



AUDIT REPORT

Postage and Fee Refunds – Newport, KY, Post Office

September 18, 2019

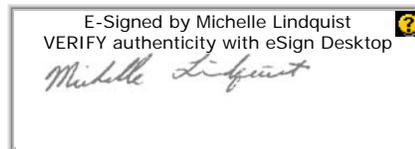


Report Number: FCS-FM-19-031



September 18, 2019

MEMORANDUM FOR: MELVIN J. ANDERSON, DISTRICT
MANAGER, OHIO VALLEY



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Postage and Fee Refunds – Newport, KY,
Post Office (Report Number FCS-FM-19-031)

This report presents the results of our audit of the Postage and Fee Refunds – Newport, KY, Post Office (Project Number 19BFM036FCS000).

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: Corporate Audit and Response Management

Background

This report presents the results of our self-initiated audit of Postage and Fee Refunds – Newport, KY, Post Office (Project Number 19BFM036FCS000). The Newport Post Office is located in the Ohio Valley District of the Eastern Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified the Newport, KY, Post Office with the highest amount recorded to Account Identifier Code (AIC)¹ 553, *Refund Postage and Fees*, during fiscal year (FY) 2019, Quarter (Q) 3 in the Ohio Valley District (57 percent of district total of \$70,023). During this period, this unit reported a total of \$39,581, which is a significant increase from FY 2019 Q1 total of \$167 and Q2 total of \$12.² In addition, the refunds in AIC 553 for the same period in FY 2018 was \$94.

Objective, Scope and Methodology

The objective of this audit was to determine whether postage and fee refunds were valid, properly supported, and processed at the Newport Post Office. 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 April 1 through June 30, 2019. We also interviewed the postmaster and other personnel responsible for the oversight and processing of postage and fee refunds at the unit.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).³ 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 employees. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from July through September 2019 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. 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 believe that the evidence obtained provides a reasonable basis for our finding and conclusions

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

² FY 2019 Q1 is October 1 through December 31, 2019. Q2 is January 1 through March 31, 2019. Q3 is April 1 through June 30, 2019.

³ The 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-sales, and other sources.

based on our audit objective. We discussed our observations and conclusions with management on August 27, 2019, and included their comments where appropriate.

Finding #1: Postage and Fee Refunds

We determined the postage and fee refunds processed at the unit were not always valid, properly supported, or processed for all five refunds totaling \$39,581.⁴ Specifically, unit personnel:

- Improperly processed a refund transaction totaling \$39,490 on PS Form 3533 for large volumes of unused, precanceled stamped envelopes and precanceled stamps on paper returned by a major mailer. In addition, the 151,102 pieces were destroyed without proper district-level authorization.

According to Postal Service policy, cash refunds are not allowed for stamps.⁵ This policy also states that stamped paper (cards and envelopes) may be exchanged only for an equal number of stamps, or stamped paper, of the same denomination and at 90 percent of postage value when affixed to commercial envelopes and postcards. Postal Service policy states that postal retail units that exchange 10,000 or more envelopes with precanceled postage affixed may verify and recycle them locally if the district marketing manager authorizes an exception.⁶

- Improperly processed two refund requests that were not valid, one for \$41 and one for \$20. The first amount was an adjustment for an improperly processed Cash on Delivery (COD) transaction and should not have been processed with PS Form 3533. The second amount was for priority mail which is not a guaranteed product; therefore, the mail was ineligible for refund.

According to Postal Service policy, postage and fee refunds are not available for COD after Postal Service accepts the article.⁷ Also per the priority mail product disclaimer there is not a money-back guarantee if the product does not reach its destination by the expected delivery date.⁸

- Did not properly complete two PS Forms 3533.
 - One refund for \$26 had missing information on the form, including no information in Disbursement for Refund (Issued Locally) and no witness signature in Verification of Disbursements. Additionally, the money order receipt for the refund was not attached, and the refund was recorded improperly to AIC 553 instead of AIC 676, *Priority Mail Express Refund*.

⁴ Total difference due to rounding.

⁵ Handbook F-1, *Accounting and Reporting Policy*, Section 4-11.8.1, January 2015.

⁶ Handbook F-101, *Field Accounting Procedure (DRAFT)*, Section 12-5.7.3, May 2017.

⁷ *Domestic Mail Manual*, Section 604.9.2.4. March 2019.

⁸ Priority mail express provides a money-back guarantee.

- One refund for \$5 had no witness signature in Verification of Disbursements and was recorded improperly in AIC 553 instead of AIC 676.

Postal Service policy requires the retail associate to ensure that PS Form 3533 is properly completed and that only the types of postage specified are refunded and recorded to the AICs listed.⁹ In addition, Postal Service policy requires unit management to review supporting documents for all entries included on PS Form 1412, *Daily Financial Report*, and concur with the overall presentation of the report each day.¹⁰

Unit personnel and management were unfamiliar with the policies and procedures for refunds and exchanges of stamped paper and did not seek the proper guidance to ensure these transactions were processed correctly. In addition, the closeout clerk had not received formal training on the daily closeout procedures. Further the postmaster stated the unit is not fully staffed, and closeout duties which include verifying supporting documentation, such as PS Form 3533 to amounts and AICs posted in the Retail Systems Software,¹¹ are performed by several different Sales and Service Associates due to scheduling and other assigned duties.

If the employees at the Newport Post Office do not ensure refunds are valid and exchanges properly processed, the Postal Service risks issuing incorrect or unauthorized refunds. We consider the incorrectly processed \$39,490 refund of unused, precanceled stamped envelopes and precanceled stamps on paper, lost revenue.¹²

Recommendation #1: We recommend the Manager, Ohio Valley District, direct the district marketing manager to reiterate the policies and procedures for processing exchanges and refunds to all unit personnel.

Recommendation #2: We recommend the Manager, Ohio Valley District, direct the postmaster to ensure those assigned to closeout duties are formally trained to properly perform them.

Management's Comments

Management agreed with the finding and recommendations but disagreed with the monetary impact.

⁹ Handbook F-101, (DRAFT) Section 21-2 and 5-2.2.I(4).

¹⁰ Handbook F-101, (DRAFT) Section 2-4.1.

¹¹ The primary hardware and software system used to conduct retail sales transactions at post offices.

¹² Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).

Regarding recommendation 1, management provided the information in Handbook F-101 (DRAFT) and Appendix E related to PS Form 3533 and refunds, respectively, to the Newport Post Office. They stated the unit's PS Forms 3533 will be periodically reviewed. In addition, sales and services associates were trained on proper completion of the PS Form 3533, and the training has been documented on PS Form 2432, *Individual Training Progress Report*.

Regarding recommendation 2, the district finance manager provided Retail Systems Software procedure guides to the Newport Post Office management team. The closeout clerk was trained, and the training was documented on PS Form 2432 relative to closeout procedures.

Management completed action on these recommendations on September 12, 2019.

Regarding the monetary impact, management disagreed because the unit processed the pre-affixed stamped customer return envelopes for destruction, and the unit charged a 10 percent fee and shredded and destroyed the envelopes. However, the unit did not check the proper box on the PS Form 3533 and did not properly verify the form during the closeout procedure.

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 and corrective action should resolve the issues identified in the report. We reviewed management's correspondence and found it adequate to resolve the issues identified in this report. We consider recommendations 1 and 2 closed with the issuance of this report.

We continue to believe monetary impact is still applicable, as the unit did not follow the Postal Service policy regarding exchange of stamps; cash refunds were not permitted. Since we consider this a violation of Postal Service regulation, we categorize it as revenue loss.

APPENDIX A. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
OHIO VALLEY DISTRICT



September 12, 2019

Lazerick Poland
Director, Audit Operations

SUBJECT: Postage and Fee Refunds, Newport KY Post Office
Project Number 19BFM036FCS000

The Ohio Valley management agrees with the findings presented by the OIG in the draft audit report. Included in this response are the comments and reactions to recommendations one and two.

Recommendation #1:

We recommend the Manager, Ohio Valley District, direct the district marketing manager to reiterate the policies and procedures for processing exchanges and refunds to all unit personnel.

Management Response / Action Plan:

The Finance Manager and the Marketing Manager has provided the documentation outlined in the F-101 related to PS Form 3533 along with Appendix E that contains a quick reference guide for refunds to the Newport, KY, Post Office. The unit's PS Form 3533s will be reviewed periodically for compliance.

Management at the Newport Post Office has already trained the SSAs relative to the completion of the PS Form 3533 and documented the training on PS Form 2432. Information provided from F-101 along with Appendix E:

21-1 Overview

PS Form 3533, *Application for Refund of Fees, Products and Withdrawal of Customer Accounts*, is used to document all refund activities.

- a. The customer completes Part 1, **Application**, of PS Form 3533 and submits to the postal retail unit (PRU) for processing.
- b. The retail associate (RA) reviews the PS Form 3533 and checks the appropriate box in the **Request Disbursement For** section.
- c. The RA completes Part 2, **Verification of Disbursements**, of PS Form 3533 prior to issuing the refund locally or submitting the PS Form 3533 to the Scanning and Imaging Center (SIC) for processing the refund payment.

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- d. A witness to the refund transaction signs the **Witness Signature** line in Part 2. It is at the discretion of the postmaster or unit manager to determine if a postal employee is available to witness the refund transaction. It is the responsibility of the postmaster or unit manager to review PS Form 3533 to ensure the refund is warranted and that PS Form 3533 is completed properly.
- e. PRUs do not locally issue refunds for more than \$500 except when refunding Sure Money principal and fee amounts.

See Appendix E for a quick reference guide for refunds.

See *Mailing Standards of the United States Postal Service, Domestic Mail Manual (DMM) 604.9.0*, for policy on refunds and exchanges.

Target Implementation Date:

September 12, 2019

Responsible Official:

The District Finance Manager tracked completion of training.

Recommendation #2:

We recommend the Manager, Ohio Valley District, direct the postmaster to ensure those assigned to closeout duties are formally trained to properly perform them.

Management Response / Action Plan:

The District Finance Manager provided Retail Systems Software (RSS) procedures guide to the Newport Management Team. Each closeout clerk was trained and the training was documented on PS Form 2432 relative to closeout procedures.

Target Implementation Date:

September 12, 2019

Responsible Official:

The District Finance Manager tracked completion of training.

Monetary Impact-Ohio Valley District, Newport, KY, Post Office

Project Number 19BFM036FCS000

The Ohio Valley District disagrees with the Monetary Impact identified under Revenue Loss totaling \$39,490. The disagreement is that the unit did process the pre-affixed stamped customer return envelopes for destruction. The unit charged the 10% fee, shredded, and destroyed the envelopes.

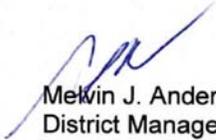
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The unit however did not properly check the correct box on PS Form 3533 and did not properly verify the form during the closeout procedures.

To rectify the issue the Newport Post Office has completed the following:

1. Trained all clerks on properly filling out PS Form 3533.
2. Trained all closeout clerks on proper closeout procedures as identified in RSS guidelines.
3. Documented all training on PS Form 2432.

Sincerely,



Melvin J. Anderson
District Manager
Ohio Valley District

cc: Manager, Corporate Audit Response Management

Attachments