



AUDIT REPORT

No Sale Transactions - Bainbridge Island, WA, Station

December 7, 2018





December 7, 2018

MEMORANDUM FOR: DARRELL L. STOKE
MANAGER, SEATTLE DISTRICT

E-Signed by Dianna Smith
VERIFY authenticity with eSign Desktop
Dianna A. Smith

FROM: *for*
Lorie Nelson
Director, Finance

SUBJECT: Audit Report – No Sale Transactions -
Bainbridge Island, WA, Station
(Report Number FCS-FM-19-003)

This report presents the results of our audit of the No Sale Transactions - Bainbridge Island, WA, Station (Project Number 19BFM002FCS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dianna PruDe, Operational Manager, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Background

This report presents the results of our self-initiated audit of No Sale transactions - Bainbridge Island, WA, Station (Project Number 19BFM002FCS000). The Bainbridge Island Station is in the Seattle District of the Western Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Postal Service retail associates (RA) can use the Retail Systems Software's (RSS)¹ "No Sale" administrative function to open the cash drawer, typically to exchange higher value currency for lower value currency denominations. The RA must make the following three selections in RSS to choose the No Sale option:

- Select the Administration Functions>More button, then
- Select the Systems Administration button, then
- Select the No Sale button for the drawer to open.

Selecting the No Sale option is not accidental and creates suspicion when done with any kind of frequency. Extremely high No Sale usage may indicate dubious trends or behaviors and allows unnecessary exposure to the contents of the RSS terminal drawer, which contains cash, checks, credit card information, stamps, and money orders.

The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified 2,340 No Sale transactions at the Bainbridge Station from October 1, 2017, through August 31, 2018. This represented 2.9 percent of the 80,546 total transactions recorded at the station during this time frame. During this same period, four counts of the unit's retail floor stock² resulted in a net financial shortage of \$15,323. In addition, the unit had six counts of unit reserve stock³ and reported one financial overage of \$13,670.

Objective, Scope and Methodology

The objective of this audit is to determine whether No Sale transactions are monitored and managed effectively at the Bainbridge Station.

To determine whether No Sale transactions were monitored and managed effectively, we extracted and analyzed Postal Service Enterprise Data Warehouse (EDW)⁴ data for the 2,340 No Sale transactions recorded at the Bainbridge Station. The No Sale transactions occurred regularly for the period of October 1, 2017, through August 31,

¹ The primary hardware and software system used to conduct retail sales transactions at post offices.

² A common inventory for use by retail employees who are not directly accountable for that inventory. It is the sum of display stock plus loose stock at the point of sale.

³ All stamps and stamped paper, and philatelic products that have not been consigned to a RA or other accountabilities within the unit.

⁴ 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.

2018. Therefore, we selected the 694 No Sale transactions recorded between June 1 and August 31, 2018 to analyze. We reviewed the unit's records and interviewed unit personnel and Postal Service management.

We relied on computer-generated data from the EDW system. We did not test the validity of controls over this system; however, we assessed the accuracy of the data by reviewing related documentation, tracing selected information to supporting source records, and interviewing knowledgeable Postal Service personnel. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from October through December 2018, 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 audit objective. We discussed our observations and conclusions with management on November 14, 2018, and included their comments where appropriate.

Finding #1: No Sale Transactions

Unit management did not monitor and manage the 694 No Sale transactions recorded at the unit. The unit manager stated she did not monitor the No Sale transactions because she was unaware of the No Sale function in the RSS terminal and did not know financial reports of No Sale transactions were available. The OIG identified the following 383 No Sale transactions recorded by the lead RA during our scope period:

- One hundred seventy-four instances of one No Sale transaction.
- Seventy-eight instances of two No Sale transactions in a row.
- Eleven instances of three No Sale transactions in row.
- Five instances of four No Sale transactions in a row.

The Postal Service currently has the RSS *Line Item Void and No Sales Report*, which provides information such as the employee identification number and the number of times each employee selected the No Sale option by date, which can be used as a tool to monitor No Sale transactions. However, the Postal Service does not have a policy that requires unit management to generate or review this report.

The Committee of Sponsoring Organizations of the Treadway Committee framework⁵ requires risk to be controlled to provide assurance that financial transactions are reviewed and occurring as planned to mitigate risk. In addition, the Postal Service's *Segmented Inventory Accountability (SIA) Best Practice*⁶ states retail unit supervisors and postmasters can take investigative action in case of dubious trends and behaviors,

⁵ The model that has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

⁶ EDW, Retail Data Mart, *SIA Best Practices - Retail Associate* report information page. SIA is a financial concept used at postal retail units with RSS terminals. Each unit consists of a unit reserve stock, cash credit segments, stamp stock segments, and a shared retail floor stock. This concept separates cash from stamp stock in retail credits.

such as extremely high No Sale or void usage. The Postmaster or field unit manager is responsible for overseeing field unit operations⁷ and is expected to be alert to situations that could prompt personnel to engage in illegal or dishonest acts.⁸

The lead RA at the unit stated the No Sale function was used to access her drawer to make change for RAs or customers. In addition, she stated the No Sale function was used to access the unit cash reserve key locked in her drawer. The primary use of the No Sale function is to make change. However, No Sale transactions can be evidence of potential misconduct and exposes the Postal Service to increased risk of theft of funds, credit or debit card information and stamp stock. Cash is an easily negotiated liquid asset. Credit and debit card information is vulnerable to exploitation and misuse as well. Proper monitoring of No Sale transactions can alert management of potentially risky behaviors.

While the lead RA's primary use of the No Sale function was to make change, it is important to manage and monitor risk. The OIG is currently performing audit work on No Sale transactions in several locations. We are evaluating whether an organization-wide policy to monitor and manage No Sale transactions would be appropriate to reduce the risk of intentional or unintentional improper activity. Therefore, we are not making a recommendation on this matter in this report.

Finding #2: Inventory Policies and Procedures

Unit management did not manage the Bainbridge Station unit reserve stock inventory effectively, during the period of October 29, 2017, through December 22, 2017. Specifically, unit management did not:

- Accept \$108,303 of stamp stock shipments timely into the unit reserve stock (see [Table 1](#)).
- Issue stamp stock properly to the retail floor.

This occurred because management did not replace the unit reserve stock custodian timely. The custodian retired on October 28, 2017, and was not replaced until December 23, 2017. Management stated this was an oversight on their part.

⁷ Handbook F-101, *Field Accounting Procedures – Draft*, Section 2-4, May 2017.

⁸ Handbook F-1, *Accounting and Reporting Policy*, Section 2-5.1, January 2015.

Table 1. Stamp Stock Shipments to Bainbridge Station

Stamp Shipment Date	Receipt of Stamp Shipment Date	Stock Shipment Amount
11/17/2017	12/23/2017	\$1,200
11/20/2017	12/23/2017	32,950
12/1/2017	12/23/2017	19,600
12/1/2017	12/23/2017	31,115
12/5/2017	12/23/2017	16,438
12/14/2017	12/23/2017	6,999
Total		\$108,303

Source: EDW and OIG analysis.

Postal Service policy⁹ requires the unit reserve stock custodian to accept stamp stock shipments and assign stamp stock to the retail floor stock for sales. In addition, policy¹⁰ requires a new unit reserve stock custodian be assigned when a custodian is replaced or is scheduled to be absent for a period during which access to the unit reserve stock may be necessary.

After the unit reserve stock custodian was assigned on December 23, 2017, he accepted the unrecorded stamp stock shipments received in the amount of \$108,303 into the unit reserve stock and transferred \$82,521 to the retail floor stock. This corrected the unrecorded stamp stock inventory transactions for the period the unit operated without a unit reserve custodian.

The unit is now properly accepting stamp stock shipments into the unit reserve and transferring stamp stock to the retail floor stock. Therefore, we are not making a recommendation on this matter at this time. However, we will continue to monitor this as part of our ongoing work.

Finding #3: Compliance with Policies and Procedures

Unit management did not properly comply with policies to complete or maintain required Postal Service (PS) Forms. Specifically:

- PS Form 3368-P, Accountability Examination Record. PS Form 3368-P provides a summary of the results for all inventory counts at the post office for the last two years. The unit did not have required copies on site for the unit reserve stock and retail floor stock counts.
- PS Form 3977, Duplicate Key Combination and Password Envelopes, for the unit reserve stamp stock accountability. The duplicate key is used to open the stamp stock accountability of an employee, and the password. Several envelopes were

⁹ Handbook F-101, Sections 11-5.4.2, and 13-2.5.

¹⁰ Handbook F-101, Section 11-10.2.1.

dated in 2016 and 2017 and not sealed, and keys and passwords were maintained outside of an envelope.

The current manager stated she started her position in May 2018, and her focus has been the unit's delivery function. New delivery routes have been added, new carriers hired, and new work space needed to be arranged at the site.

Postal Service procedures¹¹ state the Postmaster, manager, or supervisor is responsible for establishing and maintaining a file for each stamp credit, including PS Form 3368-P. In addition, the procedures¹² require each field unit to use PS Form 3977 to maintain duplicate keys, combinations, and passwords. A new envelope must be completed each time a lock, combination, or password is changed. The key, combination or password must be enclosed and sealed inside the envelope. The employee and a witness sign across both flaps of the envelope and stamp a postmark on both flaps. The supervisor must make an annual examination of all locks and keys.

If stamp stock inventory files are not maintained and updated at the unit, it may be difficult to identify trends or timely address shortages of Postal Service unit reserve stock and retail floor stock inventories. In addition, limited access to keys, combinations, or passwords impacts the unit management's ability to conduct timely counts or monitor and safeguard Postal Service assets.

Recommendation #1: We recommend the **Manager, Seattle District**, direct unit management to document all stamp stock count results on Postal Service Form 3368-P, Accountability Examination Record, and to maintain a current PS Form 3977, Duplicate Key, Combination and Password Envelope, for unit personnel.

Management's Comments

Management agreed with the findings and the recommendation. District management provided evidence that the Bainbridge Island Station created a file with required documentation for stamp stock counts and PS Forms 3977 for the station as of November 28, 2018. In addition, management stated that Western Area Finance will complete a follow-up postal retail unit review at the Bainbridge Island Station in February 2019 to ensure continued compliance.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the findings and recommendation. The corrective actions taken should resolve the issues identified in the report.

¹¹ Handbook F-101, Section 13-1.3.

¹² Handbook F-101, Sections 3-8.1, 3-8.2.1, 3-8.2.2, and 3-8.6.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Based on our review of the information provided, we consider recommendation 1 closed with the issuance of this report.

Appendix A: Management's Comments



November 29, 2018

RE: Draft Audit Report – No Sale Transactions
Bainbridge Island, WA, Station
Report Number FCS-FM-19-DRAFT

Lazerick Poland
Acting Director, Audit Operations
Office of Inspector General

This is in response to the OIG audit of the No Sale Transactions – Bainbridge Island, WA, Project Number 19BFM002FCS000.

Recommendation #1: We recommend the Manager, Seattle District, direct unit management to document all stamp stock count results on Postal Service Form 3368-P, Accountability Examination Record, and to maintain a current PS Form 3977, Duplicate Key Combination and Password Envelope for unit personnel.

Management Response/Action Plan:

We agree with the recommendation. Bainbridge Island Station Manager, Melinda Hara, has created a file for the Unit and Retail stamp stock accountability to include the three forms to track the financial audits: PS Form 3368-P Accountability Examination Record; PS Form 3294 Cash and Stamp Stock Summary; and PS Form 3369 Consigned Credit Report. See Exhibit 1

Bainbridge Island Station Manager, Melinda Hara, has updated PS Form 3977 Log and Lock Examination envelopes for each employee assigned with RSS access and accountable drawer. See Exhibit 2

Additionally, Western Area Finance will complete a follow up Postal Retail Unit review at the Bainbridge Island Station to ensure continued compliance.

Target Implementation Date:

11/28/2018 – see Exhibits
February 2019 PRU Review

Responsible Official:

Bainbridge Island Station Manager
Western Area Field Financial Specialist