



AUDIT REPORT

Refunds of Permit Postage and Fees - Hagerstown, MD, Post Office

March 2, 2021



Report Number 21-072-R21



March 2, 2021

MEMORANDUM FOR: DARRYL MARTIN
MANAGER, BALTIMORE DISTRICT

A handwritten signature in black ink that reads "Michelle Lindquist".

FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Refund of Permit Postage and Fees –
Hagerstown, MD, Post Office
(Report Number 21-072-R21)

This report presents the results of our audit of Refunds of Permit Postage and Fees – Hagerstown, MD, Post Office.

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

Attachment

cc: Corporate Audit and Response Management

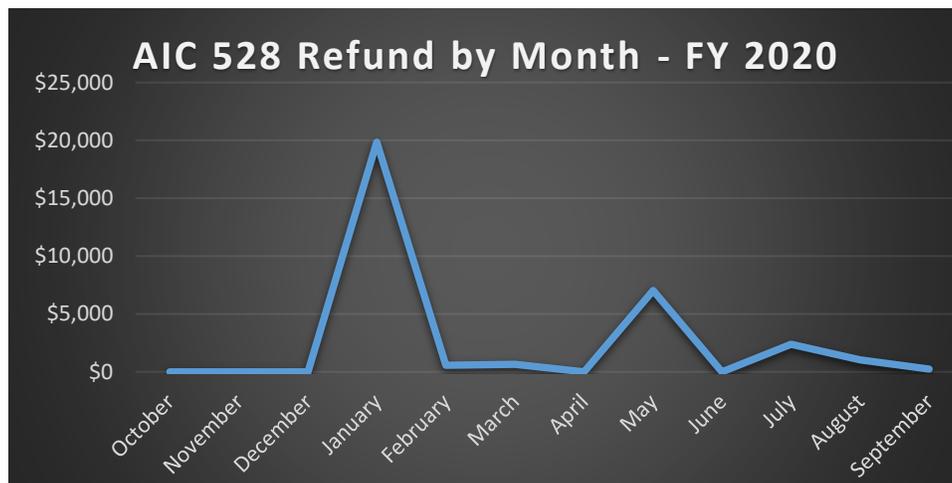
Background

This report presents the results of our self-initiated audit of Refunds of Permit Postage and Fees - Hagerstown, MD, Post Office (Project Number 21-072). The Hagerstown, MD, Post Office is in the Baltimore District of the Atlantic Area.¹ This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Business Reply Mail (BRM) is a service provided by the Postal Service that enables a sender to provide a recipient with a convenient, prepaid method for replying to a mailing. Customers request refunds when postage has been applied to the prepaid mailing. To obtain a refund, customers must submit postage affixed BRM, and the required Postal Service (PS) Form 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts. The Postal Service assesses fees to process the refunds and deducts them from the customer's refund amount.

The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified Hagerstown, MD, Post Office permit postage refunds totaling about \$31,754 for fiscal year (FY) 2020², which is 51 percent of the district's total. In addition, we identified several months with little or no refund activity (see [Figure 1](#)).

Figure 1. Monthly Refund Totals for Account Identifier Code (AIC) 528



Source: OIG analysis.

¹ The Baltimore District was in the Capital Metro Area prior to reorganization of Postal Service areas, districts, divisions, and regions, which was initiated in August 2020.

² October 1, 2019 through September 30, 2020.

Objective, Scope, and Methodology

The objective of this audit was to determine whether postage affixed BRM refunds were properly issued, supported, and processed at the Hagerstown, MD, Post Office. To accomplish our objective we analyzed refund data, including supporting documentation, identified at the Hagerstown, MD, Post Office, for FY 2020, which were recorded in AIC 528, Refund Permit Postage and Fees.³ In addition, we interviewed unit personnel and Postal Service management and observed responsible personnel to determine the process for issuing BRM refunds.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW)⁴ system. 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 December 2020 through March 2021 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 conclusion based on our audit objective. We discussed our observations and conclusions with management on February 19, 2021 and included their comments where appropriate.

Finding #1: Business Reply Mail Refunds

Refunds for postage affixed BRM were valid; however, unit personnel did not always properly support, or process refunds timely.

We found 34 of the 40 refund transactions reviewed had incomplete PS Forms 3533, Postage Affixed on BRM or Meter Stamps. Specifically, none had been signed by a supervisor or a witness to certify destruction as required in Part 3 of Form 3533. The remaining six PS Forms 3533 were voided refund transactions. The clerk inadvertently entered the account number instead of the refund amount on four PS Forms 3533 and was unsure of the remaining two forms.

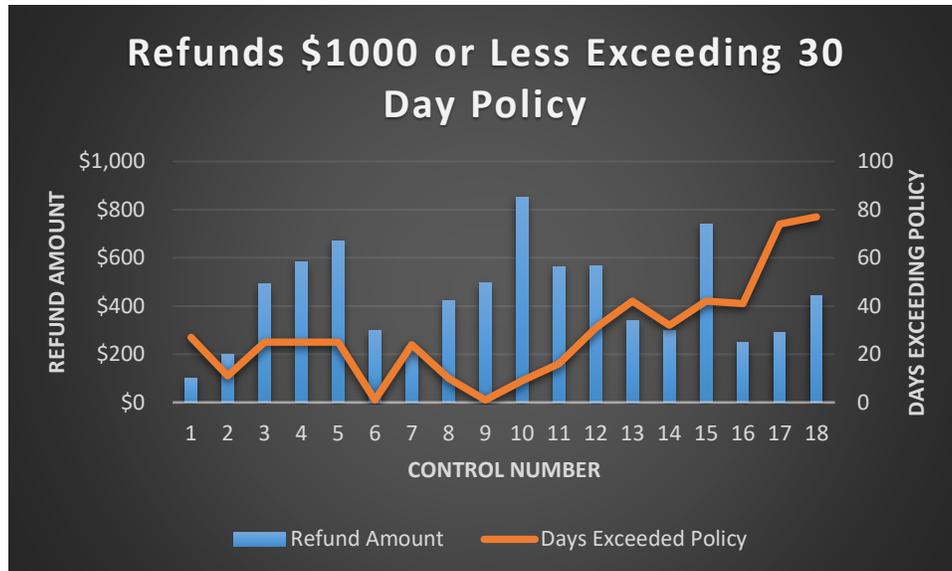
In addition, 26 of the 40 refund transactions were not processed timely. For refunds of \$1,000 or less, the unit processed 18 refunds averaging \$435. It took the unit an average of 28 days beyond the 30-day threshold to process the refunds (see Figure 2). For refunds exceeding \$1,000, the unit processed eight refunds averaging \$2,284. It

³ An AIC is used to classify financial transactions to the proper general ledger account. AIC 528 is used to record refunds related to postage affixed to a BRM envelope.

⁴ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

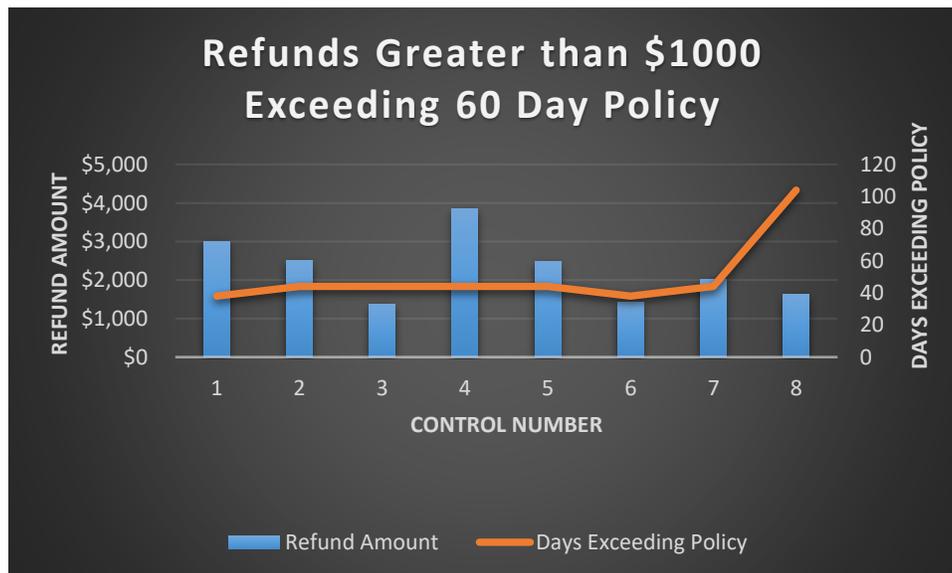
took the unit an average of 50 days beyond the 60-day threshold to process the refunds (see [Figure 3](#)).

Figure 2. Refunds \$1,000 or Less Exceeding 30-Day Policy



Source: OIG analysis.

Figure 3 - Refunds Greater than \$1,000 Exceeding 60-Day Policy



Source: OIG analysis.

Postal Service policy⁵ states that processing refunds requires a post office employee and a witness to destroy spoiled or unused customer meter stamps and both sign Part 3 of PS Form 3533. The postmaster or a supervisor reviews the form to ensure the refund disbursement is warranted and properly completed.

In addition, Postal Service policy⁶ states that spoiled and unused postage stamp refunds of \$1,000 and under must be processed within 30 days. Spoiled and unused postage stamp refunds of more than \$1,000 must be processed within 60 days.⁷

Unit management stated that the lead clerk is the only individual at the unit with the knowledge to process BRM refunds and that neither unit management nor the lead clerk has received formal training on the refund process. Unit management and the lead clerk stated the amount of refunds brought in and the degree of traffic at the retail window impacts how quickly the refunds can be processed. The lead clerk also stated that, as the only person managing BRM refunds, it is not uncommon for the mail to be set aside for months before processing.

In addition, the lead clerk stated that although BRM mail is shredded at the facility, it is usually shredded by an employee on light duty or by whoever is not busy. Generally, there is no witness to the destruction.

If processing is delayed, it creates a backlog of work for unit personnel. In addition, when refunds are not destroyed timely or destruction of stamps is not witnessed, the stamps could be reused, or a duplicate refund could occur. We consider the delayed refund transactions a risk to the Postal Service's goodwill and branding.⁸

Unit management implemented corrective action by assigning another employee as a back-up to assist in processing BRM refunds to ensure timeliness and to provide a witness to the destruction.

Recommendation #1: We recommend the **Manager, Baltimore District**, reiterate policy and provide training to unit management at the Hagerstown, MD, Post Office on processing business reply mail refunds.

⁵ *Postal Operations Manual (POM)*, Section 145.11 and Handbook F-101, *Field Accounting Procedures (Draft)*, Section 21-1, May 2017.

⁶ POM, Issue 9, Section 145.11.k, July 2002.

⁷ Based on prior audit titled *Financial Controls Policy for Retail Units* (Report Number 20-264-R20, dated August 13, 2020) the Postal Service is updating policy to reflect a change in the amount from \$500 to \$1,000. The update should be complete by April 30, 2021.

⁸ An actual or potential event or problem that could harm the reputation of the Postal Service.

Finding #2: Daily Financial Report

Unit management did not review PS Form 1412, Daily Financial Report, for accuracy and to ensure daily transactions were supported.

Postal Service policy⁹ states that field unit managers must review supporting documentation for all entries included on PS Form 1412 and agree with the overall presentation of the report each day.

Unit management stated that they do not know the closeout procedures, are not present during close out, and have relied on either the lead clerk or other closing clerks to perform the task. Unit management also stated that they have not received formal training on closeout procedures.

If internal controls are not followed, the Postal Service risks making processing errors and maintaining inaccurate and incomplete documentation relating to the daily financial activity of the unit.

Unit management implemented corrective action by completing *Unit 1412 Closeout for Point-of-Sale* training and are currently conducting daily closeout reviews with the closing clerk; therefore, we are not making a recommendation for this issue.

Management's Comments

Management agreed with the findings and recommendation.

Regarding recommendation 1, management agreed to reiterate policy and provide training to all managers and clerks at the Hagerstown, MD Post Office. The target implementation date is March 31, 2021.

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, and corrective actions should resolve the issue identified in the report. The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation 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.

⁹ Handbook F-101 (DRAFT), Section 2-4.1.

Appendix A: Management's Comments



March 1, 2021

JOSEPH E. WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Report – Refund of Permit Postage and Fees –
Hagerstown, MD, Post Office (Project Number 21-072-DRAFT)

Thank you for the opportunity to respond to the Office of Inspector General (OIG) audit of "Refund of Permit Postage and Fees- Hagerstown, MD Post Office".

Management agrees with the findings noted in the audit report.

Management does agree with the recommendation as outlined in the audit per the response below.

Recommendation #1

We recommend the Manager, Baltimore District, reiterate policy and provide training to unit management at the Hagerstown, MD, Post Office on processing business reply mail refunds.

Management Response/Action Plan

Management agrees with this recommendation and will implement by having the district manager instruct all managers and clerks at the Hagerstown Post Office to take and complete HERO Training Course "Marketing: BRM WBT". To request closure of this recommendation training records for the five clerks and four management employees required to take this training will be provided.

Target Implementation Date

March 31, 2021

Responsible Official

Postmaster, Hagerstown, MD

A handwritten signature in blue ink, appearing to read "Darryl Martin", written over a horizontal line.

Darryl Martin
Baltimore District Manager

cc: Manager, Corporate Audit & Response Management