



AUDIT REPORT

Passport Revenue and Fees - Stockdale Station, Bakersfield, CA

September 26, 2018

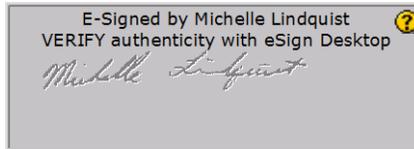


Report Number FCS-FM-18-030



September 26, 2018

MEMORANDUM FOR: ALFRED SANTOS, JR.
MANAGER, SIERRA COASTAL DISTRICT



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Passport Revenue and Fees - Stockdale
Station, Bakersfield, CA
(Report Number FCS-FM-18-030)

This report presents the results of our audit of the Passport Revenue and Fees - Stockdale Station, Bakersfield, CA (Project Number 18BFM025FCS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact 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 Passport Revenue and Fees – Stockdale Station, Bakersfield, CA (Project Number 18BFM025FCS000). The Stockdale Station is in the Sierra Coastal District of the Pacific Area. This audit was designed to provide the U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Postal Service began accepting passport applications on the State Department's behalf in 1975. With more than 5,000 locations, the Postal Service processes millions of passport applications each year through both walk-ins and appointments. For fiscal years (FY) 2016 and 2017, the Postal Service revenue for passport acceptance fees was \$150 million and \$165 million, respectively, and, for passport photo services, was \$48 million and \$60 million, respectively.

Passport acceptance fee revenue was \$148 million, and passport photo services revenue was \$50 million, or 34 percent of the passport acceptance fee revenue, for the period of October 1, 2017 through June 30, 2018. The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified Postal Service retail units with low amounts of revenue recorded to account identifier code (AIC)¹ 241, *Passport Photo Services*, compared to AIC 264, USPS Passport Acceptance Fee, for the same period.

For Stockdale Station, passport photo services revenue for October 1, 2017, to June 30, 2018 was \$57,405 compared to \$91,335 for October 1, 2016, to June 30, 2017, a 37 percent drop in revenue. For April through June 2018, the total revenue was \$17,880 compared to \$32,655 for the same period in 2017, a 45 percent drop in revenue. It is unusual for one office to have such a high decrease in photo services revenue.

Objective, Scope and Methodology

Our objective was to determine whether passport photo revenue and fees were appropriately reported and whether opportunities for increasing photo services revenue were optimized at the Stockdale Station.

We interviewed unit personnel and Postal Service management. We also analyzed revenue data and examined a sample of Postal Service (PS) Forms 5659, *Daily Passport Application (DS-11) Transmittal*,² for passport applicants that occurred between April 1, 2017, through June 30, 2018. Our sample was June 1 through 30, 2018 (a total of 26 days of activity).

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

² The log of individual passport application activity for both the Department of State and the Postal Service.

We relied on computer-generated data from 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 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 September 6, 2018, and included their comments where appropriate.

Finding #1: Passport Revenue and Fees

Passport revenue and fees reporting needed improvement at this unit. We found

- For 22 of the 26 days of transactions examined, PS Form 1412, Daily Financial Report,⁴ total for AIC 264 did not agree with the total applicants on the supporting PS Form 5659 documentation.
- Passport photo services revenue internal collection could be enhanced.

The passport office is not located in the same building as the retail unit, and it does not have its own Retail Systems Software (RSS)⁵ to record sales transactions. To collect the revenue and fees, the passport office personnel complete a work order for each applicant, which includes passport photo services. The passport agent directs customers who pay by credit, debit, or money order, to go next door to the retail office window to pay for the charges. Customers pay the retail window clerk and return to the passport office with a receipt as proof of payment. The passport process is then finalized. However, for customers who have the exact amount in cash or check for the Department of State and the Postal Service fees, the passport agent will accept and retain the payment. Throughout the day, retail clerks collect the cash and check payments and the accompanying work order from the passport office and take them to the retail unit to input into RSS as time permits. The work orders are disposed of after entry into the RSS. PS Form 5659 is copied and provided to the retail clerks in the retail unit next door at the end of the day to support PS Form 1412.

Because the cash and checks are kept in a separate location from the retail unit, it is important to have proper support to ensure all passport transactions are recorded into RSS, and all revenue is reported. Since PS Form 5659 is not transmitted until the end of

³ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes from the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

⁴ Provides individual retail associates and postal retail units with a uniform method to report financial transactions.

⁵ The primary hardware and software system used to conduct retail sales transactions at post office.

the day, it increases the likelihood that revenue for passport acceptance fees and the supporting documentation will not agree.

Postal Service policy⁶ states for each PS Form 5659 accepted, unit employees must enter the fee acceptance amount in AIC 264, the photo services amount in AIC 241, and both amounts on the daily PS Form 1412. In addition, policy⁷ states a completed PS Form 5659 is to be retained at the unit. PS Form 5659 is the log of individual passport application activity for both the Department of State and the Postal Service and supports the unit's daily PS Form 1412 for AIC 264. It is important that the application activity and PS Form 1412 sales agree to ensure all revenue is collected for both agencies. PS Form 5659 provides support for AIC 264; it does not provide support for AIC 241. Further, the Committee of Sponsoring Organizations of the Treadway Committee⁸ framework requires risk to be controlled to provide assurance that financial transactions are reviewed and occurring as planned to mitigate risk. A best practice for management to mitigate financial risk is to keep a list of cash receipts that can be reconciled to the accounting records.

Management stated the work orders are not maintained because it is not a requirement and it contains customer's information. Therefore, management disposes of the forms following entry of the work order amounts into RSS. Also, management stated closing the retail unit coincides with the passport office completing the last applications of the day, and it is a busy time for both offices. Further management stated PS Form 5659 is not always being copied and put with PS Form 1412 support due to time pressures at closing. For these reasons, not all transaction support may be included in the unit's PS Form 1412, and those transactions are typically entered on subsequent days.

We understand that work orders are not required by policy to be maintained. However, because passport transactions, including cash and check collections from the customer occur in a building separate from where they are being recorded in RSS, we believe it is important to maintain some record of the passport transaction to ensure all transactions are properly recorded. Maintaining supporting documentation such as the work orders at this unit will help ensure passport transactions are properly recorded and reduce the risk cash and checks collected in the passport office are not misplaced, lost, or stolen. Further, the unit may want to consider securing a separate RSS for the passport office to reduce the risk of misplaced, lost, or stolen passport cash or checks and it may also help ensure timely recording of all transactions within the same business day.

Recommendation #1: We recommend the Manager, Sierra Coastal District, instruct the Customer Service Manager to verify all photo revenue and fees are recorded daily in Account Identifier Codes.

⁶ F-101, Field Accounting Procedures, Section 7.4, May 2017 (DRAFT) and Administrative Support Manual, Sections 422.281.b 6-9 and 422.282.a-c, Issue 13, updated through October 2017.

⁷ Administrative Support Manual, Sections 422.282.c, Issue 13.

⁸ 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.

Recommendation #2: We recommend the vice president, Retail and Customer Service Operations, evaluate establishing a Retail Systems Software terminal at the Stockdale Station passport unit or have all revenue collected and recorded at the retail unit.

Finding #2: Optimization of Passport Photo Fees

Opportunities for increasing photo fee revenue are not being optimized. Specifically, signs were posted on the front door and on the inside bulletin board of the passport office informing the public that passport photos are available for \$5.00 at Costco (see Figure 1).

Figure 1. Sign Directing Public to Costco for Passport Photos.



Source: OIG

Passport office staff explained the sign was placed in the window for the convenience of the customers because of their complaints regarding Postal Service price for passport photos. In addition, some of the staff stated the camera and printer were difficult to use and required an excessive amount of adjustment. Further, supplies often ran out and could not be reordered quickly. In order to keep processing passports, they borrow supplies from other offices or inform applicants to obtain photos prior to their appointment.

When we inquired about the downward trend in percentage of photo services revenue, the District Retail Manager stated in the past, there was heavy traffic with walk-ins, with many more passports and photos provided. Now, most customers make appointments.

The Postal Service could potentially increase revenue by ensuring the passport unit has functioning equipment and the necessary supply of printer paper.

Recommendation #3: We recommend the Manager, Sierra Coastal District, instruct the unit manager to require all applicable unit personnel be trained on the passport photo equipment and maintain the necessary supplies for the photo equipment.

Management's Comments

Management agreed with the findings and recommendations.

Regarding recommendations 1 and 2, RSS technology was installed at Stockdale Station passport unit on September 21, 2018, allowing all revenue to be properly recorded to AICs at the unit. In addition, management will require the unit to print and maintain a copy of the My Post Office (MyPO) Retail Customer Appointment Scheduler (RCAS) Appointment Scheduler Close-out Report to validate against entries in the PS Form 1412, and RCAS Dashboard. Further, management will conduct random reviews of all passport financial documents, unit consolidated PS Form 1412, MyPO Close-out Reports for the next 60 days to ensure the unit is properly following required procedures. Management stated this will be completed by November 30, 2018.

Regarding recommendation 3, as of September 11, 2018, all Passport Acceptance Agents at Stockdale Station have been trained on the use of photo equipment/printer and a process has been initiated by the Customer Service Manager for the timely ordering of supplies.

Management stated signage directing customers to external photo locations has been removed from the unit. In addition, management stated the photo transactions has increased by 8 percent at this unit since they started using the scheduling tool in April 2018 when compared to same period of last year, and total passport revenue has increased 35 percent over the prior year.

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 recommendations in the report. The corrective actions should resolve the issues identified in the report.

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

Appendix A: Management's Comments

DISTRICT MANAGER
SIERRA COASTAL DISTRICT



September 24, 2018

Monique Colter
Director, Audit Operations

SUBJECT: Passport Revenue and Fees – Stockdale Station, Bakersfield CA (Report Number FCS-FM-18-DRAFT)

Management has reviewed the results from Audit Passport Revenue and Fees – Stockdale Station, Bakersfield CA (Report Number FCS-FM-18-DRAFT) and realizes there is an opportunity for optimizing the collection/recording of funds at the Stockdale Station.

However, it would also like it to be noted that Total Passport revenue at this location has seen a significant increase since the unit started accepting Passport Photos and Applications via the USPS online scheduling tool in April and continues to see steady improvement in both the number of transactions and revenue. Since 7/1/18, photo transactions at the Stockdale site has increased by 8% when compared to SPLY and Total Passport Revenue has seen a gain of more than 35% over the prior year.

Recommendation #1:

Manager, Sierra Coastal District, instruct the Customer Service Manager to verify all photo revenue and fees are recorded daily in Account Identifier Codes

Management's Response/Action Plan:

Management Agrees

The installation of RSS technology on 9/21/18, will ensure that all Passport and Photo revenue and fees are properly recorded into the Account Identifier Codes. In addition, the Manager of Customer Service (MCS) Stockdale Station will require the unit to print and maintain a copy of the MyPO RCAS Appointment Scheduler Close-out Report to validate entries against the Unit Consolidated PS Form 1412 and the RCAS Dashboard. Manually scheduled Walk-in Appointments that do not automatically migrate from the on-line scheduler into MyPO will be recorded on a separate tracking log using similar appointment criteria as found with MyPO entries.

The Stockdale MCS will conduct random reviews of all Passport Financial documents, Unit Consolidated PS Form 1412 and MyPO Close-out Reports for the next 60 days to ensure the unit is properly following required procedures.

Target Implementation Date:

November 2018

Responsible Official:

Postmaster Bakersfield, Sierra Coastal District
Manager Customer Service Operations Bakersfield

Recommendation #2:

Vice President, Retail and Customer Service Operations, evaluate establishing a Retail Systems Software (RSS) terminal at the Stockdale Station Passport unit or have all revenue collected and recorded at the retail unit.

Management's Response/Action Plan:

Management Agrees.

Written approval was received to add a Retail System Terminal (RSS) with all peripherals and approved by HQ Equipment Technology for the Stockdale Station on 9/12/18. RSS equipment was shipped to the Stockdale Station on 9/19/18 and received at the unit 9/21/18. Installation occurred on the same day.

Target Implementation Date:

September 2018

Responsible Official:

Manager of Marketing, Sierra Coastal District
Manager of Retail, Sierra Coastal District

Recommendation #3:

Manager, Sierra Coastal District, instruct the Unit Manager to require all applicable unit personnel be trained on the passport photo equipment and maintain the necessary supplies for the photo equipment

Management's Response/Action Plan:

Management Agrees.

As of 9/11/18, all Passport Acceptance Agents at the Stockdale Station have been trained on the use of photo equipment/printer. A process has likewise been initiated by the Manager of Customer Service for the timely ordering of supplies and assurance that photo equipment is being maintained in working condition. Finally, all signage directing customers to external photo locations has been removed from the unit.

Target Implementation Date:

September 2018

Responsible Official:

Postmaster Bakersfield, Sierra Coastal District
Manager Customer Service Operations Bakersfield
Manager Customer Service, Stockdale Station, Bakersfield



Al Santos
District Manager
Sierra Coastal District

cc: Kevin L. McAdams, VP Delivery Operations
Sally K. Haring, Manager Corporate Audit and Response Management
Ken Lucas, Manager Accounting Pacific Area
Lynda La Force, Postmaster Bakersfield
Ramela Younekian, Manager, Marketing