



December 2, 2008

KATHY AINSWORTH
VICE PRESIDENT, RETAIL OPERATIONS

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VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Fiscal Year 2008 Financial Installation Audit –
Automated Postal Centers (Report Number FF-AR-09-029)

This report presents the results of our financial installation audits of 11 automated postal centers (APC) judgmentally selected for fiscal year (FY) 2008 (Project Number 08BD004FF000). We conducted this work in support of the audit of the U.S. Postal Service's financial statements. [Appendix A](#) presents additional information about this audit.

Conclusion

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective at nine of the 11 units audited. However, controls were not in place and effective at two units and we identified various internal control and compliance issues in areas such as stamp accountability, security, refunds, and training at all 11 locations. In this report, we discuss the conditions that occurred at three or more units. The overall cause for these conditions was that management did not exercise adequate supervisory oversight and employees stated they were not aware of the required procedures. When employees do not follow security and accountability procedures, there is an increased risk of financial loss to the Postal Service. See [Appendix B](#) for a list of sites audited; [Appendix C](#) for a summary of the accountabilities examined at each site; and [Appendix D](#) for a detailed analysis of those frequently reported conditions.

We made recommendations to district management addressing the internal control and compliance issues at each site. District management's comments were responsive to our findings, recommendations, \$3,661 in monetary impact, and \$134,557 in non-monetary impact for accountable items at risk. See [Appendix B](#) for the monetary and non-monetary impacts for each site. The actions taken or planned should correct the issues identified at these installations. Additionally, we made two referrals to the U.S. Postal Service Office of Inspector General (OIG) Office of Investigations for situations that warranted further examination.

Previously Reported Conditions

Of the conditions we identified in at least three units in this report, we have previously reported on the following:

- Units did not complete Postal Service (PS) Form 3369-P, Consigned Credit Receipt.
- Supervisors did not maintain a PS Form 3368, Stamp Credit Examination Record.
- Supervisors did not conduct accountability examinations at the proper frequency.
- Units did not maintain a log to account for the daily activity of the APC keys.
- Units did not secure APC keys in PS Form 3977, Duplicate Key Envelope.
- Units did not store the APC stock separate from other accountabilities.
- Supervisors did not establish and maintain a folder to track APC reimbursements.

In addition, in our FY 2006 audit,¹ we reported that Postal Service guidance requires training for employees at the time of initial APC deployment but does not require subsequent training. As a result, when a new employee joins a unit and management assigns APC responsibilities, the employee is not aware of the required procedures. Management updated Handbook PO-106 in November 2007² to clarify that each APC location should have a minimum of four trained servicing employees. In this report, we identified seven units that did not have the proper number of trained employees.

See [Appendix E](#) for a highlighted list of the previously reported conditions.

We recommend the Vice President, Retail Operations, in conjunction with the Vice President, Controller:

1. Develop and implement an action plan to reduce or eliminate the recurring reported deficiencies.

¹ *Fiscal Year 2006 Financial Installation Audit – Automated Postal Centers* (Report Number FF-AR-07-073, dated January 25, 2007).

² Handbook PO-106, *Automated Postal Center Program*, Section 33, page 17, November 2007.

Management's Comments

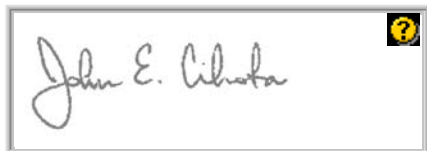
Management agreed with our finding and recommendation. By Quarter 2, FY 2009, management will develop an action plan to reduce or eliminate the recurring deficiencies and by Quarter 3, FY 2009, will implement this plan. We have included management's comments, in their entirety, in [Appendix F](#).

Evaluation of Management's Comments

The OIG considers management's comments responsive to our recommendation and the corrective action should resolve the issues in the report.

The OIG considers the recommendation significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that it can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda Libician-Welch, Director, Field Financial – West, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: H. Glen Walker
J. Ron Poland
Vincent H. DeVito, Jr.
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service implemented the APC program in April 2004 to give customers convenient access to Postal Service products and services and reduce their waiting time by diverting transactions that do not require assistance from a sales and services associate. APC units are customer-friendly kiosks where customers can ship packages, buy stamps, and verify ZIP Codes. APC units allow associates to focus on transactions that are more complex and expected to generate more revenue for the Postal Service.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of our audit were to determine whether financial transactions of field operations were reasonably and fairly represented in the accounting records and whether internal controls were in place and effective.

To accomplish our objectives, we conducted fieldwork during FY 2008. For our unannounced audits, we judgmentally selected 11 APCs, which reported \$2.6 million in revenue in FY 2007. We traced recorded transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We also evaluated whether the internal control structure over the financial reporting and safeguarding of assets was implemented and functioning as designed.

We conducted this audit from December 2007 through December 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on the financial statements. Those standards also require us to consider the results of previous engagements and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. An audit also includes a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of audit procedures to be performed.

We supported the external auditors in obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with generally accepted government auditing standards may not detect a material misstatement. However, the external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We discussed our observations and conclusions with management on October 30, 2008, and included their comments where appropriate.

Additionally, we provided individual reports to management at each judgmentally selected site. We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2005 Financial Installation Audits – Self-Service and Automated Postal Centers</i>	FF-AR-06-127	4/7/2006	N/A	<p>Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, we identified various internal control and compliance issues related to cash and stamp accountabilities, security, vending refunds, APC refunds, spoiled variable rate labels, and rejected stamp stock at nine APCs.</p> <p>Because district management’s comments were responsive to our findings and recommendations at each installation, we did not make a recommendation in this report.</p>
<i>Fiscal Year 2006 Financial Installation Audit – Automated Postal Centers</i>	FF-AR-07-073	1/25/2007	N/A	<p>Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, there were internal control and compliance issues related to stamp security and accountability procedures. We made recommendations to district management addressing the findings at each installation. Because their comments were responsive to the findings and recommendations, we did not make a recommendation in this report.</p> <p>In addition, we identified policy issues related to training and designation of back-up employees. Because management planned to include specific guidance on these issues in an updated APC handbook, we did not make any recommendations.</p>

**APPENDIX B: AUTOMATED POSTAL CENTERS AUDITED
AND REPORTS ISSUED NATIONWIDE IN FY 2008**

Report Title and Number	FY 2007 Revenue	Monetary Impact	Non-Monetary Impact
[REDACTED]	\$174,739	-	\$11,165
[REDACTED]	232,803	-	-
[REDACTED]	163,569	-	22,539
[REDACTED]	192,546	-	11,729
[REDACTED]	648,965	-	2,672
[REDACTED] ³	315,412	-	17,719
[REDACTED]	120,744	-	27,255
[REDACTED]	192,523	-	-
[REDACTED] ³	191,699	\$3,661	34,871
[REDACTED]	159,555	-	-
[REDACTED]	237,599	-	6,607
Total	\$2,630,154	\$3,661	\$134,557

³ The internal controls we examined were generally not in place and effective.

APPENDIX C: ACCOUNTABILITY EXAMINATION SUMMARY

This table presents the results of accountability examinations performed during the APC audits, rounded to the nearest dollar. Shortages and overages presented are the total value of all shortages and overages identified during the examination of each accountability.

Unit Name	Accountabilities Examined	Total Value of Accountability Per Clerk Balance Report	Total Value of All	
			Shortages	Overages
[REDACTED]	1	\$3,314	-	\$11,172
[REDACTED]	1	10,782	\$52	-
[REDACTED]	1	22,539	-	7
[REDACTED]	1	8,937	-	3,992
[REDACTED]	3	47,166	7	15
[REDACTED]	2	34,116	-	955
[REDACTED]	1	57,298	-	30
[REDACTED]	1	15,579	-	-
[REDACTED]	2	103,983	3,661	-
[REDACTED]	1	73,527	-	114
[REDACTED]	1	19,142	136	-
Total	15	\$396,383	\$3,856	\$16,285

APPENDIX D: DETAILED ANALYSIS

Stamp Accountability

The APC supervisors and/or service employees did not always follow prescribed policies and procedures related to stamp accountability at the 11 units. Specifically:

- At nine units, management did not complete a PS Form 3369-P, Consigned Credit Receipt, for the APC inventory.⁴
- At eight units, supervisors did not cancel or attach APC variable rate postage labels to the PS Form 3533, Application and Voucher for Refund of Postage, Fees, and Services.⁵
- At five units, management did not properly account for redeemed stamp stock.
 - One unit had not recorded the stock in the accounting records during prior examinations.
 - One unit had removed rejected stamps from the APC accountability during the credit examination.
 - One unit had not returned redeemed stock since its installation in 2005.
 - Two units did not properly process items obtained from the reject/retract cassettes during APC accountability examinations. Further, one of the unit's employees stored redeemed stock and variable rate postage labels with examination records dating back to 2004.

Postal Service policy requires employees to include the value of the redeemed stock from previous credit exams as part of the Storage Repository count. Employees are to return redeemed stock as a separate shipment following the same guidelines as redeemed stock returns for the retail window using the same return schedule.⁶

- At four units, supervisors did not maintain a PS Form 3368, Stamp Credit Examination Record.⁷
- At four units, supervisors did not use PS Form 3294-APC (draft), Automated Postal Center Stock Count and Summary.⁸

⁴ Handbook PO-106, Section 542.2, page 24.

⁵ Handbook PO-106, Section 63, page 38.

⁶ Handbook PO-106, Section 63, page 38.

⁷ Handbook PO-106, Section 67, page 45.

- At four units, the APC supervisor and servicing employee did not fully document and sign the APC Credit Examination Results form.⁹
- At three units, supervisors did not conduct accountability examinations with a servicing employee and at the proper frequency.¹⁰

Stamp Security

The APC supervisors and/or service employees did not always follow prescribed policies and procedures related to stamp security procedures at 10 units. Specifically:

- At eight units, management could not locate all APC keys.¹¹
- At seven units, management did not maintain a log to account for the daily activity of the APC keys.¹² Generally, supervisors stated they were not aware of the requirement.
- At four units, supervisors did not store APC stock separate from other accountabilities.¹³
- At three units, management did not secure APC keys in PS Form 3977.¹¹
- At three units, supervisors retained an APC servicing key at all times, even when not on duty.¹²

Refunds

The APC supervisors and/or service employees did not always follow prescribed policies and procedures related to refunds at six units. Specifically:

- At six units, management did not establish and maintain a folder to track APC reimbursements.¹⁴
- At four units, retail associates inappropriately issued cash or money order refunds for APC purchases.¹⁵

⁸ Handbook PO-106, Section 63, page 38.

⁹ Handbook PO-106, Section 662.2, page 43.

¹⁰ Handbook PO-106, Section 61, page 35.

¹¹ Handbook PO-106, Section 552, page 28.

¹² Handbook PO-106, Section 554, page 29.

¹³ Handbook PO-106, Section 551, page 28.

¹⁴ Handbook PO-106, Section 812, page 61.

¹⁵ Handbook PO-106, Section 844.1, page 64.

Training

At seven units, management did not properly assign and train the required number of servicing employees on the operation and use of the APC. The *APC Handbook* requires each APC location to have a minimum of four trained servicing employees. The postmaster is responsible for completing PS Form 1782, Training Request and Authorization, for all trained APC employees. Management must follow the National Agreement training procedures, as outlined in Course Number 41202-99, *Automated Postal Center Training*, and all servicing employees must complete training prior to servicing the APC. Training must be in accordance with the *APC Machine Service Manual*.¹⁶ Once the employee successfully completes training, management should forward a completed PS Form 1782 to the district for processing. Unit management stated either they were unaware of the training requirements or believed the brief training during the APC installation was sufficient to satisfy the requirement.

¹⁶ Handbook PO-106, Section 33, page 17.

APPENDIX E: CONTROL DEFICIENCIES REPORTED IN FY 2008
AUTOMATED POSTAL CENTER AUDITS AND IN PREVIOUSLY ISSUED REPORTS

The control deficiencies highlighted in gray are those that represent repeat conditions we considered significant in previously issued reports.

Description of Control Deficiency	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	Number of APCs With Reported Control Deficiency		
												FY 2008	FY 2006	FY 2005
Number of APCs Audited Each Year												11 ¹⁸	14 ¹⁹	10 ²⁰
Stamp Accountability														
The unit did not complete PS Form 3369-P.		X	X	X	X	X	X	X	X	X	X	9	8	7
The supervisors did not properly manage APC variable rate postage labels collected from the reject/retract cassette.			X	X	X	X	X	X	X		X	8	4	2
The unit did not properly account for redeemed stamp stock.	X			X			X		X		X	5	3	2
The supervisors did not maintain a PS Form 3368.				X	X	X	X					4	8	-
The supervisors did not use PS Form 3294-APC to document accountability examinations.			X	X				X	X			4	-	5
The supervisor and servicing employee did not fully document and sign the APC Credit Examination Results.					X	X	X				X	4	1	-
The supervisors did not conduct accountability examinations at the proper frequency.				X	X	X						3	6	2
The supervisor did not conduct accountability examinations with a servicing employee.			X	X							X	3	1	-
The supervisor did not monitor the APC pager during business hours.			X								X	2	-	-
The supervisor did not remain with the kiosk and storage repository inventories at all times during the accountability examination.			X									1	-	-
The unit did not conduct independent stock counts in response to stock related service alerts.								X				1	1	2

¹⁷ The internal controls we examined were generally not in place and effective.
¹⁸ In this FY 2008 report, we consider the conditions that occurred at three or more units as significant.
¹⁹ In FY 2006, we considered conditions that occurred at five or more units as significant and included them in the body of the report.
²⁰ In FY 2005, we listed all conditions that occurred and included them in the body of the report.

Description of Control Deficiency												Number of APCs With Reported Control Deficiency		
												FY 2008	FY 2006	FY 2005
Number of Sites Audited Each Year												11 ¹⁸	14 ¹⁹	10 ²⁰
Stamp Security														
The supervisor could not locate APC keys.		X	X	X	X		X	X	X		X	8	-	-
Unit management did not maintain a log to account for the daily activity of the APC keys.			X	X	X	X	X	X	X			7	9	4
The unit did not store the APC stock separate from other accountabilities.			X			X		X	X			4	5	2
The unit did not secure APC keys in PS Form 3977.			X				X	X				3	10	2
The supervisor retained an APC servicing key at all times, even when not on duty.					X	X			X			3	1	-
Unit management stored one APC key inside an unlocked walk-in vault accessible to all employees.					X							1	-	-
The unit did not safeguard the safe combinations.									X			1	-	-
Refunds														
The supervisor did not establish and maintain a folder to track APC reimbursements.			X	X	X	X	X	X				6	6	3
Retail associates inappropriately issued cash or money order refunds for APC purchases.			X	X	X	X						4	2	4
Training														
Unit management did not properly assign and train the required number of servicing employees on the operation and use of the APC.			X	X	X	X	X		X		X	7	²¹	-
Other														
Unit management posted an unauthorized handwritten sign on the APC units.					X							1	-	-

²¹ Postal Service policy did not require a minimum number of employees to be trained at the time of this audit.

APPENDIX F: MANAGEMENT'S COMMENTS



November 20, 2008

LUCINE M. WILLIS

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2008 Financial Installation Audit –
Automated Postal Centers (Report Number FF-AR-09-DRAFT)

This letter is in response to Transmittal of Draft Audit Report – Fiscal Year 2008 Financial
Installation Audit – Automated Postal Centers (Report Number FF-AR-09-DRAFT) dated
November 5, 2008. We acknowledge the findings in this report and agree to take the
recommended action.

Recommendation: Develop and implement an action plan to reduce or eliminate the
recurring reported deficiencies.

Management Response: We agree with the recommendation. The Manager, Retail Service
Equipment will work with Finance to develop and implement an action plan to reduce or eliminate
the recurring reported deficiencies identified in this audit – credit exams, training, and security.
The action plan will be developed no later than Quarter 2, FY 2009 and will be implemented no
later than Quarter 3, FY 2009.

There are no Freedom of Information Act (FOIA) issues relative to these concerns.


Kathy Ainsworth
Vice President, Retail Operations


Lynn Malcolm
Vice President, Controller

cc: Kathy Banks
Manager, Corporate Audit & Response Management

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