



## AUDIT REPORT

# Internal Controls Over Financial Differences at James A. Farley Station, New York, NY

February 28, 2017



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Report Number FT-FM-17-010



February 28, 2017

**Internal Controls Over Financial Differences -  
James A. Farley Station, New York, NY**  
Report Number FT-FM-17-010

***BACKGROUND:***

The U.S. Postal Service Office of Inspector General (OIG) uses risk models to identify financial anomalies. Risk models are analytic tools that look at specific behaviors and patterns that are strong indicators of improper activity.

The OIG's Field Financial Risk Model identified the James A. Farley Station in New York, NY, as having the highest value of financial differences in the New York District from April 1, 2016, to June 30, 2016.

Financial differences are variances in financial activities at U.S. Postal Service retail units, such as differences between banking deposits and receipts, errors with transmitted sales and money order data, and stock shipments not received by the unit. The value of the differences is expensed to the unit.

A manager or designee must identify the cause of the differences, adjust the financial records, maintain detailed records, and ensure timely resolution. A reason must be annotated for any unresolved differences.

The objective of this audit was to determine if financial differences identified at the James A. Farley Station were properly researched and resolved.

***WHAT THE OIG FOUND:***

We verified that 54 differences were expensed to the James A. Farley Station during our review period. However, we could not determine whether management properly researched and resolved the differences because complete files did not exist.

The designee responsible for financial differences stated he did not have working knowledge of the resolution process because he had not completed financial differences training. But, training records showed he completed it in December 2009.

If the Postal Service does not reconcile financial differences, it cannot ensure that they are not a result of theft or fraud. Also, unresolved differences impact financial reporting accuracy. On November 23, 2016, the designee developed a log to begin monitoring financial differences.

***WHAT THE OIG RECOMMENDED:***

We recommended management provide the designee refresher training on the financial differences process and ensure he maintains awareness of the process. We also recommended management implement controls to ensure files are established and financial differences are researched and resolved timely.

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



February 28, 2017

**MEMORANDUM FOR:** LORRAINE CASTELLANO  
MANAGER, NEW YORK DISTRICT

E-Signed by Asha Mede  
VERIFY authenticity with eSign Desktop

**FROM:** *for*  
Lorie Nelson  
Director, Finance

**SUBJECT:** Audit Report – Internal Controls Over Financial Differences -  
James A. Farley Station, New York, NY  
(Report Number FT-FM-17-010)

This report presents the results of our audit of the Internal Controls Over Financial Differences - James A. Farley Station, New York, NY (Project Number 17BFM004FT000).

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 self-initiated audit of the Internal Controls Over Financial Differences – James A. Farley Station, New York, NY (Project Number 17BFM004FT000). The James A. Farley (JAF) Station is in the New York District of the Northeast Area. This audit is designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Financial differences represent variances in financial activities such as banking, money orders, stock ledger, and Postal Service Form 1412, Daily Financial Report,<sup>1</sup> reconciliations at PRUs. The PRU manager or designated employee monitors and researches financial differences to ensure timely resolution. The unit must also maintain a file with detailed records for all financial differences issued to the unit, and annotate detailed expense records for expenses not cleared.<sup>2</sup>

We reviewed financial differences identified at the JAF Station from April 1, 2016, through June 30, 2016. To determine whether financial differences were properly researched and resolved, we extracted and analyzed financial differences data for the scope period, interviewed responsible personnel to determine the process for researching and resolving differences, and reviewed available supporting documentation.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW). We did not test the validity of controls over EDW; however, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from November 2016 through February 2017, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on December 9, 2016, and included their comments where appropriate.

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<sup>1</sup> Provides individual retail associates (RA) and postal retail units (PRU) with a uniform method to report financial transactions.

<sup>2</sup> *Handbook F-101, Field Accounting Procedures*, June 2016, Section 8-6.

## Financial Differences

Our Field Financial Risk Model identified that the JAF Station had the highest value of financial differences in the New York District from April 1, 2016, to June 30, 2016. We verified that 54 financial differences with a net value of \$315,386.53 were expensed to the unit during our scope period (see Table 1). We could not determine whether management properly researched and resolved financial differences because complete files did not exist. Specifically, files did not exist for 45 of 54 (83 percent) differences, and the files for the remaining nine differences were incomplete.

**Table 1. Financial Differences April 1 through June 30, 2016**

Type of Activity	Number	Account Identifier Code (AIC) 247 Overage <sup>3</sup>	AIC 647 Shortage <sup>4</sup>	Net Value of Overages/ Shortages
Postal Service Form 1412 Discrepancy <sup>5</sup>	5	(\$1,891.90)	\$4,537.00	\$2,645.10
Bank Discrepancy <sup>6</sup>	5	(250,287.00)	2,607.00	(247,680.00)
Bank Reconciliation Difference <sup>7</sup>	12	0.00	(3,093.83)	(3,093.83)
Change Fund Difference <sup>8</sup>	9	0.00	(1,800.00)	(1,800.00)
Credit/Debit Card Reconciliation <sup>9</sup>	2	0.00	(61,310.23)	(61,310.23)
Manual Journal Entry - Accounting Services	3	(2,000.00)	0.00	(2,000.00)
Manual Journal Entry - District Finance Office	2	(76.50)	216.78	140.28
Miscellaneous Difference <sup>10</sup>	2	(\$60.00)	\$105.95	\$45.95
Money Order Audit Difference <sup>11</sup>	1	0.00	50.00	50.00
Stock Difference <sup>12</sup>	13	(9,275.93)	6,892.13	(2,383.80)
<b>Total</b>	<b>54</b>			<b>(\$315,386.53)</b>

Source: EDW Net Financial Difference Line Detail Report.

<sup>3</sup> The AIC is used to classify financial transactions in the proper general ledger account. A financial overage is a credit (decrease) to the unit's expense account.

<sup>4</sup> A financial shortage is a debit (increase) to the unit's expense account. The unit could not explain why some AIC 647 transactions resulted in overages.

<sup>5</sup> An exception identified during an audit of the unit's daily financial report data.

<sup>6</sup> A discrepancy between bank deposits and receipts.

<sup>7</sup> The difference between the bank deposit amount and transmitted sales data.

<sup>8</sup> A bank discrepancy between change amounts received from the bank and reciprocal bank deposit.

<sup>9</sup> A discrepancy between the credit/debit card amount and the transmitted sales data.

<sup>10</sup> Used to offset an expense issued by the Accounting Services for items such as improperly accepted checks.

<sup>11</sup> A discrepancy identified during the money order reconciliation process.

<sup>12</sup> A stock in-transit reconciliation discrepancy between shipping and receiving units.

The tour superintendent, Postal Operations,<sup>13</sup> responsible for monitoring the financial differences stated he did not have working knowledge of the process, such as how and when to initiate a financial adjustment to resolve financial differences. He stated that, because he had not received financial differences training,<sup>14</sup> he was not aware the differences had been expensed to the unit or that he needed to maintain files to monitor the differences.<sup>15</sup>

Postal Service policy states that the PRU's managers or designated employees must:

- Research discrepancies thoroughly, initiate a financial adjustment memorandum, and ensure adjustment entries are performed by RAs on the following business day.<sup>16</sup>
- Maintain files with detailed records for all financial differences.
- Annotate the detailed expense records with the reasons expenses are not cleared.<sup>17</sup>

If the Postal Service does not reconcile financial differences, misconduct, theft, or fraud may go undetected. In addition, unreconciled financial differences can impact the accuracy of the Postal Service's financial reports.

As a result of this audit, on November 23, 2016, the tour superintendent developed a log to begin monitoring financial differences.

## Recommendations

We recommend the manager, New York District, instruct the postmaster, James A. Farley Station, to:

1. Provide the tour superintendent, Postal Operations, refresher financial differences training and implement controls to ensure he maintains awareness of the financial differences process.
2. Implement controls to ensure files are established for all financial differences and that they are researched and resolved timely.

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<sup>13</sup> Directs the mail processing, collection, delivery, and window service operations on the principal tour, in a large classified station to ensure expeditious and effective service to the public.

<sup>14</sup> In fiscal year 2009, the name of the training course was Financial Differences Training. The course name today is Financial Difference AIC 247/647 Training.

<sup>15</sup> We obtained training records that showed the employee completed the financial differences training in December 2009.

<sup>16</sup> Handbook F-101, Section 8-6.1.2.

<sup>17</sup> Handbook F-101, Sections 8-6.1 (c) and (g).

## Management's Comments

Management disagreed with both recommendations. Management agreed that the required procedures for monitoring and reconciling financial differences are important to ensure the financial differences are not the result of theft or fraud. Management added that they have entity-level controls in place to address the timely resolution and monitoring of financial differences.

Regarding recommendation 1, in January 2017, management provided financial differences training to the tour superintendent, managers and supervisors. Further, to ensure awareness, the district finance manager is sending a financial differences report, daily, to the field offices, and district managers are monitoring the report to ensure the differences are documented, recorded, investigated and resolved timely.

Regarding recommendation 2, management stated a logbook was created to record all financial difference discrepancies discovered on the daily financial report. The differences will be reviewed and resolved the next day, if feasible. The resolution will be entered in the logbook and supporting documentation will be kept on file. If an item is not able to be resolved immediately, assistance will be requested from the Accounting Help Desk.

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

## Evaluation of Management's Comments

Although, management disagreed with the recommendations, they took corrective actions based on our recommendations; therefore, the U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report.

The OIG agrees entity level controls are in place; however, these controls were not being followed at the JAF Station because the tour superintendent responsible for resolving the differences was unaware of the requirements, and management's oversight of the process needed improvement. The intent of the recommendations was to address employee awareness and management's oversight of the financial difference documentation and resolution process at the JAF Station. We believe the refresher training provided by management and the implementation of daily monitoring of the financial differences process addressed the recommendations.

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



## Appendix A: Management's Comments



February 23, 2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Internal Controls over Financial Differences  
– James A. Farley Station, New York NY, Report Number FT-FM-17-  
DRAFT

Thank you for the opportunity to respond to the Office of Inspector General's audit of Internal Controls over Financial Differences – James A. Farley Station, New York NY. New York District agrees with the recommendations made during the audit. We agree that the required procedures for monitoring and reconciling Financial Differences are important to ensure the Financial Differences are not a result of theft or fraud.

**Recommendation #1**

Provide the tour superintendent, Postal Operations, refresher financial differences training and implement controls to ensure he maintains awareness of the financial differences process.

**Management Response/Action Plan:**

New York District disagrees with this recommendation as there are already entity level controls in place which addresses the timely resolution and monitoring of financial differences through the Controller Council metrics.

On January 6, 2017, Northeast Area Finance provided Financial Differences training to the tour superintendent, Postal Operations (TSPQ), the Manager Customer Service, JAF and the Area Manager. Additionally, on January 13, 2017, Northeast Area Finance provided Financial Differences training to two of the Customer Service Supervisors.

To ensure awareness, on a daily basis, the District Finance Manager sends a Financial Differences report to the field offices. The Manager Customer Service is monitoring the Financial Differences report and the log to ensure Financial Differences are recorded, investigated and resolved in a timely manner, as well as, ensuring that supporting documentation is kept on file as required.

**Target Implementation Date:**

Completed

- 2 -

Responsible Official:

Kevin Crocilla, Postmaster, Manhattan, NY

Recommendation #2:

Implement controls to ensure files are established for all financial differences and that they are researched and resolved timely.

Management Response/Action Plan:

New York District disagrees with this recommendation as there are already entity level controls in place which addresses the timely resolution and monitoring of financial differences through the Controller Council metrics.

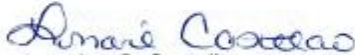
A Log Book was created for entry of all 247/647 discrepancies discovered on the station's daily 1412. The Closeout Sales and Services Associate (SSA) or Supervisor will log all information in the log book daily and initial their entry. The TSPO or the early Supervisor will review the logbook each morning for previous night annotations. Financial differences will be resolved on the next day, if feasible, and resolution will be entered in the logbook and supporting documentation will be kept in a file folder. If an item is not able to be resolved immediately, assistance will be requested from the Accounting Help Desk (AHD) and a ticket number or a remedy email will be produced and kept in the documentation file folder pending completion.

Target Implementation Date:

Completed

Responsible Official:

Kevin Crocilla, Postmaster, Manhattan, NY



Lorraine G. Castellano  
District Manager, New York

cc: VP Controller  
VP Retail & Customer Service  
VP Area Operations (Northeast)  
Controller (Northeast)  
Manager, Finance (New York)  
Manager, Corporate Audit Response Management