size and the inference that policies and procedures have not been formalized for the CPU program. They stated assumptions based on nominal sample sets can lead to skewed results. They also stated they have a fully developed program and have recently conducted training and telecoms and enhanced the review process.

Regarding recommendation 1, management will request a software change to the management system that will allow districts to identify and resolve discrepancies with Reviews and Review certifications with the host office. Management will implement this software change by April 30, 2017.

Regarding recommendation 2, management will enhance existing training resources with a CPU oversight quick reference guide and a host office responsibility reference tool, to include administrative file maintenance. Management plans to implement these enhancements by January 31, 2017.

Regarding recommendation 3, management will continue to follow existing guidelines over money order accountability and stamp counts. Management stated a minimum threshold for package reviews is not feasible but will continue to recommend host offices perform Reviews during a time with the greatest opportunity for package reviews.

Regarding recommendation 4, management stated that many suggestions the OIG identified in this report have already been supported and implemented. Management will solicit best practices from host offices, quarterly.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 2, and 4, and partially responsive to recommendation 3; and corrective actions should resolve the issues identified in the report.

Judgmentally selected samples are valid to show the existence, rather than the extent, of a problem. The OIG coordinated the scope and methodology with management during the audit, and management did not state that our objective could not be fulfilled. Also, we selected our sites based on the extent of money order sales at CPUs due to previous issues in that area and used the GIS mapping tool to locate the largest concentration of CPUs within a given geographical area. We believe the issues identified at the 21 sites visited provide management with valuable information regarding the CPU program to help enhance customer service and strengthen partnerships, and we were careful not to skew the results or project them to the entire CPU universe. We cite formal policies and procedures where necessary throughout the report. However, based on the issues identified, we continue to believe they could be enhanced to include follow-up and accountability.

Recommendations 1 and 2 require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

The purpose of the recommendation 3 was to enhance the Review process. While the OIG continues to believe the enhanced guidelines could help management better identify and resolve issues more timely and mitigate fraud risk, management's actions to enhance training should partially resolve the issue. Accordingly, the OIG will not pursue this issue through the formal resolution process and considers the recommendation closed, but not implemented.

Regarding recommendation 4, although management disagreed with the recommendation, their stated actions that some ideas have already been implemented and they will embrace new ideas and actively solicit best practices in the field through the Quarterly CPU Update are responsive to the recommendation. Accordingly, the OIG will not pursue this issue through the formal resolution process and considers the recommendation closed with issuance of the report.

Appendices

Appendix A: Additional Information

Background

A CPU is a supplier-owned or supplier-leased facility (operated by the supplier) under contract to the Postal Service to provide postal services to the public. CPUs are typically located in retail establishments and staffed by the retailer's employees. The Postal Service has used CPUs to provide additional access to Postal Service products and services for over 100 years. CPUs can enhance service by being located closer to customers' homes and workplaces and operating at hours when post offices may not be open. The vice president, Channel Access, and the vice presidents, Area Operations, or their designees have the authority to approve the establishment of a CPU based on demonstrated need and value to the consumer and the Postal Service.

A CPO is a CPU that is usually located in a small, rural community and provides a full line of Postal Service products and services to local Postal Service customers. A CPO bears its community's name and ZIP Code as part of a recognized mailing address. A CPO usually provides Post Office Box service and may also offer general delivery and left-notice article services.[41]

The objective of the CPU program is to reduce customer wait time in post offices, retain and increase Postal Service market share, reduce operational costs, improve the customer satisfaction, and grow retail revenue. The Postal Service considers CPUs to be one of the lowest cost-to-serve programs. Normally the postmaster at a Post Office near the CPU provides oversight as the host office.

A host office is appointed at the time of contract award. The host office plays a major role in contract administration, providing training to the CPU operator and its employees, monitoring the CPU operation, and ensuring contract compliance.

A CPU is authorized by the award of either a firm-fixed-price or performance-based contract.

- Firm-fixed-price contract - Pays the supplier a fixed amount over the term of the contract.

- Performance-based percentage payment contract - Pays the supplier for the revenue generated from the sale of the Postal Service products and services. CPUs under performance-based percentage payment contracts use the retail system to weigh, meter, and calculate postage on mailpieces.

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service's oversight controls over CPUs and accountable property at the CPUs were adequate, effective, and followed.

To achieve our objective, we:

- Extracted and reviewed management system data to identify all active CPUs.

- Obtained and studied Reviews, Review certifications, and CPU census data from the management system.

- Observed Arizona and Rio Grande districts during Q3, FY 2016, Reviews.

- Judgmentally sampled CPUs using GIS mapping and money order sales. We visited 21 host offices and 21 CPUs in eight districts as shown in Table 2.

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41 A certified letter or package that must be signed for.

Table 2. Districts, Host Offices, and CPUs Visited

District	Host Office Name	CPU
Arizona	Apache Junction, AZ	Tortilla Flat, Tortilla Flat, AZ
		Above All Insurance, Apache Junction, AZ
	Anthony, NM	Santa Teresa PDX Printing, Santa Teresa, NM
Rio Grande	El Paso - Coronado Station, TX	Executive Office Products, El Paso, TX
Triboro	Brooklyn – Metropolitan Station, NY	The Better Letter, Brooklyn, NY
	Brooklyn - Brownsville Station, NY	FCF Services, Brooklyn, NY
	Jamaica - St. Johns Station	WL Printing House, Brooklyn, NY
	Brooklyn- Rochdale, NY	Variety Drugs, Jamaica, NY
Long Island	East Hampton, NY	The Corner Store, East Hampton, NY
	Huntington Station, NY	Depot Stationary, Huntington Station, NY
Greater Michigan	Berrien Springs, MI	Andrews University, Berrien Springs, MI
	Edwardsburg, MI	Union, Edwardsburg, MI
	Kalamazoo - Westwood Branch, MI	Texas Corner Ace Hardware, Kalamazoo, MI
Detroit	Taylor, MI	Norm's Food Market, Taylor, MI
	Ann Arbor, MI	Meijers #173, Ann Arbor, MI
	Saline, MI	Bridgewater, Saline, MI
Suncoast	Tampa, FL	Davis Island (Administrative File Only), Tampa, FL[42]
	Sarasota, FL	Gold Tree, Sarasota, FL
	Fort Myers, FL	Atrium, Fort Myers, FL
South Florida	Boca Raton - Woodland Station, FL	Town of Highland Beach, Highland Beach, FL
	Pompano Beach, FL	Pompano Gift Shop, Pompano Beach, FL
	Delray Beach, FL	Best Wishes, Delray Beach, FL

Source: OIG site visits.

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[42] The CPU was closed due to weather.

- Performed Reviews in the Suncoast, South Florida, Triboro, Long Island, Greater Michigan, and Detroit districts to assess the validity of prior Reviews.

- Examined CPU administrative files and Reviews for adherence to policy.

- Interviewed Postal Service Headquarters' CPU Program Office personnel to discuss oversight of CPUs.

- Reviewed policies and procedures related to the oversight of CPUs.

We conducted this performance audit from April through November 2016 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 audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on September 26, 2016, and included their comments where appropriate.

We relied on the CPU count report, the Reviews, and census data from the management system. We assessed the reliability of management system data by conducting interviews with those responsible for oversight of CPUs at districts and host offices and performing Reviews at CPUs, and comparing results against management system data. Although complete census data was not always available, the CPU contract data was always complete. We determined the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Management's Comments

KELLY M. SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER SERVICE OPERATIONS

UNITED STATES POSTAL SERVICE

October 24, 2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Contract Postal Unit Operations Oversight
(Report Number FT-AR-16-DRAFT)

While the Postal Service agrees in maintaining a continued diligence in the oversight of Contract Postal Units, it does not agree with some of the fundamental statements addressed in the OIG report.

The first concern stems from the small sampling size used by the OIG and instances where the data was misinterpreted. For example, the OIG based their Audit results on findings collected from only 21 Contract Postal Units (CPU) or less than 0.80% of the total 2656 CPU population. A sample of even smaller proportion – only 3 sites or less than 0.12% of the total - was used in the OIG's analysis of the quarterly review process. In its review, the OIG likewise cited 8 instances where Postal representatives failed to examine the required number of packages during the review process. However, exceptions are appropriate and acceptable if a fewer number of packages are all that is available. Assumptions based on nominal sample sets or the incorrect interpretation of data ultimately can lead to skewed results.

In the OIG Audit, multiple references can be found inferring that Postal policies and procedures have not been formalized in the oversight of the program. The Postal Service has a fully developed program, which is available to the District and Host Administrative Offices. In addition, the Postal Service continues to support the integrity of the Program. In just the last two years, Management has provided: 1. Two National training workshops for District POC's – the most recent completed in September 2016; 2. Revised and automated the QPR process and created a QPR guide to support the new process with detailed instructions for newly promoted Postmasters/Station Managers; 3. Conducted area and district telecoms.

Management approaches each recommendation provided by the OIG as an opportunity to improve service for its customers and as a chance to strengthen the relationships with its partners.

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Recommendation #1:
Enhance formal policies and procedures for District oversight of host administrative offices that includes follow up and accountability for compliance issues.

Management Response/Action Plan: Management Agrees
Management agrees and will request a software change that will give Districts the ability to pull a quarterly report and view the certification pages in bulk. Districts will be able to identify any negative responses annotated during the review and be required to follow up with the individual Host Administrative Offices (HAO's) as necessary.

Target Implementation Date:
April 2017

Responsible Official:
Vice President Retail and Customer Service Operations

Recommendation #2:
Develop a formal training program for host administrative offices, including administrative file maintenance, and establish a process to ensure personnel on detail assignment are trained in contract postal unit operations.

Management Response/Action Plan: Management Agrees
During the Exit Conference, both parties agreed that the Postal Service already has numerous training resources readily available to HAO's. However, both parties likewise saw the benefits that a quick reference guide could provide for those just transitioning into the role of CPU oversight. Management will develop a reference tool that details the key responsibilities of an HAO - including file maintenance - and ensure that it is available to all with CPU responsibilities.

Target Implementation Date:
January 2017

Responsible Official:
Vice President Retail and Customer Service Operations

Recommendation #3:
Enhance the quarterly performance review to include steps on how to specifically account for money orders. Additionally, develop and use threshold guidelines to conduct stamp counts, and ensure minimum package review.

Management Response/Action Plan: Management Disagrees
Money Orders – Management Disagrees
Management will continue to follow the guidelines and requirements for the control of Money Orders at Contract Postal Units as outlined in the F101 Handbook F-101, Field Accounting Procedures.

Stamp Counts – Management Disagrees:
Management will continue to follow the guidelines for the frequency and steps required for Stamp Counts as outlined in Handbook F-101, Field Accounting Procedures.

Package Review - Management Disagrees

Management understands that setting a minimum threshold for inspecting packaging during the quarterly review may not always be feasible. Management will continue to recommend that host offices make every attempt to conduct the quarterly reviews at a time when there is the greatest opportunity for the most packages to be present. However, the Postal Service will continue to utilize the Retail Customer Experience (RCE) Program to monitor the performance of CPU's and package acceptance practices.

Recommendation #4:
Consider implementing suggestions and best practices identified in this report.

Management Response/Action Plan: Management Disagrees
Management disagrees with this recommendation as many of the suggestions identified by the OIG during the review have not only been supported but already implemented at the Field level. The Postal Service actively embraces the incorporation of new ideas and will add a section to the Quarterly CPU Update where Best Practices will be solicited from the HAOs. This will ensure a continued exchange of ideas with those associated with the Program.

Kelly M. Sigmon

OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Contact us via our Hotline and FOIA forms.
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