



AUDIT REPORT

Internal Controls Over Segmented Inventory - Orting Main Office, Orting, WA

September 26, 2016



Report Number FT-FM-16-006



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Orting Main Office, Orting, WA**
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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 Orting Main Office in Orting, WA, reported four (quarterly) perfect inventory counts from April 1, 2015, to March 31, 2016. Perfect count means the Postal Service did not report any overages or shortages of Retail Floor Stock.

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, all segments of inventory must be counted to determine whether perfect counts are accurate. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

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 Orting Main Office were accurately presented and whether internal controls were in place and effective.

WHAT THE OIG FOUND:

The accounting records for segmented inventory at the Orting Main Office were not always accurately presented and internal controls needed improvement.

We verified the office reported four perfect counts of retail floor stock from April 1, 2015, to March 31, 2016. Another perfect count was posted on April 20, 2016. However, on July 19, 2016, we conducted an independent count and identified retail floor stock had a shortage of stamps valued at \$146.

This occurred because one RA did not properly record exchanges for stamps in the retail system. When the postmaster conducted inventory counts, she incorrectly adjusted the totals to match the retail system totals.

In addition, we determined the postmaster did not properly record counts of other segments such as unit reserve stamp stock, cash drawers, and reserve cash or complete the process to return or destroy 500 obsolete money orders.

We also identified:

- Excess cash retained at the unit in the amount of \$97.
- One RA missing the required duplicate key and password envelope used by the postmaster to access and count the cash drawer when the retail associate is not present.

If controls over inventory and cash are not followed, there is an increased risk of undetected theft of money orders, stamp stock, and cash.

As a result of this audit, management updated the inventory records; destroyed the obsolete money orders; obtained appropriate district authorization to retain the cash with an extra cash drawer; and created both required envelopes to secure the key and password.

WHAT THE OIG RECOMMENDED:

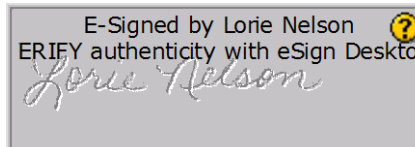
We recommended management establish a process to ensure employees follow the required procedures for retail floor stock.

[Link to review the entire report](#)



September 26, 2016

MEMORANDUM FOR: DON JACOBUS
MANAGER, SEATTLE DISTRICT



FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Segmented Inventory
– Orting Main Office, Orting, WA
(Report Number FT-FM-16-006)

This report presents the results of our audit of Internal Controls Over Segmented Inventory – Orting Main Office, Orting, WA (Project Number 16WFM001FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Asha Mede, deputy director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of Internal Controls over Segmented Inventory at the Orting Main Office, Orting, WA (Project Number 16WFM001FT000). The Orting Main Office is in the Seattle District of the Western Area. This self-initiated audit is one of several audits of segmented inventory designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Segmented inventory consists of retail floor stock (stamps sold on the retail floor), unit reserve stamp stock (stamps used to replenish those sold on the retail floor), cash, money orders, and stamps assigned to Retail Associates (RA). Inventory can be transferred between segments; therefore, all segments of inventory must be counted to determine whether perfect counts are accurate. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

We reviewed all accounting records for segmented inventory at the Orting Main Office from April 1, 2015, to March 31, 2016. To determine the validity of the reported inventory counts, we conducted unannounced counts of the inventory segments,¹ evaluated the segmented inventory process, and interviewed the postmaster and other personnel responsible for oversight of the process.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW),² Time and Attendance Collection System (TACS),³ and the Retail Systems Software (RSS).⁴ We did not test the validity of controls over these systems; however, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from July through September 2016, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We discussed our observations and conclusions with management on July 22, 2016, and included their comments where appropriate.

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

² A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

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

⁴ 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.

Retail Floor Stock Count

Our tripwire showed the Orting Main Office reported four perfect counts of the retail floor stock⁵ between April 1, 2015, and March 31, 2016. Another perfect count was posted on April 20, 2016. During our site visit in July 2016, we conducted a count of all segmented inventory at the office. Specifically, we counted all the RA cash drawers,⁶ unit cash reserve,⁷ retail floor stock, and unit reserve stamp stock⁸ and found retail floor stock had a shortage valued at \$146.07. There is a zero tolerance when retail floor stock difference is less or greater than .1 percent of sales.⁹ Therefore, the retail floor stock was in tolerance.

We also found four RA cash drawers were over by a total of \$10.08. However, the tolerance level for each cash drawer is \$10 so all were within tolerance. The unit reserve stamp stock was over by \$4.70. The tolerance level for unit reserve stamp stock up to \$30,000 is \$50 and, therefore, it was within tolerance. See [Table 1](#) for the results of the inventory counts.

Table 1. Inventory Count Results

Segmented Inventory Accountability Segment	RSS System Total	Actual Count	Difference
Retail Floor Stock	5,089.54	4,943.47	(146.07)
Retail Associate Cash Drawers	\$388.23	\$398.31	\$10.08
Unit Reserve Stamp Stock	\$21,151.66	\$21,146.96	\$4.70
Unit Cash Reserve	300.00	300.00	0.00

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

The postmaster stated the shortage occurred because, when customers exchanged stamps at the retail window, one RA did not properly void the stamp sale and record the appropriate stamp purchase in the RSS to account for the stamp exchange. This caused the retail floor stock to be inaccurate, which resulted in discrepancies between the system and the actual count results. Therefore, when the postmaster conducted the retail floor stock counts, she incorrectly adjusted the totals to account for the unrecorded exchanges in RSS.

According to Postal Service policy, management should ensure all financial transactions are correctly entered. In addition, although no individual RA is accountable for retail floor

⁵ 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.

⁶ RAs that are only assigned a cash credit are authorized a cash retained amount of up to \$100.99, for which they are individually accountable.

⁷ Authorized funds on hand for making change. These are separate funds, not to be confused with the cash portion of a stamp credit. A stamp credit is the value of the stamp stock and money orders consigned to an RA from the unit reserve stock at a postal retail unit.

⁸ Stamp Stock Inventory, for which the unit reserve custodian is accountable for the value of all items in the unit reserve stock.

⁹ Handbook F-101, Section 14-2.5.

stock, each RA making sales should ensure sales from retail floor stock are accurately reported.¹⁰

If controls over retail floor stock are not followed, there is an increased risk of undetected theft and losses.

Inventory Count Records

The postmaster did not properly record the unit's inventory counts. Specifically, of the seven inventory files reviewed:

- One RA cash drawer inventory file did not have the required Postal Service (PS) Form 3368-P, Accountability Examination Record, to record the inventory counts.
- One retail floor stock inventory file had a PS Form 3368-P, but the postmaster had not recorded any counts since April 2012.
- One cash reserve and one unit reserve inventory file had PS Forms 3368-P, but the postmaster had not recorded any counts since May and November 2014, respectively.
- Three RA cash drawer inventory files had PS Forms 3368-P, but the postmaster had not recorded any counts on one drawer since April 2014, and two drawers since November 2015.

The postmaster stated she forgot to record the count results. Postal Service policy states the postmaster, manager, or supervisor is responsible for establishing and maintaining a file for each credit (stamp or cash) assigned to an employee. Stamp and cash credit files must contain a PS Form 3368-P, and the form should be retained for 2 years beyond the life of the credit.¹¹

The PS Form 3368-P provides a summary of the results for all inventory counts at the Post Office for the last 2 years. If the inventory files are not maintained and updated, management cannot promptly address shortages or overages with the counts.

On July 19, 2016, the postmaster completed and updated all of the unit's PS Forms 3368-P. Therefore, we are not making a recommendation on this issue.

¹⁰ Handbook F-101, *Field Accounting Procedures*, June 2016, Sections 14-1.2 (c) and 14-2.2.

¹¹ Handbook F-101, Section 13-1.3.

Money Orders

The postmaster did not complete the process to return or destroy 500 domestic money orders that were obsolete and could not be sold at the Post Office. The money orders were at least 8 years old and were stored in the unit's safe. Although the money orders were unopened and secured, they were not recorded in the inventory records and should have been returned to the Stamp Distribution Office (SDO) in Kansas City, MO, or destroyed onsite.

Prior to our visit, on February 6, 2015, the postmaster prepared the documentation required to return the money orders and sent them by registered mail to the SDO. However, the postmaster stated the obsolete money orders were returned because the SDO determined the postmaster did not have proper authorization to send the money orders. The postmaster explained she was not aware of how to obtain authorization to return or destroy the money orders. Also, after the money orders were returned to the unit, she did not follow up with the SDO to obtain specific guidance or procedures for correctly returning the money orders.

Postal Service policy states postal retail units must send unopened domestic money orders and all international money orders that cannot be sold to the Stamp Distribution Center (SDC) or SDO.¹² Prior to returning money orders, postal retail units and contract postal units must receive authorization from the servicing SDC or SDO.¹³

If controls over money orders are not followed, there is an increased risk of undetected theft and lost revenue. Each money order has a value up to \$1,000.¹⁴ Therefore, the 500 domestic money orders have a potential value of \$500,000. We estimated that 32.931 percent, or \$164,655, of the money orders were at risk of being stolen and cashed.

On August 12, 2016, the postmaster received authorization from the district and destroyed the 500 obsolete money orders. Therefore, we are not making a recommendation on this issue.

Excess Cash

On July 19, 2016, we counted the cash and verified the unit had a total of \$700.23 cash retained, an excess of \$97.26 (see [Table 2](#)). The office was authorized by the district to have three clerk cash drawers (\$100.99 for each clerk or a total of \$302.97). In addition, the office was authorized a unit cash reserve maximum of \$300.

¹² These facilities are responsible for sending stamp stock to retail units. They also provide authorization for destruction or return of old, obsolete stamp stock.

¹³ Handbook F-101, Section 11-6.11.1.

¹⁴ Handbook F-101, Section 10-1.1.

Table 2. Excess Cash

Unit Cash	Amounts
Total Cash on Hand	\$700.23
Less Authorized Cash	302.97
Less Authorized Unit Cash Reserve	300.00
Excess Cash	\$97.26

Source: OIG Analysis

This occurred because the postmaster did not actively maintain oversight of the unit's total cash retained on hand.¹⁵ The postmaster submitted the proper documentation to the district finance manager (DFM) on February 3, 2015, to obtain approval for an extra cash drawer but did not receive a response. Therefore, she assumed the office was authorized to have four clerk cash drawers.

Postal Service policy states the unit must document any new credits for cash retained on the required justification form (Cash Retained/Unit Cash Reserve List Letter)¹⁶ and send it to the DFM for review and approval. Cash is easy to steal and overages increase the risk of theft, which may go undetected.

On July 19, 2016, the postmaster sent the form to the DFM for authorization to have four cash drawers. On August 10, 2016, the DFM approved the request; therefore, we are not making a recommendation regarding authorizations.

Duplicate Key Envelope

The unit did not have the required PS Form 3977, Duplicate Key Combination and Password Envelope, for one RA. The duplicate key is used to open the employee's cash drawer, and the password is used to access the employee's RSS login. Postal Service policy states field units must complete a PS Form 3977 to protect each duplicate key, combination, and password.¹⁷ If the employee is absent and management cannot access the employee's duplicate key and updated password from the PS Forms 3977, they will not be able to conduct cash counts timely.

Three out of four RAs had two envelopes each, one for their key and one for their password, but one RA did not have an envelope for her key or password. The postmaster stated she completed PS Form 3977 for the three employees but forgot to complete the form for the new employee, who started in October 2015. Untimely counts decrease management's ability to mitigate risks of theft of cash or money orders.

On July 19, 2016, the postmaster completed the missing PS Form 3977. Therefore, we are not making a recommendation on this issue.

¹⁵ Represents the unit's total authorized funds retained from the previous business day.

¹⁶ Handbook F-101, Section 13-7.2, 13-7.1.2.

¹⁷ Handbook F-101, Section 3-8.2.1.

Recommendation

We recommend the manager, Seattle District, instruct the postmaster, Orting Main Office, to:

1. Establish a process to ensure employees follow the required procedures for retail floor stock counts.

Management's Comments

Management agreed with the recommendation but disagreed with the monetary impact for money orders. Management reinforced retail floor stock count and money order destruction processes with unit employees and destroyed obsolete money orders.

Management stated they disagreed with the calculations for the monetary impact for money orders because the Postal Service does not cash the majority of money orders, and the financial risk is assumed by the person who cashed the money order. In addition, management disagreed with the rating of high in the category of malice because there was no evidence of malice presented or discussed during the audit.

See [Appendix A](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report. Regarding the calculation of impact for money orders, we acknowledge that the majority of money orders are not cashed at post offices and that the financial risk is generally assumed by the institution that cashes it. However, we continue to believe some risk exists. The purpose of the calculation is to provide a reasonable assessment of value at risk when exact monetary impact assessment is not possible. It does not represent actual loss and, therefore, we only presented it as items at risk, not monetary impact as management stated.

We used a mathematically accepted statistical tool to estimate the average impact of uncertain at risk events. It considers six simultaneous sources of uncertainty for any given event. One of them is intentional harm from mal-intentioned people (malice) and includes theft. We based our malice rating on our knowledge of the control environment considering control gaps with money orders, inventory counts, cash, and passwords at the unit. Since the calculation is subjective, includes auditor judgment, and is only shown to provide perspective, we will not pursue this issue through the audit resolution process.

We consider the recommendation closed with the issuance of this report.

Appendix A. Management's Comments

09/22/2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Segmented Inventory-Orting Main Office, Orting, WA
(FT-FM-16-DRAFT)

Seattle District Management agrees with the OIG findings on controls over Segmented Inventory.

We agree with monetary impact \$97.26 in excess cash retained, however **we disagree** with the calculations for monetary impact for money orders (count of 500) due to the following reason:

- Blank money orders do not have a value of \$1,000 risk to the USPS. The majority of USPS money orders are not cashed by the Postal Service. The financial risk is assumed by the person who cashes the money order.
- We do not agree with the OIG's rating of high (ranked 4 on a scale of 1-5) in the category of "Malice" The definition provided is: likelihood of being caused by mal-intentioned actors. Examples: Hackers, thieves, terrorists. There was no evidence of malice presented or discussed in this audit at this Post Office.

Recommendation 1:

We recommend the Manager, Seattle District instruct the postmaster, Orting Main Office establish a process to ensure employees follow the required procedures for retail floor stock counts.

Management Response/Action Plan:


Seattle District Management agrees with the recommendation. Postmaster, Orting and Manager, Financial Programs Compliance have re-enforced retail floor stock count and money order destruction processes with the unit employees. Obsolete money orders have been destroyed with supporting Form 17 for records.

Target Implementation Date:

September 2016

Responsible Official:

District Finance Manager, Seattle District Finance



Don E. Jacobus
District Manager, Seattle District

cc: *Manager, Corporate Audit Response Management
Finance, Western Area*