

POSTAL REGULATORY COMMISSION

OFFICE OF INSPECTOR GENERAL



FINAL AUDIT REPORT

IMPREST FUND

**Audit Report AR-08-01A-01
March 31, 2008**



OFFICE OF INSPECTOR GENERAL
Washington, DC 20268-0001

Date: March 31, 2008
To: Dan Blair, Chairman
From: Jack Callender, Inspector General
Subject: Transmittal of Audit Report— Imprest Fund Audit
Report Number AR-08-01A-01

This report presents the results of our audit of the Postal Regulatory Commission's (PRC) imprest fund. This audit was conducted at the request of PRC management and covered imprest fund activity since the first fund replenishment after enactment of the Postal Accountability and Enhancement Act, specifically, January 11, 2007 through February 25, 2008.

The imprest fund was used to reimburse PRC employees for reasonable and necessary expenses. The fund balance was intact and accounted for based on our unannounced cash count and review of documentation supporting expenditures. Security over the funds was generally satisfactory.

We found that policies and procedures governing the imprest fund could be improved. The PRC uses Postal Service Handbook F-19, *Accountability of Disbursing Officers*, September 1991, Chapter 8, Imprest Fund. However, the document does not address various matters such as expenses eligible for reimbursement, requirements for receipts, dollar limits for reimbursements, form(s) to use to obtain reimbursement, fund security, and other concerns. We also noted that increased management oversight over fund operations is needed.

Management agreed with all of our recommendations and indicated they would implement an imprest fund policy by April 30, 2008. On March 24, 2008, the PRC provided OIG with a draft imprest fund policy for review under Section 4(a)(2) of the Inspector General Act of 1978. We believe that this draft, if implemented, would resolve all nine audit recommendations.

We appreciate the cooperation and courtesies provided by your staff during our audit. If you have any questions, please contact me at 202-789-6817.

cc: Vice Chairman Mark Acton
Commissioner Ruth Goldway
Commissioner Tony Hammond

Table of Contents

INTRODUCTION 3

 Background3

 Objectives, Scope, and Methodology3

 Prior Audit Coverage4

RESULTS4

 Policies Governing the Imprest Fund are Needed5

 Recommendation 15

 Management’s Comments5

 Evaluation of Management’s Comments.....5

 Increased Management Oversight Needed6

 Recommendation 26

 Recommendation 36

 Recommendation 46

 Recommendation 56

 Management’s Comments7

 Evaluation of Management’s Comments.....7

 Forms 1164 were Not Properly Completed7

 Recommendation 67

 Recommendation 78

 Recommendation 88

 Management’s Comments8

 Evaluation of Management’s Comments.....8

 Paid Reimbursement Forms were Not Secured8

 Recommendation 98

 Management’s Comments8

 Evaluation of Management’s Comments.....9

AUDIT OBSERVATIONS 9

APPENDIX I..... 10

Introduction

Background

The imprest fund is located at the Postal Regulatory Commission (PRC) headquarters at 901 New York Avenue, NW, Washington, DC. The fund's balance is \$500 and is used primarily to reimburse PRC employees for local travel.

The imprest fund existed during the period the Postal Rate Commission was in operation. The fund remained when the Commission became the PRC on December 20, 2006, as a result of enactment of the Postal Accountability and Enhancement Act of 2006.

The PRC is not required to follow policies of the Postal Service and the U.S. Department of the Treasury (Treasury). One of Treasury's directives eliminated imprest funds at federal agencies, but allowed them to remain if used for individual expenditures under \$25. The PRC generally used the \$25 limit and followed policies established in the Postal Service's Handbook F-19, *Accountability of Disbursing Officers*, September 1991, Chapter 8, Imprest Fund.

The custodian reimburses employees from the fund for expenses incurred for PRC-related business. Employees requesting reimbursement generally use PS Form 1164, *Claim for Reimbursement for Expenditures on Official Business*. The Chief Administrative Officer (CAO) reviews and signs all requests.

To replenish the fund, the custodian, on a monthly basis, completes PS Form 1129, *Cashier Reimbursement Voucher and/or Accountability Report*. The CAO reviews and signs these forms as well. The custodian mails the form to the San Mateo Information Technology and Accounting Service Center (IT/ASC), then withdraws the funds from the PRC's parking fund maintained in a checking account. The San Mateo IT/ASC, using electronic funds transfer, wires the requested funds to the parking fund checking account.

Objectives, Scope, and Methodology

The objectives of this audit were to determine whether expenditures of the fund were reasonable and necessary; to ascertain if the funds were adequately secured; and to determine if policies relating to the fund, including those governing expenditures, were appropriate, sufficient, and clear.

The audit covered the imprest fund commencing with the first replenishment when the Postal Rate Commission became the Postal Regulatory Commission. Specifically, we addressed fund activity from January 11, 2007, through our cash count on February 25, 2008.

The audit included an unannounced count of the fund's cash and documents supporting fund expenditures. The audit also included:

- Examining expenditures for reasonableness and supporting documentation,
- Evaluating the reasonableness of the amount of the fund,
- Reviewing related policies for adequacy and clarity,
- Review security over the fund, and
- Assessing internal controls.

We conducted this audit in accordance with generally accepted government auditing standards.

Prior Audit Coverage

The most recent audit of the imprest fund was performed by the Department of the Treasury, Financial Management Service, The Center for Applied Management, in September 1998. The audit report concluded the Postal Rate Commission met Office of Management and Budget management control standards and complied with the federal financial management standards and Postal Service instructions for imprest fund operations. The Center recommended the Postal Rate Commission ensure:

- All individuals with access to the fund's cash should be designated as primary or alternate cashier.
- The most recent unreimbursed receipts should be kept in a locked container.
- Annual audits be arranged if the Postal Inspection Service is unable to perform them.
- The individual's supervisor approves and signs the PS Form 1164 before the cashier reimburses the individual.
- The cashier signs or initials PS Form 1164 or other reimbursement form at the time cash is disbursed to establish accountability and to verify the amount on the form is the amount paid.

The prior findings related to security of unreimbursed receipts and annual audits have recurred.

Results

The PRC uses the imprest fund to reimburse PRC employees for expenses they incurred that were reasonable and necessary. Most expenses related to taxi fares, involving local transportation for PRC personnel. The fund balance was intact and accounted for, based on our unannounced cash count and review of documentation supporting expenditures. Security over the funds was satisfactory; however, documentation supporting reimbursed expenses that had not been replenished to the fund needed added security.

We found that policies and procedures were insufficient. The PRC uses the Postal Service Handbook F-19, Chapter 8. However, the document does not address various matters, such as expenses eligible for reimbursement, requirements for receipts, dollar limits for reimbursements, which form(s) to use to obtain reimbursement, fund security, and other concerns. We also noted that increased management oversight over the custodian and fund operations is needed.

Policies Governing the Imprest Fund Are Needed

Apart from Postal Service Handbook F-19, Chapter 8, the PRC has no written policy or procedures with respect to the imprest fund. GAO's *Standards for Internal Control in the Federal Government*, November 1999, states internal control needs to be clearly documented and for the documentation to be readily available. It further states the documentation should appear in management directives, administrative policies, or operating manuals.

There was an informal, general understanding that the PRC operated with Postal Service policies. As a result, the office relies on verbal policies and procedures that might not remain consistent over time and with personnel changes. However, management stated it has recently recognized the need for policies for the imprest fund.

Recommendation

We recommend the Chief Administrative Officer:

1. Establish a written policy that includes, but is not limited to, the following:
 - Adoption of applicable Postal Service polices, such as Handbook F-19, Chapter 8,
 - Security over the funds,
 - Expenses eligible for reimbursement,
 - Form(s) used for reimbursement,
 - Requirements for receipts,
 - Dollar limits for reimbursed expenses,
 - Cancellation of forms, after payment, when used to obtain reimbursements,
 - Information required on receipts, and
 - An annual¹, unannounced, and documented review by management of the funds.

Management's Comments

PRC management provided a response to the draft report of this audit on March 20, 2008. A copy of that response is included as Appendix I of this report.

Management agreed with this recommendation and committed to implementing a revised imprest fund policy addressing the recommendations by April 30, 2008.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issue identified.

¹ The frequency may be more often as management deems necessary.

Increased Management Oversight Needed

Management has provided nominal oversight over the custodian's activities. There have been no unannounced reviews of the fund. The custodian uses the parking fund checking account as a conduit for obtaining imprest fund replenishments, but there has been no involvement by management to ensure replenishment requests equal amounts withdrawn from checking.

Postal Service Handbook F-20A, *Accounting Service Center Accounting Guidelines*, Chapter 7, discusses internal control processes. It states that management is responsible for safeguarding assets. It also states internal control involves actions taken to assist in regulating and directing activities of the organization. In addition, Handbook F-19, Chapter 8 states officials must perform an unannounced review of each fund under their purview at least annually.

We acknowledge that the PRC is not required to follow Postal Service policies and may establish its own policies and procedures. However, given the absence of such written requirements, Postal Service policies provide a reasonable benchmark. Effective internal control is essential to an organization, and the cited handbooks provide a framework for establishing internal control. However, Postal Service policies did not address all the conditions that existed with respect to the PRC's imprest fund, including use of another fund's checking account to replenish the imprest fund. Since management used F-19 as its guidance, it did not institute further controls in the form of ongoing oversight.

Although amounts involved were minor, we noted there were three instances where funds withdrawn from the parking fund checking account exceeded imprest fund replenishment requests totaling \$16.22². The amounts withdrawn were in twenty-dollar increments from an automated teller machine. The custodian said the differences were redeposited to the parking fund. However, the supporting records do not show sufficient analysis of cash deposited to the parking fund to assure ourselves that the cash deposits included the amounts withdrawn in excess. In addition, the replenishment request of \$227.53 for February 2007 was not made by the San Mateo IT/ASC, and the missing replenishment to the parking fund was not detected by PRC personnel.

Recommendations

We recommend the Chief Administrative Officer:

2. Ensure the custodian's supervisor understands the practices used by the custodian and whether they are consistent with policies,
3. Ensure unannounced reviews of the imprest fund are performed at least once a year,
4. Require another individual retain a copy of the replenishment request and compare it to amounts wired from the San Mateo IT/ASC and withdrawn by the custodian, and
5. Direct the custodian to withdraw the exact amount of replenishments requested.

² The months and amounts involved were February 2007 (\$12.47), March 2007 (\$3.49), and August 2007 (\$.26).

Management's Comments

Management agreed with our recommendations and committed to clearly defining roles and responsibilities of Agency staff in the usage, maintenance and review of imprest and parking funds.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issues identified.

Forms 1164 Were Not Properly Completed

Most PS Forms 1164 requesting reimbursements by employees were properly completed. However, during our review of payments from the fund, we noted shortcomings in some of the completed Forms 1164:

- Various forms did not list a reason for incurring the expense,
- In certain instances on the forms, the payee did not state the amount received or the date payment was received, and
- In some instances, the person incurring the expense did not sign the form attesting to the true nature of the expense. For each such form in the audit, another person signed in lieu of the person with the expense.

Handbook F-15, *Travel and Relocation*, February 2004, updated with Postal Bulletin Revisions Through November 8, 2007, provides instructions for completing PS Form 1164. The instructions require the employee to provide an explanation for expenses, and enter the date and amount received. The instructions also state the name of the person signing the form, attesting to the true nature of the expense, must match the name shown at the top left of the form.

Individuals completing the forms were not focused on ensuring all details were provided. There also was lack of sufficient oversight on the part of those reviewing the forms. As a result:

- There is no record to show the expenses were incurred on behalf of the PRC when explanations are absent,
- Potential disputes over whether the payee obtained the funds are eliminated, and
- Responsibility is diminished when the claimant does not attest to the true nature of the expense.

Recommendations

We recommend the Chief Administrative Officer ensure:

6. Each PS Form 1164 includes a clear explanation of the business purpose so that the approver and a third party can readily ascertain the expense had a business purpose,

7. Upon receipt of cash, the custodian verifies payees sign the PS Form 1164 and list the amount received and date on the form, and
8. The person incurring the expense signs and dates PS Form 1164 attesting to the true nature of the expense.

Management's Comments

Management agreed with our recommendations and committed to clearly defining roles and responsibilities of Agency staff in the usage, maintenance and review of imprest and parking funds. Further, management will establish policy that reimbursements must be clearly linked to the purpose of the expenses as described on Form 1164.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issues identified.

Paid Reimbursement Forms Were Not Secured

During our unannounced count of the imprest fund's cash and accountable documents, we noticed the paid reimbursement forms awaiting replenishment were retained in the custodian's unlocked desk drawer.

Handbook F-20A, Chapter 7, states maintaining good accounting records includes adequate protection of those records. Also, the prior audit found that unreplenished receipts were not kept in a locked container and recommended they be kept in a locked container.

The custodian stated she was unaware of the requirement, including the prior audit's recommendation to secure the documents. However, if the custodian was unable to locate the documents, there would be no accounting for the related funds spent.

Recommendation

We recommend the Chief Administrative Officer ensure:

9. The custodian secures paid reimbursement forms in a locked container until the fund is replenished.

Management's Comments

Management agreed with our recommendations and committed to clearly defining roles and responsibilities of Agency staff in the usage, maintenance and review of imprest and parking funds.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issues identified.

Audit Observations

We observed the following matters during our audit that were not directly related to imprest fund operations and do not affect the overall adequacy of internal controls related to the imprest fund. However, we present them to management to further enhance its processes.

- **Alternate Means for Reimbursing Employees**

Management expressed an interest in alternate means of reimbursing PRC employees for minor, local expenses. We suggest management look into using eTravel and the related policies as a replacement for the imprest fund.

- **Access to Account Number Control Master**

We noted management did not have access to the Account Number Control Master. We suggest obtaining access to it in order to properly account for expenditures.

- **Reconciling the Parking Fund Account**

While recognizing that the parking fund checking account is outside the scope of this audit, we were informed the custodian, who maintains the records for the parking fund, also reconciles the parking fund bank statements to the checkbook balance. We suggest management designate another individual to perform the reconciliations.

APPENDIX I



Office of the Secretary and
Administrator

March 20, 2008

Jack Callender, Inspector General
Postal Regulatory Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268

Dear Mr. Callender:

The Commission is pleased to receive the guidance contained in your Imprest Fund Audit, Report Number AR-08-01A-01, which was conducted at management's request.

The Commission has drafted new, written policies and procedures governing the Imprest Fund and very much appreciates having your guidance. The Commission agrees with all nine of the Recommendations contained in your Report and will incorporate them into final policy and Commission practice. The Commission anticipates implementation of this Policy by April 30, 2008.

Pursuant to your recommendations the new Policy will contain:

- Recommendation 1: Set out Commission policy on eligible expenses, dollar limits, receipt requirements, security of the funds and records and include by reference the broader guidance contained in the USPS Handbook F-19, Chapter 8;
- Recommendations 2, 3, 4, 5, 7, 8, and 9: Clearly define Roles and Responsibilities of Commission staff in the usage, maintenance and review of the Commission's Imprest and Parking funds; and
- Recommendation 6: Establish that reimbursements must be clearly linked to the Mission and the business purpose for the expense is described clearly in that section of Form 1164 entitled "Reason for Travel" so that it can be readily ascertained the expense had a business purpose.

The Commission appreciates your assistance with this review and the guidance for establishing stronger, more effective internal controls.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven W. Williams".

Steven W. Williams
Director