



AUDIT REPORT

Internal Controls Over Segmented Inventory – Mount Greenwood Station, Chicago, IL

April 6, 2017





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**Internal Controls Over Segmented Inventory -
Mount Greenwood Station, Chicago, IL**
Report Number FT-FM-17-016

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 Mount Greenwood Station in Chicago, IL, reported 12 perfect inventory counts from April 1, 2015, to July 5, 2016. A perfect count means the Post Office did not report any overages or shortages.

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, we counted each accountability segment. U.S. 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 Mount Greenwood Station were accurately

presented and whether internal controls were in place and effective.

WHAT THE OIG FOUND:

Accounting records for segmented inventory at the Mount Greenwood Station were not always accurately presented and internal controls needed improvement.

We verified the Mount Greenwood Station reported 12 perfect counts from April 1, 2015, to July 5, 2016. We conducted an independent count and identified the retail floor stock valued at \$16,214 had a \$7,639 (47 percent) shortage. The shortage was due, in part, to an incomplete transfer from unit reserve stock, valued at \$6,110. The supervisor initiated the transfer in the Retail Systems Software (RSS) but could not remember if he physically moved the stock. Management could not explain the remaining shortage. We also identified:

- A unit reserve stock count overage of \$ 6,118.
- A unit cash reserve count overage of \$35. There is no authorized tolerance for unit cash reserve.
- One cash drawer with an overage of \$13 and one with a shortage of \$14. There is a \$10 tolerance for each cash drawer. Also, two clerks no longer working at the unit still had assigned cash drawers.

- The unit could not locate \$37,775 of inventory used to fulfill stamp orders received from customers by mail.
- Seven money orders were at the unit but not included in RSS. Also, 84 money orders were not at the unit but were included in inventory in RSS.
- None of the 10 cash drawers at the Chicago Mount Greenwood Station contained the required bait money orders to help authorities track offenders in the event of a robbery.
- The unit did not return or destroy non-saleable inventory items. It commingled non-saleable stamp stock with the unit reserve stock or stored it under a clerk's desk. Also, 377 obsolete money orders were unsecured in the unit reserve safe.
- The unit did not properly record inventory counts and did not always accept or record stamp stock shipments timely. Also, two stamp stock shipments valued at \$4,935 were missing.
- The unit did not have the required duplicate key combination and password envelopes used to access and count the cash drawer when the RA is not present. Also, the lead RA, customer service supervisor, and station manager shared passwords.
- The lead RA had roles in RSS that allowed her to sell postal products, accept payments, and maintain the unit's inventory.
- The registered mail cage and four safes with cash, stamp stock, and

high-valued letters or packages remained unlocked.

If controls over inventory and cash are not followed, there is an increased risk of undetected theft or loss.

As a result of this audit, management changed the combinations of three safes, replaced the locks of cash drawers with one key, moved one cash drawer from the retail area to the safe, and reviewed the unit's segmented inventory after our audit, providing results to appropriate personnel for remediation.

Further, as a result of our overall work on segmented inventory accountability, Postal Service Headquarters management advised they will issue an expectations letter to the field. They will also reissue the Financial Accountability Standard Operating Procedures and conduct a webinar to review them with applicable managers. Finally, they will conduct unannounced random field financial audits to measure improvement.

We referred the missing stamps by mail and inventory shortage to the OIG's Office of Investigations for review.

WHAT THE OIG RECOMMENDED:

We recommended district management reiterate the requirement to protect and secure password information.

We also recommended unit management establish controls to ensure employees follow procedures for inventory counts, stamp shipments, duplicate key envelopes, and bait money orders, and to ensure adequate separation of duties; return or destroy


obsolete items; and determine the status of missing stamp stock.

[Link to review the entire report](#)



April 6, 2017

MEMORANDUM FOR: GREGORY W. JOHNSON
MANAGER, CHICAGO DISTRICT

E-Signed by Lorie Nelson 
VERIFY authenticity with eSign Desktop
Lorie Nelson

FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Segmented Inventory
– Mount Greenwood Station, Chicago, IL
(Report Number FT-FM-17-016)

This report presents the results of our audit of Internal Controls Over Segmented Inventory – Mount Greenwood Station, Chicago, IL (Project Number 16WFM003FT000).

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 Internal Controls Over Segmented Inventory at the Mount Greenwood Station, Chicago, IL (Project Number 16WFM003FT000). The Mount Greenwood Station is in the Chicago District of the Great Lakes Area. This 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, we counted each accountability segment. Postal Service managers are responsible for timely and proper counts of all segmented inventory.

We reviewed accounting records for segmented inventory at the Mount Greenwood Station from April 1, 2015, to March 31, 2016. To determine the validity of the reported inventory counts, we conducted unannounced counts of inventory segments,¹ evaluated the segmented inventory process, and interviewed the customer service supervisor and other personnel responsible for oversight of the process.

We relied on computer-generated data maintained in the Postal Service Enterprise Data Warehouse (EDW),² Time and Attendance Collection System,³ and 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 management. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from July 2016 through April 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 objectives. We discussed our observations and conclusions with management on March 2, 2017, 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.

Segmented Inventory

Our tripwire⁵ showed Mount Greenwood Station reported 12 perfect counts⁶ of the retail floor stock⁷ between April 1, 2015, and July 5, 2016. On July 27, 2016, we conducted an independent count of segmented inventory at the station. Specifically, we counted retail floor stock, unit reserve stock,⁸ unit cash reserve,⁹ and all cash drawers,¹⁰ and found retail floor stock had a shortage of \$7,638.56. There is no tolerance¹¹ for retail floor stock counts. We attempted to count the stamps by mail (SBM)¹² stock, but the lead sales and services associate (LSSA)¹³ and customer service supervisor were unaware the inventory existed. See Table 1 for the results of our segmented inventory counts.

Table 1. Segmented Inventory Count Results

Inventory Segment	RSS System Total	Actual Count	Difference
Retail Floor Stock	\$16,214.22	\$ 8,575.60	(\$7,638.56)
Unit Reserve Stock	52,582.72	58,700.96	6,118.24
Unit Cash Reserve	501.50	536.43	34.93
Stamps By Mail	37,774.60	-	(37,774.60)
Cash Drawer 1	100.14	112.84	12.70
Cash Drawer 2	100.52	86.37	(14.15)

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

The postmaster, manager, or supervisor is responsible for management of all stamp stock credits and cash credits assigned and must ensure the timely performance of all credit counts.¹⁴

If controls over segmented inventory are not followed, there is an increased risk of undetected theft and losses.

⁵ Tripwires are analytic tools that look at specific behaviors and patterns that are strong indicators of improper activity.

⁶ Perfect count means the Postal Service did not report any overages or shortages.

⁷ The 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.

⁸ The unit reserve custodian is accountable for the value of all items in the unit reserve stock.

⁹ Authorized funds on hand for making change. There is no tolerance for differences in the unit cash reserve accountability.

¹⁰ RAs that are assigned a cash credit are authorized a cash retained amount up to \$100.99.

¹¹ Tolerance is the allowed difference for individually accountable inventory segments. If a count is within tolerance, no one is accountable for the difference. If a count is outside of tolerance, the responsible employee is issued a letter of demand for the difference.

¹² SBM is an inventory used for filling stamp orders received from customers by mail.

¹³ The LSSA provides technical direction to one or more associates assigned to sales activities and reviews their work for accuracy.

¹⁴ Handbook F-101, *Field Accounting Procedures*, June 2016, Section 13-1.2.

We referred the SBM issue to the OIG's Office of Investigations. Management also informed us that they conducted an internal review of the unit's segmented inventory after our audit and provided results to appropriate personnel for remediation.

Retail Floor Stock

We conducted a count of the retail floor stock and identified a shortage of \$7,638.56. The retail floor stock shortage was partially due to an incomplete transfer valued at \$6,110, generated in RSS on July 14, 2016, from the unit reserve stock. The supervisor initiated the transfer in RSS but could not recall if he then physically moved the stock from the unit reserve to the retail floor. The supervisor and LSSA were unable to explain the remaining shortage of \$1,528.56.

Unit Reserve Stock

We conducted a count of the unit reserve stock and identified an overage of \$6,118.24. There is a \$100 tolerance for unit reserve stock.¹⁵ This overage was mostly due to the incomplete stock transfer to the retail floor stock discussed in the [Retail Floor Stock](#) section above. The LSSA was unable to explain the remaining difference of \$8.24. The customer service supervisor informed us that he did not witness any counts and was not aware of the results of the unit reserve count.

The unit reserve stock custodian is accountable for the value of all items in the unit reserve stock, is responsible for managing the stamp stock inventory, and must report unit reserve stock activities. The unit reserve must be assigned to the postmaster, unit manager, or supervisor. At a finance station without a domiciled supervisor, manager, or postmaster, a LSSA may be assigned the unit reserve.¹⁶ Additionally, Postal Service policy requires that if the unit reserve stock custodian has a retail floor stock role, the unit reserve stamp stock credit must be counted concurrently with the retail floor stock before any unit reserve transactions take place.¹⁷

Unit Cash Reserve

We conducted a count of the unit cash reserve and identified an overage of \$34.93. There is no authorized tolerance for unit cash reserve. The customer service supervisor responsible for the unit cash reserve stated the overage could be a result of him putting loose change he found on the floor in the unit cash reserve. Also, the supervisor stated that when he was busy, he did not always provide change to the RA upon request. Instead, he placed the cash provided by the RA in the unit cash reserve without providing change. In addition, the supervisor stated that while the station manager was on leave,¹⁸ the unit cash reserve did not get counted.

¹⁵ There is a \$100 tolerance for unit reserve stock amounts of \$30,000.01 to \$60,000.

¹⁶ Handbook F-101, Section 13-2.5.

¹⁷ Handbook F-101, Section 14-2.4.

¹⁸ The station manager had been on leave for about 3 months.

According to Postal Service policy, management is responsible for all stamp stock and cash credits. Further, the unit cash reserve that is assigned to an employee must be counted randomly at least once each postal quarter.¹⁹

Cash Drawers

We counted all 10 cash drawers at the Chicago Mount Greenwood Station. There is a \$10 tolerance for each cash drawer, and two of 10 cash drawers were out of tolerance:

- One cash drawer had an overage of \$12.70.
- One cash drawer had a shortage of \$14.15.

The LSSA could not explain the overage in her cash drawer. The RA assigned to the second drawer was not available for an interview. Further, two RAs who relocated to the Roberto Clemente Post Office and the Uptown Post Office in March and May 2016, respectively, still had active cash drawers at the Mount Greenwood Station. They were also assigned cash drawers at their new locations. We counted the cash drawer of the RA at the Roberto Clemente Post Office and the count was within tolerance. We attempted to count the cash drawer of the RA at the Uptown Post Office; however, we were informed that no one at that location had access to RSS or knew how to initiate the count.

According to Postal Service policy, an RA must be removed (terminated) from the POS system no later than the employee's last day of work when any of the following occurs:²⁰

- The RA is separated from the Postal Service.
- The RA bids to another position that does not require use of the POS system.
- The RA bids to another postal retail unit.

Stamps by Mail

We attempted to count the SBM inventory but could not locate the stock. As of July 28, 2016, RSS showed \$37,774.60 in SBM inventory. The LSSA was assigned the SBM stock in RSS on May 26, 2015. However, the LSSA and customer service supervisor were not aware of a separate SBM inventory.

The customer service supervisor often deferred to the LSSA, who said she filled the SBM customer orders using retail floor stock instead of SBM stock. The customer order logs showed the unit sold \$9,272.49 of stock to SBM customers from April 1, 2015, through July 18, 2016. We examined the cash drawers and unit reserve stock to determine if the SBM inventory was commingled but did not locate them.

¹⁹ Handbook F-101, Sections 13-1.2 and 13-8.1.

²⁰ Handbook F-101, Section 2-4.8. This process is also relevant to the new RSS, which replaced POS. Handbook F-101 is currently in the process of being updated to reflect the change in the point-of-sale system.

SBM is used where volume prohibits filling requisitions from the retail floor stock.²¹ Management is responsible for ensuring proper entry of all financial transactions. In addition, the postmaster or unit manager is responsible for ensuring controls are in place to maintain an accurate inventory of all accountable paper within the postal retail unit. We consider the SBM inventory that could not be located at the unit (\$37,774.60) as revenue loss.²²

Money Orders

Our count of the unit reserve stock identified five domestic money orders²³ and three international money orders that were included as part of the unit reserve stock in RSS but were not at the unit (see Table 2). The LSSA explained that a previous clerk responsible for the unit reserve stock informed her to always include the missing money orders when she entered her count in RSS.

Table 2. Missing Money Orders

Description	Starting Serial Number	Quantity
Domestic	16607716907	1
Domestic	21624515943	4
International	74202410068	3
TOTAL		8

Source: OIG analysis.

Additionally, the money order inventory showed 71 domestic and 5 international money orders assigned to the LSSA; but, we could not locate them at the unit. We examined the cash drawers and unit reserve stock to determine if the missing money orders were commingled but did not locate them (see Table 3).

Table 3. Missing Money Order Stock

Description	Starting Serial Number	Quantity
Domestic	19653785291	71
International	74221001346	2
International	74221001370	3
TOTAL		76

Source: OIG analysis.

We also identified seven money orders that were at the unit but were not included in RSS (see Table 4). We found four of the seven money orders during our count of unit reserve stock. In addition, the LSSA's cash drawer contained three money orders. One

²¹ Handbook F-101, Section 14-1.1.

²² Revenue loss applies to funds such as postage, retail sales, rent, leases, or fees the Postal Service is entitled to receive but was underpaid or not realized because policies, procedures, agreements, or requirements were lacking or not followed. The revenue loss category may be used for historical and future time periods.

²³ Negotiable instrument that includes a written promise to pay the bearer of the instrument a sum of money at a future date or on demand.

of the three money orders belonged to an RA whose cash drawer was closed, and the LSSA did not transfer it to the unit reserve. We are not aware of any fraudulently cashed money orders.

Table 4. Money Orders Not in RSS

Money Order #	Explanation in RSS
17749058995	Does not exist in unit reserve
18648828077	Does not exist in unit reserve
74202410204	Serial number does not exist
74221001234	Serial number does not exist
21624515987	Does not exist in unit reserve
21624515998	Does not exist in unit reserve
20918539991	Assigned to a clerk who left the facility

Source: OIG analysis.

Postal Service policy states when blank money orders are lost or stolen, postmasters or unit managers must immediately contact the U.S. Postal Inspection Service and report the serial numbers of the missing money orders. In addition, the postmaster or unit manager is responsible for ensuring controls are in place to maintain an accurate inventory of all accountable paper within the retail unit. Postal Service policy also requires a review of the money order report during the daily unit closeout²⁴ as follows:

- Verify the money order serial numbers.
- Verify spoiled and voided money orders, and submit them to the unit manager for destruction.
- Report any missing money orders to the Postal Inspection Service immediately.
- Identify any sequentially missing money orders at closeout.

If controls over money orders are not followed, there is an increased risk of undetected theft and lost revenue. We consider the value of missing money orders that were part of the unit reserve stock in RSS or were part of the money order inventory assigned to the LSSA as questioned costs.²⁵ For our scope period of April 1, 2015, through March 31, 2016, fraudulently cashed postal money orders had an average value of \$608.54²⁶ per money order. Therefore, we calculated the 84 money orders have a potential value of \$51,117.36. However, only 5.95 percent²⁷ of fraudulent money orders were cashed at Postal Service locations. As a result, we valued the 84 money orders at \$3,041.64.

²⁴ All postal retail units (PRU), regardless of size or revenue, must report their financial activity on PS Form 1412 and electronically transmit to Accounting Services at the close of each business day.

²⁵ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events.

²⁶ The average value was derived from the Postal Service's fiscal year (FY) 2015 through FY 2016 Fraud Reports, maintained by the General Accounting Branch at St. Louis, MO, Accounting Services.

²⁷ We derived this percentage from the Postal Service's FY 2015 through FY 2016 Fraud Reports, maintained by the General Accounting Branch.

Bait Money Orders

Cash drawers at the unit did not contain bait money orders, although the unit had 30 unassigned bait money orders available. The LSSA stated she was aware that the unit must have bait money orders. She planned to return the bait money orders to the Stamp Distribution Office (SDO),²⁸ but could not explain why she was returning them.

Postal Service policy states field units that provide retail services must strictly adhere to bait money order procedures.²⁹ Specifically, each RA's cash drawer must include three bait money orders mixed with large bills.³⁰ Bait money orders help law enforcement identify and apprehend criminals if the money orders are stolen and cashed.

When bait money order procedures are not followed, there is an increased risk investigative leads could be lost or delayed.

Non-saleable Items

The unit did not return or destroy stamp stock, money orders, or other inventory items that were obsolete and could not be sold at the station. We found non-saleable stock³¹ valued at \$778.13 commingled in the unit reserve stock, including some released in 2003. In addition, we found two boxes of non-saleable stamp stock under a clerk's desk (see Figure 1).

Figure 1. Non-Saleable Stock



Source: OIG photo taken July 26, 2016.

²⁸ The SDO and Stamp Distribution Centers (SDC) are responsible for sending stamp stock to retail units. They also authorize destruction or return of old, obsolete stamp stock. The SDO is located in Kansas City, MO.

²⁹ Handbook F-1, Section 2-5.2.4.1.

³⁰ Publication 348, *Window Services Crime Prevention Booklet*, October 2008, Section 3.

³¹ Non-saleable stock includes stamp stock items and products, any partial packages of stamps, stamped envelopes or postal cards that are removed from sale because they were obsolete, defected, or damaged.

The boxes contained money orders, gift cards, and phone cards³² (see Table 5).

Table 5. Non-saleable Accountable Items

Description	Quantity
International Money Orders	83
Phone Card (\$32)	5
American Express Gift Card (\$25)	10
American Express Gift Card (\$25 - \$100)	10
American Express Gift Card (\$50)	10

Source: OIG analysis.

The LSSA confirmed the stamp stock valued at \$8,957.85³³ should be returned for destruction. The LSSA explained she did not have time to prepare and return the stock to the SDO.

Further, management did not return or destroy 377 obsolete money orders. The money orders were stored with the unit reserve stock and contained domestic, international, and bait money orders. Some of the money orders were marked “spoiled” and others dated 2007 were filled with amounts ranging from \$110 to \$210.

The money orders were unsecured in the unit reserve safe and not recorded in the unit’s inventory records. The LSSA was aware of how to submit money orders for destruction but stated she did not have time to prepare the shipment.

Postal Service policy states non-saleable stock should not be commingled with saleable stock.³⁴ Additionally, the stock custodian must independently count the stock with a witness and enter the total on Postal Service (PS) Form 17, Stamp Requisition/Stamp Return, before shipping it to the SDO. It also states that PRUs must send all international money orders that cannot be sold and blank domestic money orders that cannot be reissued to the SDO for destruction. The SDO provides the schedule for returning non-saleable stock. Prior to returning money orders, PRUs must receive authorization from the SDO.³⁵

When Postal Service personnel do not properly safeguard and return non-saleable stock for destruction, there is an increased risk of undetected theft of accountable items.

Receipt of Stamp Stock

The unit did not always receive or record stamp stock shipped by the SDO timely. It accepted two shipments 14 days after the shipped date, and the SDO expensed one shipment valued at \$940 because the unit did not accept it within 15 days (see Table 6).

³² Gift cards are non-accountable inventory items – they have no value until sold and activated.

³³ Includes \$778.13 of stock commingled with the unit reserve stock and stamp stock under an employee’s desk.

³⁴ Handbook F-101, Section 11-6.5.

³⁵ Handbook F-101, Section 3-8.2.1.

Table 6. Delayed Acceptance – Stamp Stock Shipment

Shipment Number	Amount	Date of Transfer From SDO	Date of Receipt of Transfer by Unit	Elapsed Days
1207561339	\$940	6/29/2016	7/19/2016	20
1207263200	470	5/31/2016	6/14/2016	14
1205948542	129	1/11/2016	1/25/2016	14

Source: OIG analysis.

According to the LSSA, acceptance of the stock shipments was delayed because she was on leave. The customer service manager stated only the LSSA has the role of accepting stock. The shipments were placed on the LSSA’s desk in her absence and she accepted them in RSS once she returned.

In addition, the unit could not locate two shipments expensed by the SDO in June 2016 (see Table 7).

Table 7. Missing Stamp Stock Shipments

Shipment Number	Description	Business Date	Stock Ledger Expense Amount
527161659	500 – Colorful Celebration (681000)	6/12/2016	\$4,700
1207504393	500 - Jaime Escalante (473800)	6/24/2016	235
TOTAL			\$4,935³⁶

Source: OIG analysis.

Documentation showed the shipments transferred in to the unit. However, they were not properly received, and the LSSA could not locate the inventory. The LSSA prepared a PS Form 17, to return the shipment valued at \$4,700; however, the shipment must be accepted before it can be returned.

Stock shipped to a PRU from an SDO creates an in-transit item for the receiving retail unit. To clear the in-transit item, each stock shipment received at the unit from the SDO must be counted and verified with a witness. The total value of the shipment must be entered on PS Form 17, signed, and dated.³⁷ After 10 days, Accounting Services sends a report requesting that the unit research items that do not clear in-transit stock shipments. If a retail unit does not clear a shipment within 15 days, Accounting Services clears the in-transit item by issuing an expense to the retail unit.³⁸ The unit did not contact the OIG for an investigation of any lost or stolen stock shipments as required.³⁹

When employees do not follow stamp stock shipment procedures, there is an increased risk of theft or loss. We consider the stamp stock inventory that could not be located but was transferred to the unit as revenue loss.

³⁶ We consider these missing stamp stock shipments (\$4,935) as revenue loss.

³⁷ Handbook F-101, Section 11-5.1.

³⁸ Handbook F-101, Section 11-5.8.

³⁹ Handbook F-101, Section 8-7.3.

Inventory Count Records

The station manager did not properly record all the unit's inventory counts. Specifically, of the 13 accountability files that should exist:

- The unit did not establish four accountability files.
- Nine accountability files did not have a PS Form 3368-P, Accountability Examination Record, or they were incomplete.
- Three of nine accountability files were missing PS Form 3294, Cash and Stamp Stock Count and Summary.

This occurred because management did not always conduct inventory counts as required and did not ensure accountability examinations were performed when personnel authorized to conduct the counts were on leave.

PS Form 3294 records the current inventory count for the retail floor stock. PS Form 3368-P provides a summary of the results for all inventory counts at the Post Office for the last 2 years. Postal Service policy states the postmaster, manager, or supervisor is responsible for managing stamp stock and cash credits and must ensure timely performance of counts. The postmaster is also responsible for establishing and maintaining a file for each stamp or cash credit assigned to employees. Stamp and cash credit files must contain the following (if applicable):⁴⁰

- PS Forms 3294 or a system-generated PS Form 3294 along with the system-generated counts sheets.
- PS Forms 3368-P.
- PS Form 3369, Consigned Credit Receipt.
- PS Forms 571, Discrepancy of \$100 or More in Financial Responsibility.
- Letters of demand for payment.

If inventory files are not maintained and updated, then it may be difficult to identify trends or timely address shortages or overages of Postal Service segmented inventory.

Duplicate Key Combination and Password Security

The unit did not have the required PS Form 3977, Duplicate Key Combination and Password Envelopes. The duplicate key is used to open the employee's cash drawer, and the password is used to access the RA's RSS login when the employee is not

⁴⁰ Handbook F-101, 13-1.3.

present. Additionally, the unit's four safes require combination passwords. Specifically, of the 16 required envelopes, we found:

- Nine envelopes did not exist.
- Seven envelopes were missing the duplicate key, and five of the seven also did not provide employee/witness signatures.

Further, the LSSA, customer service supervisor, and station manager shared passwords. During our visit, the customer service supervisor contacted the station manager who was on leave to obtain her password so he could initiate a count of the unit cash reserve. Also, the LSSA shared her password with the customer service supervisor in our presence. The manager, Post Office Operations, witnessed the sharing and stressed to the LSSA why this practice should not be done.

Postal Service policy states field units must complete a PS Form 3977 envelope to protect each duplicate key, combination, and password.⁴¹ Semiannually, field unit managers must review PS Forms 3977 and update the forms, as necessary. The examination must be recorded on PS Form 3902, Log and Lock Examination. Annual examinations of all other locks and keys are also required. Finally, Postal Service policy requires employees to protect and secure logon and password information.⁴²

The customer service manager stated he did not conduct semiannual examinations of PS Form 3977 as required. The site prepared envelopes for three RAs during our visit and prepared envelopes for the four safes.

Limited access to combinations and keys impacts postal management's ability to conduct timely counts or monitor and safeguard Postal Service assets. Additionally, sharing passwords makes it difficult for the Postal Service to identify owners of key transactions and increases the opportunity for theft or loss of Postal Service assets.

Separation of Duties

The LSSA was authorized in RSS to sell postal products, accept payments, and oversee the following inventory segments:

- Unit Reserve.
- Stamps by Mail.
- Cash Drawer.
- Passports.

Postal Service policy states field unit management must maintain adequate internal controls to the maximum extent possible to separate duties. Employees who sell postal

⁴¹ Handbook F-101, Section 3-8.2.1.

⁴² Handbook F-101, Section 3-8.2.1-2.

products and accept payment for services should not also monitor the overall unit financial transactions and maintain the unit inventory and customer accounts.⁴³

When employee duties are not properly separated, it is difficult for the Postal Service to identify owners of key transactions or manage errors and fraud risk.

Safeguarding of Assets

The unit did not properly safeguard Postal Service assets. We observed the areas where cash, stamps, stamped envelopes, and money orders were stored and found:

- The registered mail cage door and four safes remained open daily during our visit. The RAs used the cage area as a work area.
- The cabinet that held the retail floor stock remained unlocked during our visit.
- Unit reserve stock, money orders, and registry items⁴⁴ were not secured in the safes (see Figure 2).

Figure 2. Open Safes – Cash, Registry, and Unit Reserve



Source: OIG photo taken July 26, 2016.

This occurred because management did not change combinations, locks, and keys when employees were reassigned or retired. A clerk who retired 2 years prior was the last employee who knew all of the combinations; neither the RAs nor the customer service supervisor knew all the combinations. The LSSA knew the combination to the unit reserve safe, but the door was still kept open. Further, the LSSA stated there was no room in the safes for the cash drawers that were stored in the retail window area.

⁴³ Handbook F-101, Section 2-4.7.

⁴⁴ High-valued letters and packages that are secured, insured, and tracked.

However, some of the locked compartments were empty and did not contain accountable items.

Field unit managers or supervisor must provide adequate security for all accountable items and must ensure combinations and locks are changed when equipment or employees are reassigned.⁴⁵

As a result of our audit, management changed the combinations to three safes, replaced the locks of cash drawers where the key was misplaced, and moved one of the cash drawers stored in the retail area to the safe.

Cash, money orders, and stamps are easy to steal and, if they are not adequately secured, there is an increased risk of undetected theft.

Recommendations

We recommended the manager, Chicago District:

1. Reiterate to the station manager, lead sales and service associate, and customer service supervisor the requirement to protect and secure logon and password information.

We recommended the manager, Chicago District, instruct the postmaster, Mount Greenwood Station, to:

2. Establish controls to ensure employees follow required procedures for all segmented inventory counts, stamp shipments, duplicate key envelopes, and bait money orders.
3. Destroy obsolete stamp stock, money orders, and other inventory items.
4. Determine the status of missing stamp shipments and stamps by mail inventory.
5. Establish controls to ensure adequate separation of duties between personnel authorized to sell postal products and accept payments and those that maintain oversight of inventory segments.

Management's Comments

Management agreed with the findings and recommendations 1 and 3. Management neither agreed nor disagreed with recommendation 4 and disagreed with recommendations 2 and 5. Management also disagreed with the monetary impact.

Management sent a financial team to abate all outstanding items following our site visit and attached documentation for those visits, including the most recent follow-up report and appropriate logs. Management also scheduled subsequent visits, the last of which

⁴⁵ Handbook F-101, Sections 3-1.1 and 3-9.2.

occurred March 10, 2017, and administratively addressed employees based on their actions in October 2016.

In response to recommendation 1, management referenced the financial team visits and also stated that the password control policy was republished and appropriate staff completed training on March 2, 2017 (as provided by management subsequent to the written response).

In response to recommendation 2, management stated controls have been established, but they concurred that better monitoring and adherence are needed. Management stated that the financial team addressed the items identified during our audit, and they attached documentation for stamp counts during January and March 2017 as evidence.

In response to recommendation 3, management stated obsolete stock was prepared to be returned during the Stamp Return period. The target completion date is April 14, 2017.

In response to recommendation 4, management stated the OIG Office of Investigations is currently conducting an investigation and, therefore, management has no evidence for the main cause of missing stamp shipments. Management stated they have concerns with the Stamps by Mail accountability. The OIG could not identify any transactions in connection with this inventory. Also, the clerk was assigned the inventory in 2015, but there is no evidence of a shipment from the SDO or a transfer from the unit, which adds merit to the claim that the clerk was unaware of this inventory. Management stated they reinforced Stamps by Mail policies to the employees liable for Stamps by Mail receipts on October 13, 2016 (as provided by management subsequent to the written response).

In response to recommendation 5, management stated that the retail system contains segmented user roles to ensure segregation of duties and on October 13, 2016, management established those roles at the station. Management attached documentation as evidence for support.

In response to the monetary impact, management stated they disagreed that the 76 domestic and 8 international money orders had an actual value because they were not imprinted. Management stated this office does not have a manual money order imprinter, so before an actual value can be calculated, the money orders must be assigned to a clerk and processed electronically through the Postal Service's retail systems software. In addition, management stated the missing stamp stock is being investigated so they cannot determine whether it is a loss or a recording error.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. Regarding recommendation 2, we acknowledge that Postal Service policy is in place; however, it was not being followed at this facility. Although management disagreed with the recommendation, they concurred that better monitoring and adherence are needed and attached documentation as evidence of implementation. We believe this implementation fulfills the intent of the recommendation and will help to ensure policy is followed.

Regarding recommendation 4, we acknowledge the ongoing investigation to resolve the missing stamp shipments and management's concern with the accountability of the Stamps by Mail inventory. However, we continue to maintain that management is responsible for maintaining an accurate inventory of all accountable paper within the postal retail unit. Since management reinforced policy to employees liable for Stamps by Mail receipts, we will not pursue this issue further at this time. We will continue to work with management as appropriate as the investigation progresses.

Regarding recommendation 5, we acknowledge that Postal Service policy is in place; however, it was not being followed at this facility. Although management disagreed with the recommendation, they established segregation of duties in October 2016 and removed the unit reserve inventory segment from the Lead Sales and Service Associate in the retail system. We believe this implementation fulfills the intent of the recommendation and will help to ensure policy is followed.

Regarding the monetary impacts, we acknowledge that money orders are blank and that the unit does not have a means to properly imprint them. However, we continue to believe risk exists because these accountable items were not properly secured. In addition, although the cause of the missing stock has not yet been established, management's controls over stamp stock were not always followed and they did not identify the stamps by mail accountability issue prior to our visit.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 3 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.

We consider recommendations 1, 2, 4, and 5 closed with the issuance of this report.

Appendix A. Management's Comments

DISTRICT MANAGER
CHICAGO DISTRICT



March 21, 2017

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Segmented Inventory – Mount Greenwood
Station, Chicago, IL (Report Number FT-FM-17-DRAFT)

Management agrees with the findings of this audit.

Recommendations

- 1. Reiterate to the station manager, lead sales and service associate, and customer service supervisor the requirement to protect and secure logon and password information.**

Management agrees with this recommendation. A Financial Audit team was sent to Mount Greenwood to abate all items that were not finalized during the OIG visit. There was an initial follow-up visit in January 2017 and a revisit on March 10, 2017. Additionally, the manager, Information Technology has republished postal policy on password control and all customer service supervisors (SCS), SSDAs and LSSAs, with the exception of one employee (extended leave) at the Mount Greenwood Station have completed the CyberSafe FY 2017 training. All involved employees have been addressed administratively based on their actions.

Implementation Date:

Completed

Responsible Officials:

Manager, Post Office Operations and Manager, Customer Service.

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2. Establish controls to ensure employees follow required procedures for all segmented inventory counts, stamp shipments, duplicate key envelopes, and bait money orders.

Management disagrees with this recommendation to establish new controls. There are already established controls in the Field Financial Handbook (F-101 which outlines the financial responsibilities for inventory counts, stamp shipments, duplicate key envelopes and bait money orders. Management concurs that better monitor and adherence to current policies are needed. The afore-mentioned Financial Audit team was sent to Mount Greenwood to abate these and other items identified during the Audit (attached documentation and signature verification log); which includes Form 3977, *Log and Lock Examination*, Form 571 for SIA counts of January 31, 2017 and March 3, 2017, Bait Money Order Control Logs, and Form 3368-P, *Accountability Examination Record*.

Implementation Date

Completed

Responsible Officials

Manager, Post Office Operations and Manager, Customer Service.

3. Destroy obsolete stamp stock, money orders, and other inventory items.

Management agrees with this recommendation. The Financial Audit team was sent to Mount Greenwood to abate and assisted the station in preparing obsolete stock to be returned during the Stamp Return period, which is April 1-14, 2017.

Implementation Date

April, 2017

Responsible Officials

Manager, Post Office Operations and Manager, Customer Service.

4. Determine the status of missing stamp shipments and stamps by mail inventory.

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The OIG is currently handling the investigation and at this point, we have no solid evidence to share as the main cause of missing stamp shipments coming into the Mount Greenwood facility. The OIG realizes the magnitude of this investigation and are working closely with Mount Greenwood management to come to a resolve. Updates pertaining to alleged missing shipments are forthcoming as the investigation progresses.

Management has some concerns with the Stamps by Mail accountability. The OIG could not identify any transactions surrounding this SBM Inventory. The clerk was assigned the inventory in 2015; however, it cannot be determined where the stock was derived from. There was no PS Form 17 or transfer from the Unit or SDO shipment for this amount; therefore, it adds merit to the claim of the Lead Sales & Service Associate (LSSA) that she had no knowledge of this accountability or inventory. SBM policies have been reinforced to the LSSA, Supervisor, Customer Services (SCS) and Manager, Customer Services (MCS) that we are held liable for all SBM receipts.

5. *Establish controls to ensure adequate separation of duties between personnel authorized to sell postal products and accept payments and those that maintain oversight of inventory segments.*

Management disagrees with this recommendation that a new control is required to create a separation of duties. The POS System already contains segmented user roles to ensure segregation of duties. The Mount Greenwood POS Roles were established in October, 2016 to ensure segregation of duties (attached POS Roles Report from EDW dated March 17, 2017).

Additional Management Comments

Financial Audit team was sent to Mount Greenwood to abate all items that remained outstanding following the OIG visit. Included herein are documents, which includes, the "Financial Accountability Team Follow-up Audit" report made most recently on March 10, 2017. Appropriate logs have been implemented and subsequent visits have been scheduled to ensure compliance. Documentation in support of these visits is included with this response. All involved employees have been addressed administratively based on their actions.

Responsible Officials

Manager, Post Office Operations; Manager, Customer Service; and Manager, District Finance.

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All involved employees have had the appropriate administrative actions submitted to Labor Relations and the Law Department to enforce Accountability for Failure to Properly Safeguard Postal Service Assets and Finances and Failure to Safeguard Personal Passwords. The various actions were submitted October 2016.

Monetary Impact

Regarding the Revenue Loss impact cited during this audit in the amount of \$3,041.64 listed as Questionable Costs, we do not agree that the 76 Domestic Money Orders and the 8 International Money Orders have an actual value as they were not imprinted.

This office is on RSS Technology and does not have a manual Money Order Imprinter to imprint the Money Orders. Additionally, the Money Orders would have had to be assigned by the Custodian in the RSS System to a Retail Associate in order for them to be imprinted in the RSS Technology.

We disagree with the revenue loss reference to the missing stamp stock of \$42,709.60. This is currently being investigated and at this time we cannot determine whether it is lost or a recording error.

Please contact Gregory W. Johnson, District Manager, Chicago, via email or by phone at 312-983-8030, should you have any questions regarding this response.



Gregory W. Johnson

cc: Manager, Corporate Audit Response Management