



AUDIT REPORT

Meter Revenue Refunds – W.T. Harris Station, Charlotte, NC

August 21, 2019

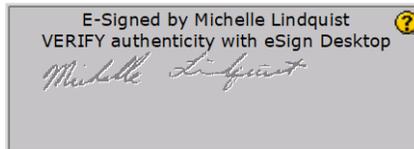


Report Number FCS-FM-19-020



August 21, 2019

MEMORANDUM FOR: LESLIE JOHNSON-FRICK
MANAGER, MID-CAROLINAS DISTRICT



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Draft Audit Report – Meter Revenue Refunds – W.T. Harris
Station, Charlotte, NC (Report Number FCS-FM-19-020)

This report presents the results of our audit of Meter Revenue Refunds at the W.T. Harris Station, Charlotte, NC (Project Number 19BFM017FCS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact please contact Mary Aleman, Operations 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 meter revenue refunds at the W.T. Harris Station in Charlotte, NC (Project Number 19BFM017FCS000). The W.T. Harris Station is in the Mid-Carolinas District of the Capital Metro 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)¹ 526, Refund Spoiled or Unused Customer Meter Stamps,² is used to record refunds of spoiled or unused postage meter stamps from customer postage meters. The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified the W.T. Harris Station as having \$78,368 in meter revenue refunds from January 1 through March 31, 2019, compared to \$48,973 for the prior quarter (October 1 through December 31, 2018), which is a 60 percent increase based on data from the Enterprise Data Warehouse (EDW).³ Spoiled or unused customer meter stamp refunds for the W.T. Harris Station were 85 percent of the overall amount of the meter stamp refunds in the Mid-Carolinas District for the same timeframe. This percentage ranked the highest in the Mid-Carolinas District and the second highest in the nation.

Objective, Scope, and Methodology

The objective of this audit was to determine whether meter refunds were properly issued, supported, and processed at the W.T. Harris Station.

To accomplish our objective, we reviewed daily financial reports; 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, 2019. We also extracted and analyzed EDW data for 36 refund transactions and interviewed unit personnel and Postal Service managers.

We relied on computer-generated data from the EDW. 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 documents, and interviewing knowledgeable Postal Service employees. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from May through August 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 conclusion

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

² Spoiled meter stamps are refunds of spoiled or unused postage meter stamps from customer postage meters.

³ 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.

based on our audit objective. We discussed our observations and conclusions with management on July 29, 2019, and included their comments where appropriate

Finding #1: Meter Revenue Refunds

Unit personnel did not properly issue, support, or process meter refunds at the W.T. Harris Station. Of the 36 refunds reviewed, unit personnel did not follow policies to ensure that 32 refunds to one customer — a major mailer — were properly completed, issued or issued timely. Unit personnel also did not follow policies for completing PS Forms 3533 for the remaining four refunds to other customers.

Major Mailer Refunds

We found that policies were not followed for 32 refunds totaling \$78,316 to one major mailer. Specifically:

- Unit employees signed the Verification of Disbursements section of PS Form 3533 as witnesses without observing the refund disbursements.
- Managers and witnesses signed the Postage Affixed on Business Reply Mail (BRM) or Meter Stamps section of PS Form 3533 to certify spoiled meter stamps were destroyed. However, a third-party contractor, hired by the customer, destroyed the meter stamps without unit employees witnessing the destruction.
- Customers or unit personnel did not select AIC codes for two of the PS Forms 3533 refund transactions.

Postal Service policy requires the sales and service associate complete the Verification of Disbursements section of PS Form 3533. A witness to the refund transaction signs the witness signature line in the section (if applicable).⁴ If a witness is not available, the postmaster must note “NWA”, which means “no witness available,” on the form.⁵ Postal policy also requires an employee and a witness verify destruction of postage stamps affixed on BRM pieces or meter stamps, or other evidence submitted to prevent reuse. The supervisor and a witness certify the destruction and both sign in the Postage Affixed on BRM or Meter Stamps section of PS Form 3533, as appropriate.⁶ Further, Postal Service policy requires the retail associate to ensure the PS Form 3533 is properly completed.⁷

Prior to processing refunds at the unit, the mailer completes a log with the specific information of the spoiled or unused postage requested for a refund at the mailer’s facility. At least weekly, a unit employee goes to the mailer’s facility to obtain and verify

⁴ Handbook F-101, *Field Accounting Procedures (Draft)*, Sections 21-1(c) and 21-2(b-d), May 2017.

⁵ It is at the discretion of the postmaster or unit manager to determine if a postal employee is available to witness the refund transaction.

⁶ Handbook F-101 (Draft), Section 21-2.2, Procedure for Postage Refunds.

⁷ Handbook F-101 (Draft), Section 21-1.1a-c.

the refund application. After verification, the employee completes the Application section of the PS Form 3533, and the mailer signs the form. The employee returns to the unit, leaving the spoiled or unused meter postage at the mailer's facility to be transferred to a third-party vendor for destruction but does not witness the destruction. In addition, the employee does not invalidate the meter stamps prior to leaving the facility to prevent reuse. The unit employee submits the PS Form 3533 and supporting documentation⁸ to another designated unit employee to review the refund calculation. After validation, the designated employee signs the form as a witness in the (1) Verification of Disbursements section that the designated employee observed the refund disbursement and in the (2) Postage Affixed on BRM or Meter Stamps section that the meter stamps were destroyed (even though designated employee was not at the site).

The unit employee believed it was necessary to sign the form as a witness to show she verified the accuracy of the refund amount. Further, according to the former postmaster, she believed the practice of allowing a third-party contractor hired by the customer to destroy the meter stamps without a unit employee witnessing the destruction was based on a prior agreement between the Postal Service and the major mailer. We have been unable to obtain a written copy of an agreement.

Major Mailer Refunds Timeliness

Unit personnel did not always process 13 of the 32 refunds timely. Specifically:

- Ten refunds totaling \$1,507, each valued at \$500 or less, were processed between 30 and 60 days after the unit received the refund request.
- Two refunds totaling \$400, each valued at \$500 or less, were processed 61 days after the unit received the refund request.
- One refund, totaling \$5,491, was processed 61 days after they received the refund request.

Postal policy⁹ requires that spoiled and unused postage meter stamp refunds of \$500 or less must be processed within 30 days. Spoiled and unused postage meter stamp refunds of more than \$500 must be processed within 60 days.

According to the unit employee who reviewed the forms and submitted them to the San Mateo Accounting Services for payment, there is no backup to perform her duties when she is absent. Therefore, during Quarter 2, she processed outstanding refunds from the previous quarter.

⁸ The supporting documentation notes the date, meter number, postage value, and the number of pieces to be destroyed.

⁹ *Postal Operations Manual*, Section 145.11 K, dated April 2019.

Other Refunds

We found that polices were not followed for four additional refund transactions totaling \$51. Specifically:

- Customers or unit personnel did not properly complete PS Forms 3533 for three refund transactions. Important customer information was missing from the forms, including customer signature and date, AIC codes, Postal Service verification of disbursement signature, and the reason for the refund. In addition, unit personnel used obsolete¹⁰ forms for these refunds.
- The station did not have a PS Form 3533 for one refund.

See Table 1 for details.

Table 1. PS Form 3533 Errors

Type of Error	Instances*
Customer information or customer signature missing	2
AIC blank or different from AIC on the electronic PS Form 1412 (e1412) ¹¹	3
Verification of disbursements signature missing	1
Reason for refund missing	3
Obsolete form	3
No form ¹²	1

*Forms contained multiple errors.

Source: OIG analysis of PS Forms 3533.

Postal policy¹³ requires the retail associate to ensure the PS Form 3533 is properly completed. The manager and unit personnel were unaware forms were incomplete or believed completion was unnecessary for small amounts.

If employees at the W.T. Harris Station do not ensure refunds are properly issued, processed, and supported, the Postal Service risks issuing duplicate, incorrect or unauthorized refunds. We consider the 32 refunds valued at \$78,316 as unsupported questioned costs.¹⁴ According to the unit manager, she will take corrective action and discarded the obsolete PS Forms 3533, so we are not making a recommendation for that issue.

¹⁰ Unit personnel used PS Forms 3533 dated June 2014. The current version is dated December 2016.

¹¹ The e1412 is a web-based application that processes PS Forms 1412, Daily Financial Report, data. This application allows you to enter data recorded in the general ledger.

¹² The dollar value of the refund was \$27.

¹³ Handbook F-101 (Draft), Section 21-1.1a-c.

¹⁴ Unsupported questioned costs are a weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures but does not necessarily connote any real damage to the Postal Service.

Recommendation #1: We recommend the **Manager, Mid-Carolinas District**, reiterate policies regarding the verification of disbursements and destruction of meter stamps refunded; or develop alternative guidance for destruction to prevent duplicate, unauthorized, or incorrect refunds.

Management's Comments

Management agreed with the finding and recommendation but disagreed with the monetary impact. Management did not believe monetary damage occurred to the Postal Service but agreed policy was not followed precisely to ensure a Postal Service employee witnessed the destruction of the metered envelopes. They added that the mailer had unique qualities that led to some deviation to the policy; however, the process the Postal Service employee used to verify the mail for destruction with a colored marker has added security to prevent resubmitting previously accepted envelopes.

Management stated these refunds were issued for one major mailer that has seasonal variations related to their spoiled meter postage, and the station was identified for audit based on an increase in refunds from one quarter to the next. Management also stated OIG did not perform an on-site visit at the major mailer's location to determine if other acceptable processes were in place. Finally, management stated that the OIG did not investigate why the amount of refunds increased from one quarter to the next.

Regarding recommendation 1, management will develop a standard operating procedure that follows Postal Service policy and procedures to ensure that all metered mail presented by the major mailer and processed for payment at W.T. Harris Station is properly verified, destroyed, and refunded. The target date for completion of the standard operating procedure is September 30, 2019.

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 in the report. As noted by the Postal Service, W.T. Harris Station employees did not follow policy to ensure that a Postal Service employee witnessed the destruction of metered envelopes. Consequently, the claim for monetary impact is, by definition, based on the "failure to follow policy or required procedures but does not necessarily connote any real damage to the Postal Service."

Further, as noted in our report, when selecting this location for audit, along with the difference between quarters, the OIG also considered that spoiled or unused customer meter stamp refunds for the W.T. Harris Station were 85 percent of the overall amount of meter stamp refunds in the Mid-Carolinas District for the timeframe reviewed. We further stated this percentage ranked the highest in the Mid-Carolinas District and the second highest in the nation. While there may be a seasonal variance between

quarters, unit personnel stated that outstanding refunds from the previous quarter were also processed during the quarter reviewed.

With regard to the major mailer location, the OIG did not perform an on-site visit because this was outside the scope of our audit. However, we interviewed the Postal Service employee responsible for verifying the mail and identifying mail presented for destruction to gain an understanding of her procedure while at the major mailer location. During the exit conference, we also requested management provide a copy of the agreement related to the major mailer's handling of spoiled or unused metered envelopes submitted for refunds; however, Postal Service personnel did not provide a copy of the agreement during our audit.

All recommendations require 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 it can be closed.

APPENDIX A. MANAGEMENT'S COMMENTS

August 19, 2019

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report –Meter Revenue Refunds-W.T. Harris
Station, Charlotte, NC (Report Number FCS-FM-19-DRAFT)

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft audit report, "Meter Revenue Refunds-W.T. Harris Station, Charlotte, NC". Management does agree with the findings noted in the audit report. Management does agree with the recommendation as outlined in the audit per the response below.

Regarding the monetary impact listed as unsupported questioned costs in the amount of \$78,316.00, we agree that policy was not followed exactly to ensure the destruction of the metered envelopes was witnessed by a postal employee. The major mailer does have unique qualities that led to some deviation to policy however we do believe that the process used by the employee to verify the mail and to identify mail presented for destruction with a colored marker to indicate that it has been accounted for has added additional security so that any previously accepted envelopes would not be able to be resubmitted.

Additionally, these refunds were all issued for one major mailer that has seasonal variations related to their spoiled meter postage. This station was identified for audit based on an increase in refunds from one quarter to the next. No on-site visit was performed during this audit to determine if other acceptable processes were in place at this mailer's location and no investigation was done to determine why the amount of refunds increased from one quarter to the next. We do not believe there has been any monetary damage to the Postal Service.

Recommendation #1

We recommend the Manager, Mid-Carolinas District, reiterate policies regarding the verification of disbursements and destruction of meter stamps refunded; or develop alternative guidance for destruction to prevent duplicate, unauthorized, or incorrect refunds.

Management Response/Action Plan

Management agrees with this recommendation and will implement by developing a Standard Operating Procedure that follows postal policy and procedure that will ensure all metered mail presented at by Wells Fargo and processed for payment at W.T. Harris Station is properly verified, destroyed and refunded. A copy of the SOP will be provided to request closure of this recommendation.

- 2 -

Target Implementation Date

September 2019

Responsible Official

Postmaster, Charlotte, NC

A handwritten signature in black ink, appearing to read "Leslie Johnson-Frick". The signature is written in a cursive, flowing style with some loops and flourishes.

Leslie Johnson-Frick, District Manager, Mid-Carolinas District

cc: Manager, Corporate Audit & Response Management