



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Financial Controls Over Passport Applications

Audit Report

July 27, 2011

Report Number FF-AR-11-011



HIGHLIGHTS

IMPACT ON: Financial controls over processing of passport applications.

WHY THE OIG DID THE AUDIT:

The report responds to a request from the controller's office to determine whether the U.S. Postal Service could reconcile passport revenue generated at its acceptance facilities with passport applications submitted to the U.S. Department of State (DOS).

WHAT THE OIG FOUND:

We identified three areas in which the Postal Service has opportunities to enhance its financial controls over passport applications and revenue associated with fees collected. Specifically, the Postal Service needs a reconciliation process concerning the collection and financial reporting of application fees collected at acceptance facilities, improved controls over fees collected for passport photos, and re-evaluation of the fee charged for passport photos. Establishing these controls would provide better assurance that units are collecting and reporting all passport revenue and fees. In addition, there could be an opportunity for increased revenue by capturing a larger share of the market for passport photos.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service coordinate with the DOS to develop a process for reconciling passport application fees, develop unit level

controls to strengthen the collection of passport photo fees, re-evaluate the fee charged for passport photos, and provide units with instructions for disposition of extra photos that are no longer required.

WHAT MANAGEMENT SAID:

Management agreed with recommendations 2, 3, and 4. However, management disagreed with recommendation 1 to develop a process with the DOS to reconcile passport application fees collected by acceptance facilities with applications processed by the DOS. Instead, management stated the Postal Service is pursuing an accounting system change that should increase the accountability of passport acceptance fees.

AUDITOR'S COMMENT

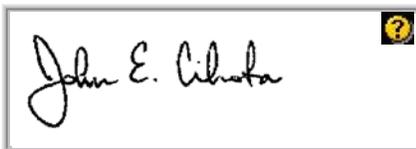
Reconciliation between the DOS and the Postal Service provides a higher level control that can ensure the Postal Service is collecting all its revenue from passport application fees, including those in which fees may not be entered into POS. Further, reconciliation with the DOS should reduce the risk of loss due to fraudulent activities, diversion of Postal Service cash, and even transmission errors.

[Link to review the entire report.](#)



July 27, 2011

MEMORANDUM FOR: KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". A small yellow circular icon is visible in the top right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Audit Report – Financial Controls Over Passport
Applications (Report Number FF-AR-11-011)

This report presents the results of our audit of the Financial Controls Over Passport Applications (Project Number 11BG006FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact William Rickett, acting director, Field Financial – Central, or me at 703-248-2100.

Attachments

cc: Joseph Corbett
Paul Vogel
Timothy F. O'Reilly
Christine R. Ray
Elizabeth A. Richardson
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of financial controls over passport applications (Project Number 11BG006FF000). The report responds to a request from U.S. Postal Service management to determine whether the Postal Service could reconcile passport revenue generated at the retail units with applications submitted to the Department of State (DOS). The objective of this audit was to evaluate financial controls over processing of passport applications. This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

There are approximately 6,300 postal retail units (referred to as acceptance facilities) that process passport applications nationwide. The Postal Service charges a \$25 application fee for processing new passport applications and reported about \$170 million in revenue in fiscal year (FY) 2010 for these services. In addition, about 5,500 of these offices offer passport photos at a fee of \$15 for two photos. In FY 2010, retail units reported more than \$46 million for passport photo fees. The Postal Service represents the largest source of new applications for the DOS and, according to estimates from an official at the DOS, approximately 70 percent of new passport applications come from the Postal Service.

Conclusion

We identified three areas in which the Postal Service has opportunities to enhance its financial controls over passport applications and revenue associated with fees collected. Specifically, the Postal Service needs (1) a reconciliation process for the collection and financial reporting of application fees collected at acceptance facilities, (2) improved controls over fees collected for passport photos, and (3) a re-evaluation of the fee charged for passport photos. Establishing these controls would provide better assurance that units are collecting and reporting all passport revenue and fees. In addition, there could be an opportunity for increased revenue by capturing a larger share of the market for passport photos.

Develop a Reconciliation Process with DOS

The Postal Service does not have the capability to measure the profitability of its passport program or the adequacy of financial controls between applications sent to DOS against those processed by postal acceptance facilities. This is because the DOS does not keep data that would allow the Postal Service to reconcile passport application fees back to the office where they were paid. For example, the DOS does not archive information that tracks an application to a specific Postal Service acceptance facility. However, the DOS plans to upgrade its internal information system which, along with other passport-related initiatives, will greatly enhance the Postal Service's ability to identify, quantify, and reconcile financial data to the unit level. This is important, because it will allow managers to improve business processes, result in better

accountability over revenue, and bring positive changes to a service that involves thousands of customers annually.

Postal Service acceptance facilities use Postal Service (PS) Forms 5659, Daily Passport Application (DS-11) Transmittal, to record customers' application fees. The facilities then mail the PS Forms 5659, customers' applications, and DOS fees to one of two bank processing facilities operated by Citibank under contract with the U.S. Department of Treasury (Treasury), with DOS oversight. At one of the Citibank facilities, we sampled 100 PS Forms 5659 to identify whether discrepancies existed between the forms sent to DOS compared with those maintained at the Postal Service units. However, differences between tracking information from DOS and financial data from the Postal Service's Standard Accounting for Retail System (SAFR) did not allow us to identify potential revenue losses. For example, the Postal Service's procedures for processing applications are different depending on whether the customer chooses to use expedited or routine processing. The expedited applications and their PS Forms 5659 are mailed individually and immediately, while the routine applications and associated PS Forms 5659 are all mailed together, usually at the end of day. For financial reporting purposes, all application fees, regardless if expedited or routine, are recorded into Account Identifier Code (AIC) 264, USPS Passport Acceptance Fees. Therefore, without having every PS Form 5659 processed from a unit for a particular business day, it was not possible to reconcile fees reported on our sample of PS Forms 5659 to the fees on the Postal Service units' daily financial records.¹

Because it is not possible to reconcile passport applications within the current processes, the Postal Service should collaborate with the DOS and pursue plans to put a reconciliation process in place. A reconciliation with the DOS would give the Postal Service increased assurance that it is collecting the appropriate amount of revenue, which for the last 3 years averaged about \$190 million, for services provided. Based on our work at the DOS and Postal Service units, these are some actions the Postal Service could consider taking when implementing a reconciliation process for passport applications:

- Creating a new and unique AIC for passport applications processed as expedited.
- Recording the unit cost center code² on the PS Forms 5659 sent with the applications. Presently, the form requires units to record the DOS-issued facility identification number, which DOS uses to track applications to the Postal Service acceptance facility. The Postal Service's accounting system does not recognize the DOS facility identification number but uses the cost center code to track data to individual units. Therefore, the Postal Service should either include a field for the DOS-issued facility identification number in SAFR or request the DOS, while

¹ For the purpose of our sample, it was not possible to get every unit's PS Forms 5659 on a certain date, because applications/transmittals are received continually throughout the day. Therefore, we had to randomly take applications as they came from the courier to the lockbox facility.

² The unit finance number is a six-digit number that identifies the retail unit in the accounting system. When the unit finance number is combined with its four-digit unit identification number, the resulting 10-digit number is referred to as the cost center code. The cost center code allows users to download financial data and track revenue reported by the retail units.

upgrading its current system, to implement a field that records each Postal Service units' cost center code.

- Developing a revised PS Form 5659 that includes a preprinted numbering system similar to that used in a checkbook. The advantage of using prenumbered transmittals is that units could assign a block of numbers/transmittal forms to each passport clerk who would be accountable for the numbers assigned to them.

We learned the DOS is undertaking initiatives to increase oversight of passports, including upgrading its information system with additional data and new reports. It has also established an Acceptance Facility Oversight Division to monitor controls at passport acceptance offices nationwide, including the Postal Service. The DOS set up this division when officials realized a significant deficiency of their passport program was the inability to trace a customer's application to the acceptance facility or clerk who processed the application. To correct that problem, the DOS will issue facility and agent/clerk identification numbers which will also allow the Postal Service to track passports to the Postal Service unit and clerk, as necessary. The DOS realized capturing this information will require significant upgrades to its current system and anticipate the final and full operation of the new system by September 2013. The Postal Service has been in communication with the DOS to explore the feasibility of reconciling its revenue fees. With both organizations discussing the details and outputs, real progress can be made as the DOS implements changes to its information system. Ultimately, this should result in reports that will enable the Postal Service to track and reconcile financial data at all its acceptance facilities.

Implement Controls Over Revenue Collected for Passport Photo Fees

Controls designed to trace the number of passport photos taken to the revenue posted in the units financial records are not effective. Specifically, units do not have documentation showing a record of each photo taken. Postal Service policies instruct units to verify the accuracy of photo fees and record funds collected from photo services in AIC 241, Photo Services.³ Postal Service officials stated providing photos is not a core business function, and units offered photo services only as a customer convenience. For this reason, they stated there are no plans to change any business processes for photos.

Sound business practices support having procedures to verify that transactions were for the correct purpose and to ensure their accuracy and completeness. Along these lines, strengthening accounting controls over photo revenue is important considering about 5,500 locations offer passport photos, and these activities generated approximately \$46 million in FY 2010. Unit managers who we interviewed also agree. One supervisor told us she was concerned about this financial risk, so she created an internal form the passport clerks were required to complete. This unit's clerks are required to document photo fees collected on the form and keep it with the applications until verified during

³ *Administrative Support Manual (ASM)* Issue 13, Section 422.2, dated July 1999; and Handbook F-101, *Field Accounting Procedures (FAP)*, Section 7.4, April 2011.

the unit's close-out procedures. The Postal Service could also require units to use a photo request or waiver form completed by the customer to track the number of photos taken with the revenue collected. Without controls over photos fees, we consider the \$46 million in fees from FY 2010 to be revenue at risk. [Appendix B](#) presents a summary of other impacts.

Potential for Increased Market Share of the Passport Photo Business

The Postal Service has not adjusted its pricing of passport photo fees since calendar year 2005 and could be at risk for losing a piece of the market share for these services. Postal Service officials stated they did not have a firm pricing policy for photo services, currently set at \$15 for two photos. Our analysis shows an opportunity exists to increase business revenue and market share of passport photo revenue. From FYs 2008 through 2010, the Postal Service averaged about 43 percent of the market share for photo revenue. In other words, less than one-half of the people who went into a Post Office™ for a passport purchased their passport photo from the unit.

Using data from FY 2010, we estimated the Postal Service could have potentially increased their passport photo revenue by as much as \$56 million if everyone purchased their photos from the postal retail unit. A contributing factor to this low market share could be the pricing policies for photo fees, as prices for the same photos from other sources were lower. As depicted in Chart 1, we compared the Postal Service photo fees to five separate commercial sources and found the Postal Service charged anywhere from \$2 to \$10 more than other commercial sources.⁴

Chart 1 – Passport Photo Fees Charged by Other Vendors

Source	Fees	Number of Photos
Walgreens	\$9.99	2
Walmart®	\$7.99	2
Sam's Club	\$4.96	2
FedEx®	\$12.95	2
CVS/pharmacy®	\$9.99	2
Postal Service	\$15.00	2

In addition, the DOS recently made a change to require only one photo submission for each application.⁵ In spite of this change, program officials said the requirement to take two photos will remain status quo, with no plans to advise units what to do with the extra photo. As a result, there is no consistency as to how retail units are handling the extra photo. Some still send DOS two photos with the applications, others give the extra

⁴ The fees listed represent rates consistent with what customers would pay regardless of the city or state where they purchased photos.

⁵ In March 2011, DOS changed their policy requiring only one photo to be submitted with each application rather than two.

photo to the customer, and others find some means to destroy it. With the sensitive nature connected to individuals' photos and the importance of protecting privacy information, we believe headquarters should update its policy and issue instructions concerning the new photo requirements from the DOS.

Recommendations

We recommend the vice president, Channel Access:

1. Coordinate with the U.S. Department of State to develop a method to facilitate reconciling passport application fees collected by acceptance facilities with applications processed by the U.S. Department of State.
2. Develop unit level controls to verify photo fees reported in Account Identifier Code 241, Photo Fees, using source documents such as waiver forms, tracking logs or another method involving acknowledgement by the customer.
3. Re-evaluate and update, as determined, the fee charged for passport photos to determine whether changing the fees would result in more revenue to the Postal Service for these services.
4. Provide units with instructions for implementing the recent U.S. Department of State photo requirements, specifically addressing how to dispose of the second photo currently produced but no longer required for applications.

Management's Comments

Management agreed with recommendations 2, 3 and 4. For recommendation 2, management stated they will evaluate options to improve the accountability and reduce risk of uncollected revenue associated with photo fees. Although they were unsure whether a tracking log would effectively reduce risk, management will continue to evaluate other options and report, by January 2012, on whether any improvements to photo fees accountability have been made. For recommendation 3, management will conduct an internal pricing review by January 2012 that includes decisions about updating the price charged for providing photos. For recommendation 4, management will provide instructions to acceptance facilities for handling of the second photo by the end of August 2011.

However, management disagreed with the percentage of Postal Service passports processed by the DOS and disagreed with recommendation 1 to work with the DOS to develop a reconciliation process between passport application fees collected by acceptance facilities with applications processed by the DOS. Instead, management stated the Postal Service is pursuing a change in its Point of Sale (POS) accounting system that should increase the accountability of passport acceptance fees. With this change, the PS Form 5659 will be automated and will be printed with information the unit clerks entered from each application. This will ensure that fees collected in POS are

aligned with the passports listed on the PS Form 5659. The change to POS is scheduled for March 2012.

Management also noted that they continue to work with the DOS to ensure that any discrepancies between the passport applications listed on the PS Form 5659 and the applications that are received are immediately reported to the Postal Service. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to recommendations 2, 3, and 4 and corrective actions should resolve the issues identified in the report.

Regarding recommendation 1, we commend the Postal Service for having unit level controls and for automating certain aspects of their passport control procedures; however, reconciliation between the DOS and the Postal Service provides a higher level control that can ensure the Postal Service is collecting all its revenue from passport application fees, including those in which fees may not be entered into POS. Reconciliation with the DOS should reduce the risk of loss due to fraudulent activities, diversion of Postal Service cash, and even transmission errors. Officials we worked with from the DOS frequently stated they are completely open to developing reports and giving the Postal Service whatever information management needs to reconcile applications processed to the unit level. We are encouraged that the Postal Service will continue to work with the DOS to ensure that any discrepancies between the passport applications listed on the PS Form 5659 and the applications that are received are immediately reported to the Postal Service. We will not pursue this recommendation through the audit resolution process.

Concerning the first finding, management cited figures that showed about 49 percent of all passports issued came from the Postal Service. The focus of our audit was on the process for new applications, because that is when the Postal Service collects the \$25 application fee. As a result, we updated our report to reflect that about 70 percent of new, not all, applications come from the Postal Service.

Appendix A: Additional Information

Background

In 1975 the Postal Service began accepting passport applications for the DOS. Today, Post Offices, public libraries, and courthouses can all accept passport applications and mail them to the DOS for processing if they choose to participate in the program and are approved by the DOS to accept applications. The Postal Service offers these services as a convenience for its customers and as a source of additional revenue. The Postal Service processes applications on a walk-in or appointment basis at 6,328 units across the nation and offers passport photos for an additional fee at 5,521 of those units.⁶ The DOS has assigned each of these offices an acceptance facility identification number.

Postal Service employees certified by the DOS are authorized as passport acceptance agents. The DOS requires acceptance agents to be citizens of the U.S. and not have any felony convictions. The Postal Service requires their acceptance agents to take annual training on internal passport procedures in addition to recertification with the DOS. The DOS is in the process of assigning unique agent identification numbers to each agent certified.

Retail units record customers' application fees on a transmittal⁷ and mail the original transmittal, customers' applications, and DOS fees to a Post Office Box™ either in Pennsylvania or in California, depending on the retail unit's location. The original transmittal and passport applications are picked up from the Post Office Boxes and delivered to one of two bank processing facilities operated by Citibank under contract with the Treasury with DOS oversight. Citibank deposits the DOS fees and routes the applications to one of approximately 24 DOS facilities, which complete the passports and mail them to customers.

Objective, Scope, and Methodology

The objective of the audit was to evaluate financial controls over processing of passport applications. We conducted this performance audit from October 2010 through July 2011 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 audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 2, 2011, and included their comments where appropriate.

⁶ These figures reflect counts of Postal Service application facilities as of January 2011.

⁷ PS Form 5659, dated January 2011.

We assessed the reliability of computer-generated data by performing electronic testing of required data elements. We verified accuracy of the data by confirming our analysis and results with Postal Service management and other data sources. In addition, the OIG tests the financial information in the Enterprise Data Warehouse as part of its annual financial statements audits. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The U.S. Government Accountability Office (GAO) issued a report in FY 2009 titled *Undercover Tests Reveal Significant Vulnerability in State's Passport Issuance Process* ([GAO Report Number 09-447](#), dated March 13, 2009). The report disclosed that terrorists or criminals could steal an American citizen's identity, use counterfeiting skills to create fraudulent documentation, and obtain a U.S. passport.

Appendix B: Other Impacts

Other Impacts

Finding	Impact Category	Amount
Implement Controls Over Revenue Collected for Passport Photo Fees	Assets at Risk ⁸	\$46 million

⁸ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss, because of inadequate internal controls.

Appendix C. Management's Comments

KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS



July 14, 2011

SHIRIAN HOLLAND
ACTING DIRECTOR, AUDIT OPERATIONS
1735 NORTH LYNN STREET
ARLINGTON, VA 22209-20202

SUBJECT: Financial Controls Over Passport Applications
(Report Number FF-AR-11-DRAFT)

The Postal Service disagrees with the finding that approximately 70 percent of all passport business comes from the Postal Service. According to statistics from the DOS website: http://www.travel.state.gov/passport/ppi/stats/stats_890.html, there were 13.9 million passports issued in FY2010. The Postal Service accepted 6.79 million applications in FY2010 which represents no more than 49 percent of the passports issued.

The Postal Service disagrees with the observation that the Postal Service does not have a reconciliation process in place for passport application fees. In October 2009, the Postal Service's POS system was upgraded to enable an after-the-fact verification of passport acceptances by comparing data entered into POS with the data on the PS Form 5659. A Back Office Passport Services Report was modified to print the customer's first/last name, transaction time, receipt number and total amounts for application fees and photo fees by user. A report was created in Retail Data Mart at the same time under "Investigative Reports Passport Reports" which is limited to Office of Inspector General and Postal Inspection Service personnel. This report identifies the postal employee who accepted each passport application listed on the PS Form 5659. By comparing the Passport Report to the PS Form 5659, a reconciliation of the information is possible.

Recommendation No. 1

Coordinate with the Department of State to develop a method to facilitate reconciling passport application fees collected by retail units with applications processed by the Department of State.

Management Response/Action Plan:

While the Postal Service agrees that improvements to passport acceptance fees accountability should be pursued, the Postal Service disagrees with the specific recommendation to work with the Department of State to develop a method to facilitate reconciliation through system changes that the DOS may institute in the future. Instead, the Postal Service is pursuing a change to the POS system that will improve the accountability of passport acceptance fees. Currently, the entry of the fees in POS occurs separately from the creation of the PS Form 5659. At the end of the day, clerks manually enter data for each application accepted on the PS Form 5659. With the change, the PS Form 5659 will be automated and will be printed from the information entered in POS. This will ensure that the fees collected in POS are aligned with the passports listed on the PS Form 5659. The Postal Service is working closely with DOS to ensure that appropriate data is shown on the form. The change to POS is scheduled for March 2012.

The Postal Service continues to work with the Department of State to ensure that any discrepancies between the passport applications listed on the PS Form 5659 and the applications that are actually received are immediately reported to the Postal Service.

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Target Implementation Date:

March 2012

Responsible Official:

Vice President, Channel Access

Recommendation No. 2

Develop unit level controls to verify photo fees reported in Account Identifier Code 241, Photo Fees, using source documents such as waiver forms, tracking logs or another method involving acknowledgement by the customer.

Management Response/Action Plan:

The Postal Service agrees with the recommendation that improvements to unit level photo fees accountability that can effectively reduce the risk should be pursued. It is unclear whether a tracking log would effectively reduce the risk, since an employee who fails to enter the photo fees in POS is unlikely to add the payment of fees to the tracking log. The Postal Service will evaluate other options. It will report on whether any improvements to the unit level photo fees accountability have been made.

Target Implementation Date:

January 15, 2012

Responsible Official:

Vice President, Channel Access

Recommendation No. 3:

Reevaluate and update, as determined, the fee charged for passport photos to determine whether changing the fees would result in more revenue to the Postal Service for these services.

Management Response/Action Plan:

The Postal Service agrees with this recommendation. It will conduct an internal review of the pricing of the passport photos and report any decision about updating the price.

Target Implementation Date:

January 15, 2012

Responsible Official:

Vice President, Channel Access

Recommendation No. 4:

Provide units with instructions for implementing the recent Department of State photo requirements, specifically addressing how to dispose of the second photo currently produced but no longer required for applications.

-3-

Management Response/Action Plan:

The Postal Service agrees with this recommendation and will provide instructions to the field for the handling of the second photo by the end of August 2011.

Target Implementation Date:

August 31, 2011

Responsible Official:

Vice President, Channel Access


Kelly M. Sigmon


Date

cc: Joseph Corbett
Paul E. Vogel
Timothy F. O'Reilly
Nan K. McKenzie
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