



AUDIT REPORT

Refunds and Voids - Hoffman Estates, IL, Branch

July 26, 2018

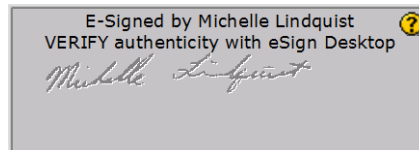


Report Number FCS-FM-18-022



July 26, 2018

MEMORANDUM FOR: TANGELA L. BUSH
ACTING MANAGER, CENTRAL ILLINOIS DISTRICT



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Refunds and Voids - Hoffman Estates, IL,
Branch (Report Number FCS-FM-18-022)

This report presents the results of our audit of Refunds and Voids - Hoffman Estates, IL, Branch (Project Number 18BFM019FCS000).

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 and Response Management

Background

This report presents the results of our self-initiated audit of Refunds and Voids at the Hoffman Estates, IL, Branch (Project Number 18BFM019FCS000). The Hoffman Estates Branch is in the Central Illinois District of the Great Lakes Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Account Identifier Code (AIC)¹ 553, Refund Postage and Fees, is used to record refunds of customers postage and fees paid for special services not received. The U.S. Postal Service Office of Inspector General (OIG) Field Financial Risk Model identified that the Hoffman Estates Branch refund and void amounts for the period of January 1 through March 31, 2018, was \$210,734. The refund and void amounts during the same period of the prior year was \$104.

Objective, Scope and Methodology

The objective of this audit is to determine whether refunds and voids for postage and fees were valid and properly supported at the Hoffman Estates, IL, Branch.

We reviewed daily financial records; Postal Service (PS) Forms 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts; and attached supporting documentation maintained by the unit from January 1 through March 31, 2018. We also interviewed unit personnel and Postal Service management.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).² We did not test the validity of controls over this system; however, we verified 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 May through July 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 objective. We discussed our observations and conclusions with management on July 5, 2018, and included their comments where appropriate.

¹ The AIC consists of three digits. It is used to classify financial transactions to the proper general ledger account.

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.

Finding #1: Postage and Fees Refunds

Refunds and voids for postage and fees were not always properly supported. Specifically:

- Fourteen of 15 PS Forms 3533 used were obsolete,³ which caused \$3.50 to be recorded in an improper AIC. In 2014, the form was updated to include a new AIC, 509, to capture postage meter label errors. However, the employee used the 2008 version of the form, that had AIC 553 for this type of transaction. Postal Service policy⁴ states the oldest date of the form that may be used is June 2014. The postmaster stated that she had provided the unit with the newer version of PS Form 3533 but did not ensure that the older forms were destroyed.
- Nine of 15 PS Forms 3533 were not properly completed and eight of the nine were obsolete. Forms were missing key information, such as the requested refund amount, witness signature, and no fee money order information. Postal Service policy⁵ requires the Retail Associate (RA) ensure that PS Form 3533 is properly completed. The Customer Service Supervisor and RA stated the forms were not properly completed due to inaccurate information provided by the lead clerk on duty during on-the-job training.
- Unit personnel improperly issued the refund in cash rather than an exchange of stamps or postage label. Postal Service policy⁶ requires that stamps and postage labels be exchanged for stamps of equivalent value and not for cash. The Customer Service Supervisor and RA stated the refund was issued in cash because of inaccurate information provided by the lead clerk on duty during on-the-job training.
- Unit personnel could not find supporting documentation for one void processed. Postal Service policy⁷ states that RAs must submit supporting documents to the closeout employee. The postmaster stated that the void documentation could not be located because it had been inadvertently misplaced or was not provided to the closeout clerk by the RA.

As a result of our audit, the postmaster trained staff at the unit on June 4, 2018, on the correct version of the PS Form 3533 and how to properly complete the form. Therefore, we are not making a recommendation related to these issues.

³ The form date was August 2008.

⁴ Publication 223, *Directives and Forms Catalog*, March 2018, page 4.

⁵ Handbook F-101, *Field Accounting Procedures*, June 2016, Section 21-1.1a-c.

⁶ Handbook F-101, Sections 21-5.1 and 21-5.2b.

⁷ Handbook F-101, Section 5-4.1f (1).

If Hoffman Estates Branch employees do not ensure refunds are properly supported, the Postal Service risks not being able to substantiate the validity of postage and fee refunds and issuing incorrect or unauthorized refunds.

Recommendation #1: We recommend the Manager, Central Illinois District, reiterate to unit personnel the policies for properly refunding stamps and postage labels and for retaining supporting documentation.

Finding #2: Recording Refunds Timely

The unit did not always record refunds timely. Specifically, one mailer requested a refund for overpaid postage in November 2017. During our visit, we determined the unit recorded a refund of \$208,526 for one mailer's billing errors identified in their Business Reply Mail (BRM)⁸ account. The mailer opened a Post Office Box for first-class indicia⁹ pieces; employees at the unit scanned these pieces as BRM upon arrival and scanned the same pieces again upon delivery, creating a duplicate billing to the mailer. Employees at the unit researched the issue and began processing \$208,526 of the \$462,030 in refunds in March 2018; however, the remaining \$253,504 in refunds was not recorded in the financial reports until June 6, 2018, after our audit.

Postal Service policy¹⁰ states the accrual basis of accounting dictates that the Postal Service record revenue when earned and expenses when incurred, regardless of when the related assets and liabilities are collected or paid. Accordingly, field units are expected to record or report all accounting activity within the same month the activity occurs. Postal Service policy¹¹ also states that refunds over \$1,000 should be sent to Accounting Services for processing, which also has a responsibility to process refunds timely.

The postmaster stated that Accounting Services instructed employees to wait to record the remaining refunds until it was determined how best to process the refunds. On June 6, 2018, Accounting Services recorded the refund and issued a check for the total overpayment amount due, \$462,030. This refund took over six months to process.

When refunds are not entered timely, the accounting activity is not recorded in accordance with generally accepted accounting principles¹² in the quarterly financial statements.¹³ In addition, the Postal Service's image can be harmed when customers experience billing errors and lengthy delays in refunds. Since this amount is not material

⁸ A domestic service that allows a mailer to receive mail pieces back from customers. Postage and fees are collected when the mail is delivered back to the original mailer.

⁹ Postage on the mail piece.

¹⁰ Handbook F-1, *Accounting and Reporting Policy*, January 2015, Section 2-1.2.

¹¹ Handbook F-1, Section 3-1.1.1.6.

¹² General rules and concepts that govern the field of accounting.

¹³ Quarter 1 is October 1 through December 31, Quarter 2 is January 1 through March 31, Quarter 3 is April 1 through June 30, and Quarter 4 is July 1 through September 30.

to the overall financial statements, we will not make a recommendation at this time, but will continue to monitor.

Management's Comments

Management agreed with the findings and recommendation. Management stated they re-emphasized the policy for proper refunding of stamps and labels, verifying all forms are current and filled out, and ensuring refunds are timely. Management further stated offices are now instructed to print the No Sale/Voided Transaction report with their end of the day activities, which will trigger the supervisor to obtain proper documentation. This training was provided to personnel from various offices in the district and a Hoffman Estates Customer Service Supervisor.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report.

The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Management's Comments



July 18, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Refunds and Voids - Hoffman Estates, IL, Branch
Report Number: FCS-FM-18-DRAFT

Thank you to you and the team for providing a critical look at the Refunds and Voids - Hoffman Estates Branch. We agree with the findings presented in your July 6th report.

Listed below are other proactive actions:

RSS offices are being instructed to toggle over to always print the No Sale/Voided transaction report with their end of day activities. This will trigger the Supervisor to obtain the proper documentation.

Central Illinois District is currently holding SOX Compliance Training in which the actions above are being reviewed as well.

Recommendation #1

We recommend the Manager, Central Illinois District, reiterate to unit personnel the policies for properly refunding stamps and postage labels and for retaining supporting documentation.

Management Response/Action Plan:

Management agrees and has re-emphasized the policy for the proper refunding of stamps and postage labels, verified that all forms are current, completely filled out, and ensured refunds are timely. This action was completed by July 6, 2018 and documentation is attached.

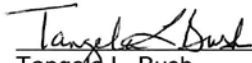
Actions taken: As a result of the audit, employees have been trained on the proper procedures of the F101, Sections 21-1.1a-c, 21-5.1, and 21-5.2b. In addition the quick reference table, E-2 (F101 Appendix E) has been utilized and shared, with a completion date of June 4, 2018, documentation attached.

Target Implementation Date:

Completed July 6, 2018

Responsible Official:

Postmaster, Hoffman Estates Branch
District Finance Manager



Tangelia L. Bush
A/District Manager, Central Illinois District

cc: Manager, Corporate Audit Response Management @ CARMManager@USPS.GOV