



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

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**Postal Service Refunds**

**Audit Report**

August 30, 2011

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**Report Number FF-AR-11-013**



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

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# HIGHLIGHTS

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August 30, 2011

## Postal Service Refunds

Report Number FF-AR-11-013

### **IMPACT ON:**

The U.S. Postal Service's processes for Special Postage Payment Systems (SPPS), Value Added Refunds (VAR), and meter mail refunds and the customers who are entitled to them.

### **WHY THE OIG DID THE AUDIT:**

Our objective was to determine the efficiency and effectiveness of processes over customer refunds.

### **WHAT THE OIG FOUND:**

The Postal Service could improve its VAR, SPPS, and meter mail refund processes to increase efficiency, reduce costs, and improve customer satisfaction. Additionally, if the Postal Service automated the VAR process, it could avoid annual scanning and imaging center processing costs of approximately \$90,000.

The Postal Service has also not documented the SPPS refund process. Incomplete or unavailable written guidance for the process could increase customer confusion and dissatisfaction with the Postal Service and an unnecessary workload for the Postal Service.

Further, there is no standardized timeframe for processing meter mail refunds. Creating a standard timeframe could improve customer satisfaction.

Finally, the Postal Service is not covering its costs to process meter mail refunds. By increasing the refund fee, the Postal Service could recover approximately \$1.53 million annually.

### **WHAT THE OIG RECOMMENDED:**

We recommended documenting the SPPS refund process and policies and devising a method to communicate the changes to customers effectively; establishing a timeframe performance standard for processing customer meter mail refunds; and analyzing and establishing an administrative fee that will cover processing costs. In addition, we recommended automating the VAR process.

### **WHAT MANAGEMENT SAID:**

Management agreed with all the findings and recommendations. Management further stated that it will complete all recommended directives and updates no later than March 31, 2012. Finally, management did not state agreement or disagreement with the monetary impact.

### **AUDITORS' COMMENT:**

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

[Link to review the entire report](#)



August 30, 2011

**MEMORANDUM FOR:** TIM F. O'REILLY  
VICE PRESIDENT, CONTROLLER

PRITHA MEHRA  
VICE PRESIDENT, MAIL ENTRY AND PAYMENT  
TECHNOLOGY

DEAN J. GRANHOLM  
VICE PRESIDENT, DELIVERY AND POST OFFICE  
OPERATIONS

ELLIS A. BURGOYNE  
CHIEF INFORMATION OFFICER AND EXECUTIVE VICE  
PRESIDENT

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

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

**SUBJECT:** Audit Report – Postal Service Refunds  
(Report Number FF-AR-11-013)

This report presents the results of our audit of the U.S. Postal Service refunds (Project Number 11BG012FF000).

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

Attachments

cc: Megan J. Brennan  
Joseph Corbett  
Vicki M. Bosch  
James J. Boldt  
Jack L. Meyer  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of U.S. Postal Service refunds (Project Number 11BG012FF000). This self-initiated audit addresses operational risk. The objective of our audit was to determine the efficiency and effectiveness of processes over customer refunds. See [Appendix A](#) for additional information about this audit.

In fiscal year (FY) 2010, the Postal Service processed more than \$402 million in refunds including:

- \$206 million for value added refunds (VAR).<sup>1</sup>
- \$99 million for permit postage and fees.<sup>2</sup>
- \$60 million for stamps and fees.<sup>3</sup>
- \$21 million for unused or spoiled meter mail postage.
- \$16 million for 10 other types of refunds.<sup>4</sup>

Recently, the mailing community has voiced concern regarding the Postal Service's processing and timeliness of SPPS refunds.<sup>5</sup> In addition, during other work we conducted, we noted backlogs of up to 6 months for meter mail refunds.

## Conclusion

The Postal Service has opportunities to improve the VAR, SPPS, and meter mail refund processes to increase efficiency, reduce costs, and improve customer satisfaction. Specifically, the Postal Service could automate the VAR refund process to eliminate some costs and workload. In addition, the Postal Service has not documented SPPS refund processes and procedures in its manuals or handbooks. Furthermore, the Postal Service has no standardized timeframe to process meter mail refunds. Sixty-five percent of the meter mail refunds we reviewed took more than 30 days to process, with 10 percent taking between 91 and 263 days. Finally, the Postal Service is not covering its costs to process meter mail refunds. We estimate the Postal Service could recover about \$1.62 million annually in processing costs by making changes in its processes.

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<sup>1</sup> A refund to mailers who perform value added services and submit mail at a discounted rate.

<sup>2</sup> The majority of these refunds are comprised of Special Payment Postage System (SSPS) refunds and Summer Sale rebates.

<sup>3</sup> A majority of stamps and fees refunds are due to Postage Validation Imprint (PVI) refunds.

<sup>4</sup> Examples of other types of refunds include: retail services (box rents); Express Mail®; miscellaneous non-postal revenue; unclaimed funds at the mail recovery center; sure money and premium forwarding service fees.

<sup>5</sup> Refunds for mailings using a previously authorized customized mailing system. These refunds resulted from adjustment factor issues, such as double counting of manifests mailings, technical errors in the electronic validation system, or data entry errors in *PostalOne!*.

## Automate the VAR Process

The Postal Service has considered but does not currently have an automated method of processing VARs directly to the accounting service center (ASC).<sup>6</sup> An automated process could avoid unnecessary processing costs at both postal retail units and the Scanning and Imaging Center (SIC).<sup>7</sup> The current VAR process is as follows:

- Business mail entry unit (BMEU) personnel verify and approve VAR refunds.
- BMEU transfers VAR paperwork to the postal retail unit (PRU), which enters the information into the required account identifier code (AIC)<sup>8</sup> through the Point-of-Service (POS) system.<sup>9</sup>
- The PRU forwards the approved paperwork to the SIC, which scans the paperwork, reviews for duplicate entries, and forwards to the ASC for payment.

In FY 2010, the SIC processed 79,221 VAR transactions totaling \$206 million. Management stated that it cost the Postal Service \$1.13 for each VAR refund processed by the SIC in FY 2010. Further, management stated that it was planning an update to the *PostalOne!* system<sup>10</sup> that would allow BMEU personnel to enter VAR refunds into the correct AIC and transmit the data electronically to the ASC for payment. This update would have a one-time cost of \$71,152, but the Postal Service postponed the update as other *PostalOne!* updates have taken priority. By automating the VAR process, the Postal Service could avoid annual SIC processing costs of approximately \$90,000. Over a 10-year period, we estimate \$662,000 in saved processing costs. See [Appendix B](#) for monetary impact.

## Updated SPPS Refund Process Not Documented or Effectively Communicated

The Postal Service has not documented the SPPS refund process in its criteria or effectively communicated the process to customers. In November 2010, the Postal Service changed its SPPS refund process. These changes included:

- Instituting an email-based customer submission process.
- Implementing a 30-day timeframe for processing SPPS refunds.
- Incorporating the changes into new SPPS agreements.

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<sup>6</sup> The ASCs are accounting, disbursing, and data processing facilities that provide accounting support for Postal Service activities. There are three ASC locations: St. Louis, MO; Eagan, MN; and San Mateo, CA.

<sup>7</sup> The SIC is the facility that receives hard copy Post Office™ forms and documents from field offices for processing by Accounting Services. The SIC prepares, scans, and indexes the forms and transmits the forms electronically to the Postal Service's workflow management system. From there, the forms are directed to the appropriate Accounting Services location for processing.

<sup>8</sup> AICs are three-digit codes that assign financial transactions to the proper account on the general ledger. Each AIC is assigned a corresponding general ledger account.

<sup>9</sup> POS is the electronic system used at retail facilities to record sales and payment transactions.

<sup>10</sup> *PostalOne!* is a system that provides web-based services for business mailers and business mail acceptance employees.

However, the Postal Service did not provide written guidance to customers or document the changes internally. Management stated they did not know where to document the process because no one document encompasses all of the SPPS requirements. Management informed the mailing community of the new process during a Mailers Technical Advisory Committee (MTAC) meeting in November 2010 and relied on word of mouth to reach all other mailers. However, notice of the updated refund process may not have reached all mailers. A news article written in response to the changes presented by the Postal Service at the MTAC meeting highlighted customer dissatisfaction with the timeliness of refunds processed and the need for clarity in the new SPPS process.

Customers submitted 67 refund requests through the e-mail address from November 2010 through April 2011. Of these, nine were not SPPS refund requests and the customer should not have submitted them to the e-mail address, 20 requests required additional information from customers, and the Postal Service processed the remaining 38 without incident (see Table 1).

**Table 1: SPPS Refunds Submitted Through the Dedicated Web-Based E-mail November 2010 to April 2011**

Category	Number	Percentage
Non-SPPS refunds	9	13%
Additional information required from customer	20	30%
Refunds processed without incident	38	57%
<b>Total Refunds Processed</b>	<b>67</b>	<b>100%</b>

Source: Headquarters-maintained spreadsheet used to track SPPS refunds.

We reviewed the refund requests to determine the processing timeframes. Of the 58 SPPS refund requests, the Postal Service processed 29 within the 30-day claim processing timeframe and processed 17 between 31 and 53 days. Five are pending resolution by headquarters and seven are with the Pricing and Classification Service Center (PCSC) awaiting a ruling for payment approval. Customers submitted all 12 of the refunds pending resolution more than 30 days ago (see Table 2).

**Table 2: Timeframes for Processing SPPS Refunds November 2010 to April 2011**

Days to Process	Number	Percentage
Refunds processed within 30 days	29	50%
Refunds processed between 31 and 53 days	17	29%
Refunds still in process	5	9%
Refunds pending ruling by PCSC	7 <sup>11</sup>	12%
<b>Total Refunds Processed</b>	<b>58</b>	<b>100%</b>

Source: Headquarters-maintained spreadsheet used to track SPPS refunds.

<sup>11</sup> When headquarters personnel are unsure if a refund is valid, they send the refund to the PCSC for a ruling. In addition, if headquarters denies a refund, a customer can appeal the ruling to the PCSC.

As shown in Table 1, 20 SPPS refund requests required additional information from the customer in order to process. Incomplete or unavailable written guidance for the SPPS refund process could increase customer confusion and dissatisfaction with the Postal Service and cause unnecessary workload.

### No Standardized Timeframe for Processing Meter Mail Refunds

The Postal Service has no timeframe goal documented in its criteria for processing meter mail refunds. During our review of 89 randomly selected meter mail refund transactions,<sup>12</sup> we found that 65 percent of the refunds took more than 30 days to process from acceptance at the PRU until submission to the SIC.<sup>13</sup> We found that one took 263 days to process. See Table 3 for complete results on processing timeframes from our sample.

**Table 3: Number of Days to Process Meter Mail Refunds**

Days to Process	Number of Refunds	Percentage
Less than 30 Days	31	35%
31 – 60 Days	36	40%
61 – 90 Days	13	15%
Greater Than 91 Days	9	10%
<b>Total Refunds Sampled</b>	<b>89</b>	<b>100%</b>

Source: Enterprise Imaging and Workflow System (EIWS).

Establishing timeframes for processing meter mail refunds can increase efficiency and accountability and improve customer satisfaction with the refund process.

### Processing Costs for Meter Mail Refund Not Fully Covered by Fees

The Postal Service is not covering its costs to process meter mail refunds.<sup>14</sup> The current fee, which has been in place since May 2003, is \$35 per hour for refunds over \$350. However, this amount does not cover the average overtime rate of the employees processing these refunds.<sup>15</sup> Management could not provide a reason why the fee charged was insufficient to cover the cost of processing. As a result of our audit, the Postal Service plans to change its policy and charge a 10 percent processing fee for refunds regardless of the amount. This will allow the Postal Service to recover about \$984,000 annually for the costs of processing these refunds, or \$8 million over a 10-year period.

In addition, the Postal Service has not set a minimum amount of postage for customers to present when requesting a meter mail refund. Based on our observations of refunds of less than \$25, it took clerks about 15 minutes to verify the meter postage amount,

<sup>12</sup> See [Appendix C](#) for the sampling methodology.

<sup>13</sup> It takes an additional 5 days for the customer to receive payment for the refund after it is submitted to the SIC.

<sup>14</sup> Customers request meter mail refunds when they print incorrect postage amounts on mailpieces or when they print postage on mailpieces but decide not to mail them.

<sup>15</sup> The average overtime rate for employees who process these refunds is \$39 per hour.

complete the refund paperwork, enter the refund in the correct account, issue a no-fee money order, and mail it to the customer.<sup>16</sup> The maximum fee charged on refunds of \$25 is \$2.50 (or 10 percent of the postage amount) which does not cover its processing cost.<sup>17</sup> The Postal Service can cover the cost of processing meter mail refunds if it establishes a \$10 minimum administrative fee to process refunds of under \$100.<sup>18</sup> In FY 2010, the Postal Service processed more than 70,000 meter mail refund requests of \$100 or less. See Table 4 for breakdown of FY 2010 meter mail refunds by amount. By charging a minimum administrative fee of \$10, the Postal Service can recover approximately \$546,000 annually or \$4.5 million over a 10-year timeframe. See [Appendix B](#) for monetary impact.

**Table 4: FY 2010 Meter Mail Refunds by Amount**

Amount	Number	Percentage
Less than \$100	72,363	80%
\$100-\$350	10,402	12%
\$351-\$500	2,046	2%
Greater than \$500	5,052	6%
<b>Total Refunds Processed</b>	<b>89,863</b>	<b>100%</b>

Source: Accounting Data Mart (ADM).

## Recommendations

We recommend the vice president, Controller, and vice president, Mail Entry and Payment Technology:

1. Document the Special Payment Postage System refund process and policies and devise a method to communicate the changes effectively to customers.
2. Analyze and establish an administrative and minimum fee that will cover processing costs.

We recommend the vice president, Delivery and Post Office Operations:

3. Establish a timeframe performance standard for processing customer meter mail refunds.

We recommend the vice president, Controller, in coordination with the chief information officer and executive vice president:

4. Complete the update to the *PostalOne!* system to enable electronic transmission of Value Added Refund data to accounts payable.

<sup>16</sup> Based on our observations, we believe the larger the refund amount, the more envelopes with postage the clerks have to count and verify. Consequently, the time to process the refund will increase.

<sup>17</sup> The current fee charged to process refunds of under \$350 is 10 percent of the face value of the indicia.

<sup>18</sup> This is roughly one quarter the average hourly overtime rate for employees who process these refunds.

## Management's Comments

Management agreed to all the findings and recommendations in this report. However, management did not state agreement or disagreement with the monetary impact. Although management did not explicitly comment on the monetary impact, management stated they were in concurrence that the fee charged on meter mail refunds may not cover the cost to process. Also, management agreed to automate the value added refund process.

Regarding recommendation 1, management agreed to document and communicate the Special Payment Postage System policies and procedures to customers by December 31, 2011.

Regarding recommendation 2, management agreed to modify the current policy and assess a processing fee for refunds that covers costs. The scheduled update to the refund fee policy and process is March 31, 2012.

Regarding recommendation 3, management agreed to establish a 30-day performance standard for refunds under \$500 and a 60-day performance standard for refunds over \$500. Management expects to complete the update to the refund processing performance standard by March 31, 2012.

Regarding recommendation 4, management is in the processes of enhancing the *PostalOne!* systems to automate processing of VAR directly to the Accounting Services without intervention of the postal retail units. The scheduled update for implementation of the automated process is December 31, 2011.

See [Appendix D](#) 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 the recommendations and corrective actions should resolve the issues identified in the report.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently the OIG requests written confirmation when corrective actions are completed. These 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: Additional Information

### Background

The Postal Service documents most refund activity on Postal Service (PS) Form 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts. It is the responsibility of the postmaster or unit manager to review the form for completeness and ensure the refund is appropriate. The unit enters the refund amount on PS Form 3533 into the corresponding refund AIC category. Units can issue cash refunds of up to \$25. If the refund amount is greater than \$25 but less than \$500, the unit can issue a no-fee money order to the customer. The ASC issues refunds greater than \$500. In this instance, the unit offsets the refund amount to AIC 280, Disbursements Sent to ASC. The unit sends the original PS Form 3533 to the SIC for processing, along with a receipt for the transaction. The SIC scans the paperwork, reviews for duplicate entries, and forwards to the ASC for payment.

The top four dollar value AIC refund categories for the Postal Service in FY 2010 were:

- AIC 541 – Refund Value Added Service.
- AIC 528 – Refund Permit Postage and Fees.
- AIC 553 – Refund Stamps and Fees.
- AIC 526 – Refund Spoiled/Unused Customer Meter Stamps.

### Value Added Refunds

VARs allow a mailer's metered mail to show postage at a higher price than that claimed on the postage statement, because the mailer has presorted to a finer level. In these cases, mailers receive a refund for the difference in postage. A presenter (mailer) must have Postal Service authorization to seek the refund. Mailers seeking authorization to submit or actually submitting VAR requests must follow the standards in the *Domestic Mail Manual*, Section 604.9.4, VAR.

To request a VAR, a mailer must provide a PS Form 3533 and supporting documentation with the corresponding mailing at the time of acceptance by the BMEU. Once the BMEU has verified the VAR mailing, the BMEU signs and forwards the PS Form 3533 to the PRU. In FY 2010, the Postal Service processed 79,221 VAR transactions, totaling \$206 million.

### Permit Postage and Fees Refunds

Permit postage and fees refunds relate to permit mailings, postage amounts for permit mailings damaged by the Postal Service, and refunds of annual bulk mailing fees for customers who do not make a mailing in that year. In FY 2010, roughly 72 percent of

the \$99 million in refunds for this AIC were comprised of SPPS and Summer Sale<sup>19</sup> rebates. These were the only type of refunds we reviewed for AIC 528.

The SPPS provides alternative methods for mailers to calculate and pay postage. Mailers are required to receive written authorization (mailing agreements or authorizations) from the Postal Service to participate in any SPPS program. To receive a refund for postage overpaid in SPPS, Electronic Verification System (eVS)<sup>20</sup> or Parcel Return Service (PRS),<sup>21</sup> customers must submit the request and applicable documentation to a designated Postal Service e-mail address. The Postal Service will assign the request to a Business Mailer Support Analyst (BMSA), who determines whether the customer request has all applicable documents properly completed and whether the documentation supports the refund claimed. After review, the BMSA submits a letter to recommend approval or denial of the refund request for signature to the manager, Business Mail Support (BMS). The BMS manager forwards the letter of approval or denial to the applicable district BMEU and the customer with instructions on what they need to complete the refund for SPPS refunds.

For eVS or PRS refunds, the mailer is issued a letter and the Centralized Account Processing System service center issues the refund within 15 days of the letter. If incomplete documentation is submitted with the refund request, the BMSA will contact the mailer to request the missing additional documentation needed to support the request (for example, missing documents, incorrect forms, or evidence needed to support mailer claims). If complete documentation is submitted, it will be finalized. When a refund is generated because of a system or procedural failure in the mailer's operation, the mailer must pay the administrative cost of the refund. This administrative cost is based on the pay grade of the individual who processed the refund. For SPPS refunds, the administrative cost is either subtracted from the authorized refund amount or the mailer makes a separate payment for the fee. For eVS and PRS refunds, the administrative cost is automatically subtracted from the authorized refund amount.

### Stamps and Fees Refunds

These refunds are for postage and fees paid by retail customers for special services<sup>22</sup> they did not receive at the time of mailing. In FY 2010, this AIC included spoiled, misprinted, or jammed PVI items from the retail units. According to management and our review of transactions for this account, approximately 80 percent of the \$60 million in refunds for this AIC were due to these types of PVI errors. In November 2010, the Postal Service initiated a dedicated AIC for PVI errors, AIC 509, Voided Postage Validation Imprinter Labels. We did not review the refund process for either of these

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<sup>19</sup> Summer Sale was an incentive program to increase volume over a typically light mail timeframe by providing customers with a rebate or credit of up to 30 percent for additional mail volume over a specific threshold. Customers were required to preregister and be eligible to participate in the program.

<sup>20</sup> eVS is an electronic manifest mailing system that allows parcel mailers to document and pay postage through electronic files for packages.

<sup>21</sup> PRS service allows customers to return items to participating retailers using the Postal Service for pickup.

<sup>22</sup> Special Services include Registered Mail™, Certified Mail™, Delivery Confirmation™, and Return Receipt Requested.

AICs as part of our audit because these are PVI error transactions and not actual refunds to customers.

### Spoiled/Unused Customer Meter Stamps Refunds

To request this category of refunds, the customer must submit pieces of spoiled or unused meter stamps with a PS Form 3533 to his or her local post office. The mailpieces submitted for refund must be complete and legible with valid unused meter stamps dated within 60 days of the date shown on the indicia. The Postal Service assesses a 10 percent charge on the face value of the indicia for meter stamps if the total face value is \$350 or less. If the total face value is more than \$350, the Postal Service assesses a charge of \$35 per hour for the actual hours used to process meter stamp refunds. A PRU employee calculates the refund amount and completes Part 3, Postage or Meter Stamps, on PS Form 3533. An employee and a witness destroy the postage meter stamps and the supervisor and a witness certify the destruction and sign Part 3 of PS Form 3533. In FY 2010, the Postal Service processed more than 89,000 transactions totaling approximately \$21 million. We reviewed 80 randomly selected refund transaction records of over \$500, totaling \$296,000. See [Appendix C](#) for sampling methodology.

### Objective, Scope, and Methodology

The objective of our self-initiated audit was to determine the efficiency and effectiveness of processes over customer refunds. This project focused on SPPS, VAR, and meter mail refunds; and the Summer Sale rebate program. We reviewed these types of refunds because they comprised the highest dollar value of refunds processed by the Postal Service.

To accomplish our objective, we evaluated how the Postal Service accepts and processes these refunds for payment. In addition, we determined the timeframe for processing these refunds and assessed the need to update any refund policies and procedures. We evaluated transaction data for these refunds from the ADM system and headquarters maintained spreadsheets. We reviewed Postal Service manuals, handbooks, management instructions, publications, and memorandums to determine current policies and procedures.

We conducted site visits to judgmentally selected postal units<sup>23</sup> and observed the process and supporting documentation for SPPS, VAR, and meter mail refunds. We interviewed unit personnel and Postal Service Headquarters' management to obtain an understanding of current policies and procedures and noted their comments, where appropriate.

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<sup>23</sup> These sites included the Santa Ana, CA, window section; Los Angeles, CA, BMEU; the Denver, CO, General Mail Facility window section; Greenwood Village, CO, branch; and the Salt Lake City, UT, BMEU. These units were judgmentally selected based on proximity to OIG offices.

We conducted this performance audit from January through August 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 objective. We discussed our observations and conclusions with management on July 12, 2011, and included their comments where appropriate.

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. In addition, the OIG tests the financial information in ADM as part of its annual financial statement audits. We determined that the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Express Mail Guarantees</i>	FF-AR-11-004	12/15/2010	\$1,898,137	We found over half of the 40,000 ZIP Codes™ did not meet delivery standards and did not have a system in place to track Express Mail™ refunds by origin or destination ZIP Codes. Therefore, the Postal Service was unable to determine whether they are covering all their costs. Also, they did not monitor inactive Express Mail corporate accounts. Management generally agreed with the recommendations.

<p><i>Fiscal Year 2009 Standard Mail Volume Incentive Program</i></p>	<p><a href="#">FF-AR-10-196</a></p>	<p>7/16/2010</p>	<p>\$0</p>	<p>We found the processes used to calculate the reported increases in mail volume might result in misleading reported revenue and volume impacts. Management generally agreed with the recommendations.</p>
<p><i>Review of the Postal Service's Refund Process – Capital Metro Area</i></p>	<p><a href="#">DR-AR-07-011</a></p>	<p>7/13/2007</p>	<p>\$180,619</p>	<p>We found retail associates and customer service supervisors were not always processing and recording refunds of stamps, fees, retail, and Express Mail services. Management agreed with the recommendations.</p>

## Appendix B: Monetary Impacts

### Monetary Impacts

Finding	Impact Category	Amount
Automate the VAR Process	Funds Put to Better Use <sup>24</sup>	\$662,127 <sup>25</sup>
Processing Costs for Meter Mail Refund Not Fully Covered by Fees	Funds Put to Better Use	12,493,800
<b>Total</b>		<b>\$13,155,927<sup>26</sup></b>

<sup>24</sup> Funds that could be used more efficiently by implementing recommended actions.

<sup>25</sup> This is the 10-year cost savings projection minus the one-time implementation cost of \$71,152.

<sup>26</sup> Using the Postal Service's current cost of capital rate of 3.875 percent, OIG policy allows monetary impact to be calculated for a 10-year period.

## **Appendix C: Statistical Sample and Projections for Review of Meter Mail Refunds**

### Purpose of Sampling

The objective of our audit was to determine the efficiency and effectiveness of processes over customer refunds. In support of this objective, the audit team employed a variable sample of AIC 526 transaction records. The sample design allows statistical projection of the average processing hours spent per refund dollar. This projection was used to estimate the annual cost savings for the Postal Service by increasing the fee charged on these refunds from \$35 an hour to 10 percent of the face value of the indicia. In addition this sample was used to determine the number of days it took to process meter mail refunds from acceptance to verification and entry into AIC 526.

### Definition of Audit Universe

In FY 2010, there were a total of 89,863 transaction records for AIC 526, totaling \$21 million. A transaction record consists of one or more meter mail refunds entered into AIC 526 by a given unit on a given day. The audit team obtained this information from the Postal Service's ADM.

Audit resource constraints limited us to only reviewing refunds that were sent to the SIC and maintained in EIWS. Because refunds of over \$500 are sent to the SIC, only those refunds were included in our universe. In FY 2010, there were 5,052 AIC 526 transaction records (unit-refund-days) that totaled \$500 or more. These comprised our sampling universe. The universe data was sufficient to provide the total hours spent and total refund dollars, as well as the total number of days it took to process the refund.

### Sample Design and Modifications

We used the random number generator in Microsoft Excel to select 80 unit-refund-days for review from the universe of 5,052 unit-refund-days.

Within the 80 randomly selected unit-refund-days, a total of 92 individual refund transactions were sent to the SIC, totaling \$232,426. We reviewed supporting PS Forms 3533 for all of these transactions and determined: units charged a fee of \$35 an hour for 59 transactions, units charged a fee of 10 percent of the face value of the indicia for 31 transactions, and units did not charge a fee on two transactions. For the purposes of determining the average processing hours per refund dollar, we used the 59 transactions that charged an hourly fee. We considered these 59 transactions to be a simple random sample of all transactions in our universe for which \$35 an hour was charged.

In addition, we reviewed the 92 individual transactions to determine the number of days to process meter mail refunds. We reviewed each supporting PS Form 3533 and determined that 89 had the necessary date information documented; however, three did not. For the 89 transactions, we looked at the date the customer submitted the form and

compared it to the date the transaction was entered into AIC 526. For the purpose of estimating the average numbers of days in the universe for processing meter mail refunds, we considered the 89 individual transactions selected to represent a two-stage random sample, with the first stage being the unit-refund-day and the second stage being the individual refund transaction.

### Sample Results

Estimate of processing hours per refund dollar:

For each of the 59 transactions in our sample, we divided the total fee charged by \$35 an hour to estimate the number of hours it took to process the refund. Next, we divided the number of hours by the total amount of the refund requested before the fee was deducted. This resulted in the number of processing hours per refund dollar for each of our sample members. We then used these 59 values to statistically project the universe average, using the standard statistical theory for simple random samples. We determined the point estimate was .001234 hrs/refund dollar. The relative precision achieved was +/-14.55 percent at the 95-percent confidence level. The point estimate was then used in subsequent cost savings calculations.

Estimation of average number of days to process refunds:

To analyze the sample results, we used the theory presented in Section 9.4 of *Elementary Survey Sampling*, Sixth Edition, by Scheaffer, Mendenhall, and Ott, pages 310 and 311, for the ratio estimation of a population mean for two-stage cluster sampling. This theory is appropriate for use when the number of secondary sampling units in the sampling universe is unknown.

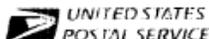
The point estimate of the average number of days for processing, produced by the analysis, was 48.8 days. The relative precision achieved was +/-24.9 percent at the 95 percent confidence level. Because the relative precision achieved did not meet our internally-imposed standard of +/-20 percent, we chose to report the lower limit of a one-sided 95-percent confidence interval instead of the point estimate. Therefore, we are 95-percent confident the average number of days for processing in the universe is at least 38.6 days.

### Cost Savings Calculations

To determine the annual cost savings for the Postal Service by increasing the fee charged on these refunds from \$35 an hour to 10 percent of the face value of the indicia, we used .001234 as the average processing hours per refund dollar. We multiplied this value by the total dollar value of refunds over \$500 in FY 2010, \$17,327,517. This equaled 21,380 and is the estimated total number of hours used to process all refunds over \$500 in FY 2010. We multiplied this value by \$35 to arrive at the projected total fees charged if all meter mail refunds were processed at \$35 an hour. This value turned out to be \$748,490. We then determined what the total fees charged

would have been, if all meter mail refunds had been processed at 10 percent of the face value of the indicia, by multiplying the total dollar value in refunds over \$500, \$17,327,517 by 10 percent. This number turned out to be \$1,732,751. The difference is \$984,444 and represents the annual cost savings to the Postal Service if it charged a fee of 10 percent of the face value of the indicia on refunds over \$500. The present value of the annual savings over the next 10 years is \$8.035 million. This amount will be claimed in the funds put to better use monetary impact category.

## Appendix D: Management's Comments



SHIRIAN HOLLAND  
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Audit Report – Postal Service Refunds (Report Number FF-AR-11-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We reviewed the above-referenced report related to Postal Service refunds. We are in concurrence with the outcome that the Postal Service may not be covering the cost to process mail meter refunds with the current fees charged and does not currently have an automated method of processing VARs refunds.

Recommendation 1

We recommend the vice president, Controller, and vice president, Mail Entry and Payment Technology document the Special Payment Postage System refund process and policies and devise a method to communicate the changes effectively to customers.

Response: Agree

Management agrees to document the process and policies. We will identify the best communication channels to reinforce and clarify these policies.

Target Implementation Date:

This update will be completed by the end of Postal Quarter 1, FY2012.

Responsible Official:

Vice president, Mail Entry and Payment Technology

Recommendation 2

We recommend the vice president, Controller, and vice president, Mail Entry and Payment Technology analyze and establish an administrative and minimum fee that will cover processing costs.

Response: Agree

Accounting has been working with Marketing, Classification and Pricing and agreed to modify the current policy and assess a processing fee for refunds that covers costs. This updated policy and process will streamline the processing fee for the field offices to assess with a simplified rate for all refunds.

Target Implementation Date:

This policy change is required to be communicated through the Federal Register therefore it will be completed by Postal Quarter 2, FY2012.

Responsible Official:

Vice president, Controller

SHIRIAN HOLLAND  
ACTING DIRECTOR, AUDIT OPERATIONS

Recommendation 3:

We recommend the vice president, Delivery and Post Office Operations establish a timeframe performance standard for processing customer meter mail refunds.

Response: Agree

Accounting has been working with Delivery and Post Office Operations and agreed to establish a 30-day performance standard for refunds under \$500 and a 60-day performance standard for refunds over \$500.

Target Implementation Date:

This update will be completed by Postal Quarter 2, FY2012.

Responsible Official:

Vice president, Delivery and Post Office Operations

Recommendation 4:

We recommend the vice president, Controller, in coordination with the Chief Information Officer and executive vice president, complete the update to the PostalOne! system to enable electronic transmission of Value Added Refund data to accounts payable.

Response: Agree

Management has been working with Marketing, Service and Market Development to enhance PostalOne! systems to automate processing VARS refunds directly to the accounting services without intervention of the PRU.

Target Implementation Date:

The system requirements have been submitted and reviewed and is currently in development stage scheduled to be implemented for Postal Quarter 1, FY2012.

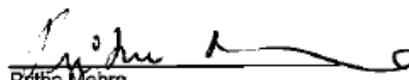
Responsible Official:

Vice president, Controller

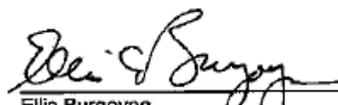
FOIA Statement:

Information contained in this report is exempt from disclosure under the Freedom of Information Act (FOIA).

  
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Timothy F. O'Reilly  
Vice President  
Controller

  
\_\_\_\_\_  
Pritha Mehra  
Vice President  
Mail Entry and Payment Technology

  
\_\_\_\_\_  
Dean J. Granholm  
Vice President  
Delivery and Post Office Operations

  
\_\_\_\_\_  
Ellis Burgoyne  
Chief Information Officer and  
Executive Vice President