



AUDIT REPORT

Internal Controls Over Segmented Inventory - Bronx Hillside Finance Station, Bronx, NY

December 7, 2016



Report Number FT-FM-17-005



OFFICE OF INSPECTOR GENERAL UNITED STATES POSTAL SERVICE

HIGHLIGHTS

December 7, 2016

Internal Controls Over Segmented Inventory – Bronx Hillside Finance Station, Bronx, NY Report Number FT-FM-17-005

BACKGROUND:

The U.S. Postal Service Office of Inspector General (OIG) uses tripwires to identify financial anomalies. Tripwires are analytic tools combining specific behaviors that provide strong indicators of improper activity. The OIG's Perfect Count Tripwire identified that the Bronx Hillside Finance Station in Bronx, NY, reported six 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 ensure accuracy. Postal Service managers are responsible for timely and accurate counts of all segmented inventory.

An office with at least \$100,000 in annual revenue and two 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 Bronx

Hillside Station were accurately presented and whether internal controls were in place and effective.

WHAT THE OIG FOUND:

The accounting records for segmented inventory at the Bronx Hillside Finance Station were not always accurately presented and internal controls needed improvement.

We verified that the office reported six perfect counts of retail floor stock from April 1, 2015, to March 31, 2016. The unit posted another perfect count on July 14, 2016. On August 17, 2016, we conducted an independent count and identified a shortage of stamps valued at \$823.51.

This occurred because the unit supervisor recorded system-provided expected amounts instead of actual count amounts and adjusted amounts to eliminate variances. We also identified:

- Two cash drawers were not within tolerance, and a third was missing.
- The unit did not return six RA cash retained credits that were not active for at least 1 quarter.
- The unit did not properly record inventory counts. Specifically, files for retaining count data were absent or incomplete.

- The unit did not return or destroy 153 obsolete money orders, and five money orders were missing.
- The unit did not properly secure unit reserve stamp stock, non-saleable stamps, and cash or 384 domestic and international money orders from seven RA cash drawers.
- Neither of the two RAs assigned to the unit had the required duplicate key and password envelopes used to open an employee's cash drawer when the employee is not present.
- The unit did not reassign cash reserve custodians' roles following their separation from the unit.
- The unit did not always complete or maintain the required forms to accept and return stamp stock.
- The managing unit incorrectly accepted two stamp stock shipments not destined for the Bronx Hillside Finance Station.

Unit management was unaware of procedures for maintaining supporting documentation for inventory counts, destroying obsolete money orders, maintaining duplicate key combination and password envelopes, and reassigning roles in the Retail Systems Software. Management also stated other priorities prevented them from timely executing their financial responsibilities for stamp stock shipment files. If controls over inventory and cash are not followed there is an increased risk money orders, stamp stock, and cash will be stolen.

As a result of this audit, management placed all unit reserve inventory and

non-saleable stamps in the vault. Further, as a result of our overall work regarding segmented inventory accountability, 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 area and district managers. Finally, they will conduct unannounced random field financial audits using the Sarbanes-Oxley Remediation Tool to measure improvement.

WHAT THE OIG RECOMMENDED:

We recommended management establish controls to ensure unit management:

- Are aware of and timely execute their financial responsibilities for inventory counts, destroying obsolete money orders, maintaining duplicate key combination and password envelopes, and reassigning roles in the Retail Systems Software.
- Properly prioritize and timely execute their financial responsibilities for stamp stock shipment files.

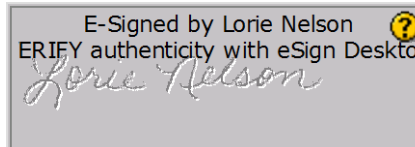
We also recommended management establish controls to ensure employees properly record inventory counts and discontinue the practice of adjusting amounts to eliminate variances; properly maintain all accountable items; and destroy all obsolete money orders and determine disposition of the five missing money orders.

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



December 7, 2016

MEMORANDUM FOR: LORRAINE CASTELLANO
MANAGER, NEW YORK DISTRICT



FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Segmented Inventory
– Bronx Hillside Finance Station, Bronx, NY
(Report Number FT-FM-17-005)

This report presents the results of our audit of Internal Controls Over Segmented Inventory – Bronx Hillside Finance Station, Bronx, NY (Project Number 16BFM006FT000).

In compliance with Office of Management and Budget directives on the independence of the OIG, we will make the final determination based on the spirit and specific provisions of the FOIA and related laws and guidance.

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 Bronx Hillside Finance Station, Bronx, NY (Project Number 16BFM006FT000). The Bronx Hillside Finance Station is in the New York District of the Northeastern 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 accounting records for segmented inventory at the Bronx Hillside Finance Station 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 unit supervisor and other personnel responsible for overseeing the process.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW),² Time and Attendance Collection System (TACS),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 managers. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from August through December 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 August 23, 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.

Segmented Inventory

Our tripwire⁵ showed the Bronx Hillside Finance Station reported six perfect counts⁶ of the retail floor stock⁷ between April 1, 2015, and March 31, 2016. The station posted another perfect count on July 14, 2016. On August 17, 2016, we conducted an independent count of retail floor stock and identified a shortage of \$823.51. There is no tolerance⁸ for retail floor stock.

We also conducted independent counts of all the other segmented inventory at the office. Specifically, we counted the unit reserve stamp stock,⁹ two unit cash reserve drawers,¹⁰ and 13¹¹ RA cash drawers.¹² See [Table 1](#) for the results of the inventory counts.

Table 1. Segmented Inventory Count Results

Inventory Segment	RSS System Total	Actual Count	Difference
Retail Floor Stock	5,153.68	4,330.17	(823.51)
Unit Reserve Stock	\$28,004.43	\$28,279.66	\$275.23 ¹³
Unit Cash Reserve	650.00	596.00	(54.00)
RA Cash Drawers	\$1,306.69	\$1,284.16	(\$22.53) ¹⁴

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

The unit supervisor adjusted amounts to eliminate variances for retail floor stock and unit reserve stock. She also recorded the expected amount for unit reserve stock, provided by RSS, instead of the actual amount based on the count performed. Regarding unit cash reserve, the unit supervisor stated she was in the process of making change for an RA's cash drawer and was interrupted from completing this process when the auditor arrived. The unit supervisor was unaware that an RA's cash drawer was missing.

⁵ Tripwires are analytic tools combining specific behaviors that provide strong indicators of improper activity.

⁶ Perfect count means the Postal Service did not report any overages or shortages of retail floor stock.

⁷ 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 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.

⁹ Stamp stock inventory, for which the unit reserve custodian is accountable for the value of all items in the unit reserve stock.

¹⁰ 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.

¹¹ Only two of the 13 cash drawers are for RAs assigned exclusively to the unit. The other cash drawers are for RAs not assigned to the unit but that work temporarily at the unit (7) or that are assigned to the unit but also have cash drawers at other postal facilities (4).

¹² 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.

¹³ The tolerance level for stamp stock credit up to \$30,000 is \$50.

¹⁴ This is the total difference of the 13 cash drawers. The tolerance level for each cash drawer is \$10 and two were not within tolerance. One cash drawer of \$100 was missing and another cash drawer was over by \$64.81.

According to Postal Service policy, management should ensure all financial transactions are correctly recorded. In addition, although no individual RA is accountable for retail floor stock, each RA making sales should ensure sales from retail floor stock are accurately reported.¹⁵ Further, at the end of each business day, each RA must count his or her cash drawer and deposit any excess of the authorized amount in the bank. For discrepancies of \$100 or more, RAs are to complete and submit Postal Service (PS) Form 571, Discrepancy of \$100 Or More in Financial Responsibility, to the appropriate OIG field office.¹⁶

If controls over cash and stamp stock are not followed, there is an increased risk of undetected theft and losses. We referred this information to the OIG's Office of Investigations for further review.

Cash Retained Credit Activity

The unit did not return six RA cash-retained credits that were not active for at least 1 quarter. This occurred because the unit supervisor was unaware of the procedures.

Postal Service policy states that RAs' cash retained credits are considered inactive when there is no activity at least once each quarter. The RA assigned to the credit ships all money orders to the unit reserve and banks or transfers funds to another RA, reducing the balance to \$0.¹⁷ If controls over cash drawers are not followed, there is an increased risk cash will be lost or stolen.

Inventory Count Records

The unit supervisor did not always complete PS Form 3294, Cash and Stamp Stock Count and Summary, or other supporting documentation, to record the current inventory count for the retail floor stock. Also, the unit supervisor did not record the unit's inventory counts on the required PS Form 3368-P, Accountability Examination Record, to summarize the results for all inventory counts. We could not locate five of 45 PS Forms 3294, or other supporting documentation, for inventory counts. In many cases, documentation that did exist was in envelopes or one large "miscellaneous" box, was not in any specific order, and was often blank or unsigned.

This occurred because the unit supervisor was unaware of the requirement to maintain supporting documentation for counts, including count sheets, which she stated were recorded on scratch paper and subsequently destroyed following the counts. She also stated other priorities in managing the office prevented her from taking the time to keep files current.

¹⁵ Handbook F-101, *Field Accounting Procedures*, June 2016, Sections 14-1.2 (c) and 14-2.2.

¹⁶ Handbook F-101, Sections 13-7.2, 5-4.1, 13-8.4, and 13-8.5.

¹⁷ Handbook F-101, Section 13-7.6.

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 a PS Form 3294, and the forms should be retained for 2 years.¹⁸

If inventory files are not maintained and updated, management cannot promptly address inventory count shortages or overages.

Money Orders

The unit supervisor did not return or destroy 143 domestic money orders and 10 international money orders that were obsolete and could not be sold at the station. Although the money orders were secured, they should have been returned to the Stamp Distribution Office (SDO).¹⁹ This occurred because the unit supervisor was unaware of how to obtain authorization for destruction of the money orders.

The unit was also missing five money orders assigned to two RAs and the unit reserve custodian. The unit supervisor was unaware that two of the five money orders were missing. We referred this information to the OIG's Office of Investigations for further review.

Postal Service policy states that postal retail units must send unopened domestic money orders and all international money orders that cannot be sold to the SDC or SDO. Prior to returning money orders, Postal retail units must receive authorization from the servicing SDC or SDO.²⁰ In addition, Postal Service policy states the unit manager is responsible for providing adequate security for all accountable items, monitoring inventory levels, and ensuring all required counts are performed.²¹ If blank money orders are lost or stolen, unit managers must immediately contact the U.S. Postal Inspection Service and report the serial numbers of the missing forms.²²

If controls over money orders are not followed, there is an increased risk of undetected theft and lost revenue.

¹⁸ Handbook F-101, Section 13-1.3.

¹⁹ The SDO and Stamp Distribution Centers (SDC) are responsible for sending stamp stock to retail units. They also provide authorization for destruction or return of old, obsolete stamp stock. The SDO is located in Kansas City, MO.

²⁰ Handbook F-101, Section 11-6.11.1.

²¹ Handbook F-101, Section 11-3.1.

²² Handbook F-101, Section 3-3.3.

Accountable Items Security

The unit manager did not adequately secure accountable items such as cash, stamps, and money orders. We identified:

- The unit did not properly secure cash and blank money orders from seven RAs' cash drawers. Specifically, the unit stored \$616.44 and 384 domestic and international money orders in Priority Mail envelopes (see Figure 1). The unit supervisor thought this was adequate security.

Figure 1. Cash Drawer Items Stored in Priority Mail Envelopes



Source: OIG observation on August 16, 2016.

- The unit did not secure unit reserve stamp stock valued at \$4,055.00 in the vault. The unit supervisor believed the locked room where the vault is located was sufficient and stated the vault for unit reserve was too small to fit all of the unit reserve stock (see [Figure 2](#)). However, the unit supervisor has since secured all unit reserve inventory in the vault.

Figure 2. Unit Reserve Stamp Stock Not Secured in Vault



Source: OIG observation on August 16, 2016.

- The unit did not secure non-saleable stamps valued at \$630.49 but, instead, stored them in an unlocked filing cabinet (see Figure 3). The unit supervisor believed the stamps were no longer saleable but had not destroyed them or returned them to the SDO (see [Money Orders](#) section). The unit supervisor has since secured these stamps in the vault.

Figure 3. Non-Saleable Stamps Stored in Filing Cabinet



Source: OIG observation on August 16, 2016.

Postal Service policy states that management must provide adequate security for all accountable items and unit managers must ensure that employees provide the appropriate level of security.²³ Cash, money orders, and stamps are easy to steal and, if they are not adequately secured, there is an increased risk of undetected theft. We estimated that 13 percent, or \$50,895, of the following segmented items totaling \$383,902 are at risk of undetected theft and loss:

- Cash in the amount of \$616.44 stored in Priority Mail envelopes.
- Blank money orders valued at \$378,600²⁴ that were stored in Priority Mail envelopes.
- Unsecured unit reserve stamp stock valued at \$4,055.
- Non-saleable stamps valued at \$630.49 that were stored in a filing cabinet.

Duplicate Key Combination and Password Envelope

The unit did not have the required PS Form 3977, Duplicate Key, Combination and Password Envelope, for the two full-time RAs assigned to the unit. The duplicate key and password envelopes are used to open the employee's cash drawer when the employee is not present.

The unit was unaware of the requirement for maintaining duplicate keys and passwords. Postal Service policy states field units must complete a PS Form 3977 envelope to protect each duplicate key, combination, and password.²⁵

If an employee is absent and management cannot access the employee's duplicate key and password from the PS Forms 3977, they will not be able to conduct cash counts timely. Untimely counts decrease management's ability to mitigate risks of cash or money order theft.

Retail Associate Roles and Accountability

The unit did not reassign cash reserve custodian roles in RSS after custodians left the unit. The unit supervisor was unaware of the procedures.

Postal Service policy states an RA must be removed from RSS no later than the employee's last day of work when the employee is separated from the Postal Service or bids on another position.²⁶

If employee roles in RSS are not updated timely, there is an increased risk of unauthorized transactions resulting in undetected theft or loss of cash, money orders, or stamp stock.

²³ Handbook F-101, Sections 3-1.1 and 3-3.2.

²⁴ Includes 366 domestic money orders valued at \$1,000 each and 18 international money orders valued at \$700 each.

²⁵ Handbook F-101, Section 3-8.2.1.

²⁶ Handbook F-101, Section 2-4.8.2.

Stamp Stock Shipments

The unit did not always complete or maintain PS Form 17, Invoice and Stamp Requisition/Stamp Return, to record stamp stock shipments and the managing station²⁷ incorrectly accepted two stamp stock shipments. Specifically:

- We reviewed 37 PS Forms 17²⁸ to receive saleable stamp stock and found none had all of the required signatures and dates (see [Table 2](#)).

²⁷ The managing station for the Bronx Hillside Finance Station is the Baychester Finance Station. All stock shipments arrive at the managing station.

²⁸ We reviewed PS Forms 17 from April 1, 2015, to August 12, 2016.

Table 2. Receiving Stamp Stock Shipments With Missing Information

	Business Date	Stock Amount	Missing Receiver Signature	Missing Witness Signature	Missing Date
1	4/1/2015	\$588.00	Y	Y	Y
2	4/17/2015	6,471.00	N	Y	N
3	4/28/2015	490.00	Y	Y	N
4	5/12/2015	13,295.00	Y	Y	Y
5	6/8/2015	285.00	Y	Y	Y
6	6/16/2015	5,140.00	Y	Y	Y
7	6/27/2015	980.00	Y	Y	Y
8	7/11/2015	12,796.00	Y	Y	N
9	8/17/2015	784.00	Y	Y	Y
10	8/19/2015	343.00	Y	Y	N
11	8/19/2015	5,145.00	Y	Y	N
12	9/15/2015	6,503.00	Y	Y	Y
13	9/26/2015	490.00	N	Y	N
14	10/19/2015	9,588.00	N	Y	N
15	11/7/2015	8,918.00	N	Y	Y
16	11/14/2015	2,765.50	Y	Y	Y
17	12/17/2015	3,430.00	Y	Y	Y
18	12/18/2015	9,049.00	Y	Y	Y
19	12/21/2015	1,960.00	Y	Y	N
20	1/6/2016	5,978.00	Y	Y	Y
21	1/8/2016	980.00	Y	Y	Y
22	1/20/2016	129.00	Y	Y	N
23	1/27/2016	245.00	Y	Y	Y
24	1/29/2016	5,504.00	Y	Y	Y
25	2/03/2016	58.80	Y	Y	Y
26	2/08/2016	4,900.00	Y	Y	Y
27	2/23/2016	980.00	Y	Y	Y
28	2/26/2016	6,810.00	Y	Y	Y
29	3/4/2016	196.00	Y	Y	N
30	3/29/2016	7,350.00	Y	Y	Y
31	4/5/2016	245.00	Y	Y	Y
32	4/5/2016	4,328.00	Y	Y	Y
33	4/23/2016	6,877.00	Y	Y	Y
34	5/16/2016	188.00	Y	Y	Y
35	5/24/2016	5,492.80	N	Y	N
36	6/29/2016	94.00	Y	Y	Y
37	7/6/2016	470.00	Y	Y	Y
TOTAL		\$139,846.10	32	37	26

Source: PS Form 17 received at the unit.

- All five PS Forms 17 reviewed to return stamp stock were missing the required signatures (see Table 3).

**Table 3. Returning Stamp Stock Shipments
With Missing Information**

	Business Date	Stock Amount	Missing Submitter Signature	Missing Witness Signature
1	7/13/2015	\$289.24	N	Y
2	5/12/2016	651.80	Y	Y
3	5/27/2016	651.80	Y	Y
4	7/7/2016	1,591.80	Y	Y
5	7/8/2016	592.20	Y	Y
TOTAL		\$3,776.84	4	5

Source: PS Forms 17 received at the unit.

- Of the 39 PS Forms 17 reviewed to transfer saleable stamp stock and money orders to the retail floor and RAs, 28 did not have a receiver signature or witness signature, or both (see [Table 4](#)).

Table 4. Transfers to Retail Floor and RAs With Missing Information

	Business Date	Shipment Type	Missing Submitter Signature	Missing Witness Signature
1	5/26/2015	Money Orders	Y	N
2	6/3/2015	Money Orders	N	Y
3	6/5/2015	Money Orders	Y	N
4	7/9/2015	Money Orders	Y	Y
5	7/10/2015	Money Orders	N	Y
6	9/4/2015	Money Orders	Y	N
7	4/1/2016	Money Orders	N	Y
8	4/15/2016	Money Orders	N	Y
9	4/29/2016	Money Orders	Y	N
10	8/2/2016	Money Orders	Y	Y
11	3/3/2015	Stamp Stock	Y	Y
12	4/28/2015	Stamp Stock	N	N
13	5/7/2015	Stamp Stock	N	Y
14	5/12/2015	Stamp Stock	Y	N
15	5/20/2015	Stamp Stock	Y	N
16	5/29/2015	Stamp Stock	N	Y
17	6/8/2015	Stamp Stock	N	Y
18	6/8/2015	Stamp Stock	Y	N
19	6/16/2015	Stamp Stock	Y	Y
20	6/24/2015	Stamp Stock	Y	Y
21	6/30/2015	Stamp Stock	Y	N
22	7/9/2015	Stamp Stock	Y	Y
23	7/11/2015	Stamp Stock	Y	Y
24	8/3/2015	Stamp Stock	Y	Y
25	1/29/2016	Stamp Stock	Y	Y
26	3/18/2016	Stamp Stock	Y	Y
27	5/20/2016	Stamp Stock	Y	Y
28	8/2/2016	Stamp Stock	Y	Y
TOTAL			20	19

Source: PS Forms 17 received at the unit.

- We could not locate seven PS Forms 17 (see [Table 5](#)).

Table 5. Missing PS Forms 17

	Business Date	Transaction Description	Shipment Number	Corporate Data Acquisition System Transfer Identification	Detail Amount
1	5/28/2015	Receipt of Transfer	1220003654	191674841	\$147
2	9/11/2015	Receipt of Transfer	2165226205	195408224	98
3	5/16/2016	Receipt of Transfer	1207112179	204321437	7,130
4	5/16/2016	Receipt of Transfer	1207136709	204321436	752
5	6/17/2016	Receipt of Transfer	1207394403	205508703	3,585
6	7/7/2016	Receipt of Transfer	707160653	206267115	1,547
7	7/7/2016	Transfers Out	707160653	206267113	1,547
TOTAL					\$14,806

Source: EDW.

- The managing station incorrectly accepted two stamp stock shipments (see Figure 4).

Figure 4. Stamp Stock Shipping Labels



Source: Shipping boxes received by unit.

Postal Service policy requires management to sign and date each PS Form 17 when Postal Service retail units examine and verify stock shipments with a witness.²⁹ It also requires that each stamp stock shipment shipping carton be examined to ensure the address is correct, the seal is unbroken, and the contents are not damaged.³⁰

²⁹ Handbook F-101, Section 11-5.1.

³⁰ Handbook F-101, Section 11-5.1.

The unit supervisor acknowledged the forms had not been completed, and the process needed improvement. The unit supervisor also stated that she was unable to locate the PS Forms 17 because other priorities in managing the office prevented her from taking the time to maintain files. Regarding the incorrect shipments, the managing station supervisor thought the shipment was intended for her unit. The shipping box label is not identified by unit name but instead by a number that includes the finance number.

When employees do not follow stamp stock shipment procedures, there is an increased risk of theft of stamps or other accountable items.

Recommendations

We recommend the manager, New York District:

1. Establish controls to ensure unit management for the Bronx Hillside Finance Station are aware of and execute the requirements and procedures for maintaining supporting documentation for inventory counts, destroying obsolete money orders, maintaining duplicate key combination and password envelopes, and reassigning roles in the Retail Systems Software.
2. Establish controls to ensure unit management at the Bronx Hillside Finance Station properly prioritize and timely execute their financial responsibilities for stamp stock shipment files.

We recommend the manager, New York District, instruct unit management for the Bronx Hillside Finance Station to:

3. Establish controls to ensure employees properly record inventory counts based on count information, not system-generated information, and discontinue the practice of adjusting amounts to eliminate variances.
4. Properly maintain all accountable items, including postal funds, money orders, and stamp stock.
5. Destroy all obsolete money orders and determine disposition of the five missing money orders.

Management's Comments

Management agreed with the recommendations but disagreed with the calculated dollar value of risk associated with various assets at the unit.

Regarding recommendation 1, district management informed management at the Baychester station of the requirements for maintaining supporting documentation for inventory counts, destroying obsolete money orders, maintaining duplicate key combination and password envelopes, and reassigning roles in RSS. Management also provided the findings to the new acting manager and will follow up on processes and

procedures monthly. Management created folders for the count sheets and entered count information on the proper forms. They also informed the lead sales and services associate (LSSA) on how to prepare and maintain proper audit records. Finally, management updated the duplicate key combination and password envelopes and removed the cash reserve role in RSS for an employee transferred out of the unit.

Regarding recommendation 2, district management informed the acting manager at the Baychester station of his financial responsibilities for stamp stock shipments, including using the proper form. They also created separate files for transferring and receiving accountable stock and money orders and instructed the LSSA on the proper filing requirements.

Regarding recommendation 3, management instructed the LSSA on the proper procedures for counting the retail floor stock, including the importance of reporting the actual count and to properly report shortages or overages.

Regarding recommendation 4, management instructed the LSSA to secure all stock and money orders in the safe. They also instructed the LSSA to secure the non-saleable stamps identified in this report in the safe and to continue that in the future.

Regarding recommendation 5, management did not destroy the obsolete money orders identified. Instead, they entered the serial numbers into RSS and reissued them to a sales and service associate for future sale. Management accounted for three of the five missing money orders and completed the required form for each of them. The other two remain missing. Management notified the Postal Inspection Service and the OIG.

Regarding the calculated dollar value of risk associated with various assets at the unit, management agreed that RAs cash drawers, unit reserve, and non-saleable stock were at risk because they were not adequately secured. However, they disagreed that the money orders had an actual value because they were not imprinted, the unit did not have imprinter capability, and money orders must be assigned to an RA in RSS to be imprinted. Finally, management disagreed with the high rating of malice in the OIG's risk assessment tool because there was no evidence of malice to support anything other than a normal rating.

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 the calculated dollar value of risk associated with various assets at the unit, we acknowledge that money orders are blank and the unit does not have a means to properly imprint them. However, we continue to believe some risk exists because these accountable items were not properly secured.

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, including intentional harm from mal-intentional people (malice) The purpose of the calculation is to provide a reasonable assessment of value at risk when exact assessment of impact is not possible. It does not represent actual loss and, therefore, we only presented it as items at risk. The calculation is subjective, includes auditor judgment, and is only shown to provide perspective.

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

Appendix A. Management's Comments



November 30, 2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Internal Controls over Segmented Inventory
– Bronx Hillside Finance Station, Bronx 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 Segmented Inventory – Bronx Hillside Finance Station, Bronx NY. New York District agrees with the recommendations made during the audit. We agree that the required procedures for inventory accountability and record completion are important for the financial security of the Postal Service.

Recommendation #1

Establish controls to ensure unit management for the Bronx Hillside Finance Station are aware of and execute the requirements and procedures for maintaining supporting documentation for inventory counts, destroying obsolete money orders, maintaining duplicate key combination and password envelopes, and reassigning roles in the Retail Systems Software (RSS.)

Management Response/Action Plan:

New York District agrees with this recommendation. Management at the Baychester Station has been informed of the requirements for maintaining supporting documentation for inventory counts, destroying obsolete money orders, maintaining duplicate key combination and password envelopes, and reassigning roles in RSS.

A new acting manager has been assigned to the Baychester Station (4 weeks) and a full copy of the findings has been provided. Also, the postmaster's office has their own audit form that is being used to follow-up on processes and procedures on a monthly basis at the Hillside Finance Station.

Folders were created for the count sheets (PS Forms 3294) and the results entered on PS Forms 3368 for each count. The lead sales and services associate (LSSA) was instructed on how to prepare and maintain proper audit records.

The money orders that were identified as obsolete were not destroyed. With the assistance of the help desk, the LSSA was able to enter the money orders into RSS.

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The attached inventory report shows that the money orders were entered. The money orders were then issued to a sales and services associate (SSA) for future sale.

Updated duplicate key inventory envelopes (PS Forms 3977) were created for the clerks' cash drawers, passwords, station keys, and safe combinations. These envelopes were given to the supervisor at the Baychester Station.

The RSS role for Cash Reserve #2 has been removed from the SSA who transferred to New Jersey.

Target Implementation Date:

Completed

Responsible Official:

Lilliam Rodriguez, Postmaster, Bronx, NY

Recommendation #2:

Establish controls to ensure unit management at the Bronx Hillside Finance Station properly prioritize and timely execute their financial responsibilities for stamp stock shipment files.

Management Response/Action Plan:

New York District agrees with this recommendation. The acting manager from the Baychester Station has been informed of his financial responsibilities.

All accountable stock and money orders will be transferred by PS Form 17 and kept in individual folders that were created. Folders were created for the PS Forms 17 shipped by the Stamp Distribution Center (SDC) and a separate folder was created for the money orders received from the SDC. Additionally, the LSSA was instructed on proper filing of PS Forms 17 in the correct folders for stamps and money orders that are received.

Target Implementation Date:

Completed

Responsible Official:

Lilliam Rodriguez, Postmaster, Bronx, NY

Recommendation #3:

Establish controls to ensure employees properly record inventory counts based on count information, not system-generated information, and discontinue the practice of adjusting amounts to eliminate variances.

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Management Response/Action Plan:

New York District agrees with this recommendation. The LSSA was instructed on the proper procedures for counting the retail floor stock and the importance of reporting the actual count whether there be a shortage or overage and recording the results on PS Form 3368. It was also explained that any shortages or overages over \$100 must also be reported on PS Form 571.

Target Implementation Date:

Completed

Responsible Official:

(A) Manager Customer Service, Baychester Station, Reginald Eshun

Recommendation #4:

Properly maintain all accountable items, including postal funds, money orders, and stamp stock.

Management Response/Action Plan

New York District agrees with this recommendation. The LSSA was instructed that all stamp stock and money orders are to be secured in the station's safe. The unsecured non-saleable stamps have been secured in the safe and the LSSA was instructed that in the future, all non-saleable stamps are to be secured in the safe.

Target Implementation Date:

Completed

Responsible Official:

(A) Manager Customer Service, Baychester Station, Reginald Eshun

Recommendation #5:

Destroy all obsolete money orders and determine disposition of the five missing money orders.

Management Response/Action Plan

New York District agrees with this recommendation. The money orders that were identified as obsolete were not destroyed. With the assistance of the help desk, the LSSA was able to enter the money orders into RSS. The attached inventory report shows that the money orders were entered. The money orders were then issued to an SSA for future sale.

Three of the five missing money orders were accounted for and PS Forms 6401 were submitted for each. The three money orders were not found in the system and have not been cashed. The Inspection Service and the OIG (Analyst #35) have been notified. The station has been unable to identify the other two as stated in the OIG's report.

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Target Implementation Date:

Completed

Responsible Official:

(A) Manager Customer Service, Baychester Station, Reginald Eshun

Other Impact:

Regarding the Other Impact cited during this audit in the amount of \$383,902 listed as Assets at Risk, New York District does not agree that the 384 blank Domestic and International Money Orders have an actual value as they were not imprinted. The Station 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.

New York does agree that the \$616.44 from RAs cash drawers, the \$4,055 from the Unit Reserve and the \$630.49 of non-saleable stock were at risk as they were not adequately secured.

New York does not agree with OIG's rating of "Medium" (ranked 3 on a scale of 1-5) in the category of "Malice" in their Risk Impact Assessment Tool. The definition provided is: likelihood of being caused by mal-intentional actors. Examples: Hackers, thieves, terrorist. While we understand the rating is subjective, the OIG provided no evidence to support anything other than a normal rating.



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