



AUDIT REPORT

Internal Controls Over Postage Label Refunds – Quartz Hill Contract Postal Unit, Lancaster, CA

March 21, 2017



Report Number FT-FM-17-013



March 21, 2017

**Internal Controls Over Postage Label Refunds –
Quartz Hill Contract Postal Unit, Lancaster, CA**
Report Number FT-FM-17-013

BACKGROUND:

The U.S. Postal Service Office of Inspector General (OIG) uses tripwires to identify financial anomalies. Tripwires are analytic tools that look at specific behaviors and patterns that are strong indicators of improper activity.

From October 1, 2016, to December 31, 2016, our tripwire showed the Quartz Hill Contract Postal Unit (CPU) in Lancaster, CA reported \$2,049 for postage label refunds. The national average for postage label refunds issued by CPUs during the same time period was \$69.

A CPU is a retail unit located inside a private business under contract with the Postal Service. It provides postal services to the public and is operated by non-postal employees. CPUs use meters to print paid postage on labels or mail pieces, such as cards or envelopes. When postage meter labels are not legible or damaged, the CPU must re-print the label and submit the unused postage for a refund. Refund requests must include the original damaged or spoiled label or entire mail piece.

Each CPU has a Post Office responsible for verifying its daily financial transactions. A postmaster at the Post Office processes the CPU refund requests and provides training to CPU employees.

The objective of this audit was to determine whether internal controls were in place and effective for issuing postage label refunds at the Quartz Hill CPU.

WHAT THE OIG FOUND:

We determined that the Quartz Hill CPU issued more postage label refunds compared to other CPUs because the unit had a defective postage meter. We verified 192 spoiled or damaged postage label refunds valued at \$2,049 were processed during our scope period.

However, internal controls over postage label refunds needed improvement. Specifically, we determined all 192 refunds were processed without complete supporting documentation. We referred this information to the OIG's Office of Investigation for further review.

The CPU manager was not aware of the requirements for submitting refund requests; she stated she did not receive training. The postmaster stated he was not aware of his responsibility to provide financial reporting training to CPU employees. Also, he incorrectly adopted the refund review process he learned from his predecessor.

If postage label refunds are not properly completed and verified, there is an increased risk of theft and incorrect financial reporting.

On January 27, 2017, management replaced the defective postage meter.

WHAT THE OIG RECOMMENDED:

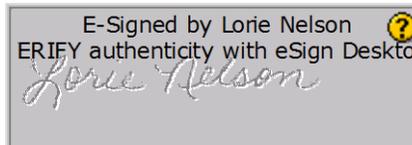
We recommended, the manager, Sierra Coastal District, instruct the postmaster to attend and provide financial reporting training to CPU employees at the office and verify all required supporting documentation is submitted with applications for refunds before processing.

[Link to review the entire report](#)



March 21, 2017

MEMORANDUM FOR: ABELARDO P. MUNOZ, JR.
MANAGER, SIERRA COASTAL DISTRICT



FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Postage Label
Refunds – Quartz Hill Contract Postal Unit, Lancaster, CA
(Report Number FT-FM-17-013)

This report presents the results of our audit of the Internal Controls Over Postage Label Refunds – Quartz Hill Contract Postal Unit, Lancaster, CA (Project Number 17BFM009FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please Asha Mede, deputy director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our self-initiated audit of Internal Controls Over the Postage Label Refunds – Quartz Hill Contract Postal Unit (CPU),¹ Lancaster, CA (Project Number 17BFM009FT000). The Quartz Hill CPU is in the Sierra Coastal District of the Pacific Area. This audit is designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

We reviewed postage refund transactions which occurred from October 1, 2016, to December 31, 2016, at the Quartz Hill CPU. To determine the existence, completeness, and accuracy of postage meter refunds, we reviewed daily financial reports and supporting documentation; performed a system walkthrough of the postage meter sales and refunds process; and conducted interviews of retail associates and unit management.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW),² e1412,³ and National Meter Accounting and Tracking System.⁴ We did not test the validity of controls over these systems; however, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from January through March 2017, 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 objectives. 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 February 6, 2017, and included their comments where appropriate.

Postage Meter Refunds

We determined that the Quartz Hill CPU issued more refunds compared to other CPUs because the unit had a defective postage meter. We verified 192 spoiled or damaged postage label refunds valued at \$2,049 processed during our scope period.

However, internal controls over postage label refunds needed improvement. We identified 192 spoiled or damaged postage label refunds valued at \$2,049 that were

¹ A CPU is a supplier-owned or supplier-leased site operated under contract with the Postal Service to provide postal services to the public.

² 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.

³ A web-based system developed to aid in the processing of the daily financial report, account identifier codes entries, and money order vouchers.

⁴ An accounting and tracking system for postage meters, postage, customers, settings and usage.

processed without complete supporting documentation. Specifically, the CPU manager did not submit refund requests on separate Postal Service (PS) Forms 3533, Application for Refund, with the original spoiled or damaged postage label or entire mail piece, as required, and the PS Forms 3533 were not always signed by a witness. Further, refunds were not always reported on the daily financial report on the same day as processed. We referred this information to the U.S Postal Service Office of Inspector General OIG's Office of Investigation for further review.

Refund Supporting Documentation

Of the 192 spoiled or damaged postal label refund documentation reviewed:

- None were submitted on a separate PS Form 3533, as required.
 - The 192 postage meter labels were combined and submitted on eight PS Forms 3533.
 - Six of eight PS Forms 3533 were missing the required witness signatures.
- For 119 (61 percent) postage labels valued at \$1,246, the CPU clerks wrote the dollar values of the damaged labels on pieces of paper and submitted them for refunds. Therefore, we could not verify the validity of the labels or determine when they were spoiled or damaged. See [Figure 1](#) for a PS Form 3533 submitted without a witness and signature and attached with handwritten dollar amounts.

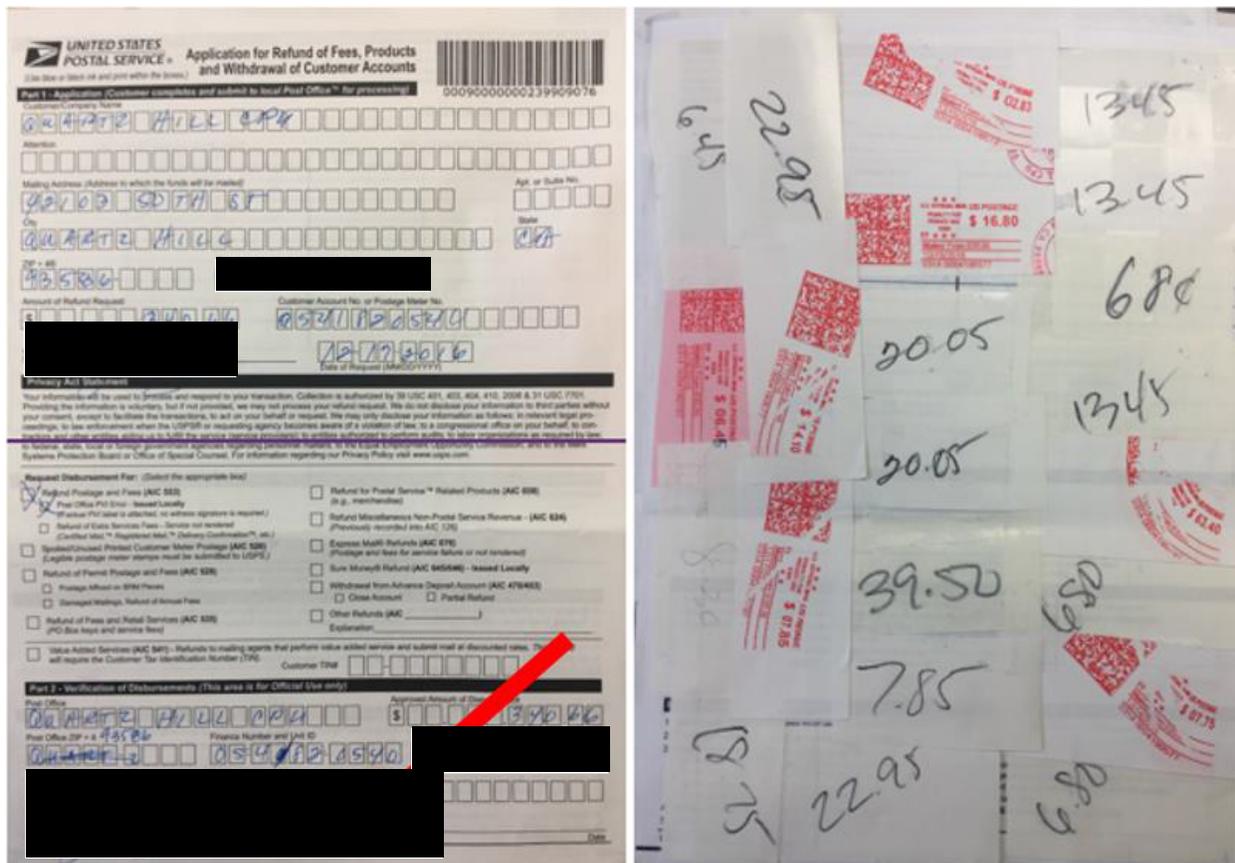
According to Postal Service policy, each postage meter refund request must be submitted on a separate PS Form 3533,⁵ and a witness signature is required on each form.⁶ Further, the original postage label or entire mail piece must be submitted as proof that the piece was not mailed.⁷

⁵ *Domestic Mail Manual* (DMM), Section 604.9.3.2, January 2017.

⁶ Handbook F-101, *Field Accounting Procedures*, Section 21-1, June 2016.

⁷ DMM, Section 604.9.3.1.

Figure 1. PS Form 3533 and Supporting Documentation with Handwritten Notes



Source: OIG, Image of (one) PS Form 3533 for Quartz Hill CPU, dated December 17, 2016.

Daily Financial Reporting

One hundred eighty-five⁸ of 192 (96 percent) labels valued at \$1,970 submitted for refunds were not recorded on PS Form 1412, Daily Financial Report, the day the transactions occurred, as required.

During a walkthrough of the process, the CPU manager stated she waited to receive multiple spoiled or damaged refund labels before she completed and submitted the PS Form 3533. According to Postal Service policy, transactions reported on the daily financial report should be made the same day the label refunds occur, and CPUs should not combine daily reporting amounts from different days on one PS Form 1412.⁹

The Quartz Hill CPU manager stated she was not aware of the requirements for completing the PS Forms 1412 and PS Form 3533 because she did not receive training. The postmaster responsible for overseeing the CPU was not aware of his responsibility

⁸ Includes the 119 handwritten labels. We were unable to determine the dates of the spoiled or damaged labels.

⁹ Handbook F-101, Section 5-6.2.

to provide financial reporting training to the CPU employees. Also, he incorrectly adopted the refund review process he learned from his predecessor. According to policy, the host administrative office¹⁰ must provide finance training related to Postal Service accounting policies and the daily financial report.¹¹

If postage label refunds are not properly completed and verified, there is an increased risk of theft and incorrect financial reporting. We considered the refunds valued at \$2,049 as unsupported questioned costs¹² because the CPU did not submit complete supporting documentation to process postage label refunds as required.

On January 27, 2017, local management took corrective action and replaced the defective postage meter.

Recommendations

We recommend, the manager, Sierra Coastal district, instruct the host Post Office postmaster to:

1. Provide financial reporting training to the Quartz Hill Contract Postal Unit employees.
2. Verify all required supporting documentation is submitted with applications for postage label refunds before approving.

Management's Comments

Management agreed with our findings, recommendations, and monetary impact.

Regarding recommendation 1, the Lancaster postmaster provided financial reporting training to the Quartz Hill CPU employees on January 26, 2017. In addition, management instructed the postmaster to ensure that the daily reporting requirements of the CPU adhere to Postal Service accounting policies.

Regarding recommendation 2, management instructed, on March 13, 2017, that the Lancaster postmaster assure all required supporting documentation is submitted with applications for postage label refunds before approval.

See [Appendix A](#) for management's comments in their entirety.

¹⁰ Responsible for providing support and oversight necessary to ensure CPUs are fulfilling their obligations as outlined in their contract with the Postal Service.

¹¹ Publication 156, *Guide to Contract Postal Units for Postal Service Employees*, Section 9-5.5, January 2014.

¹² Questioned Costs – Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and 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 action is completed. Recommendations 1 and 2 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Management's Comments

DISTRICT MANAGER
SIERRA COASTAL DISTRICT



March 13, 2017

MEMORANDUM FOR: LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS
U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL

SUBJECT: Internal Controls Over Postage Label Refunds – Quartz Hill Contract Postal Unit, Lancaster, CA (Report Number FT-FM-17)

The following is provided as a response to the OIG audit at the Quartz Hill Contract Postal Unit in Lancaster, CA, Report Number FT-FM-17.

Finding #1: We identified 192 spoiled or damaged postage label refunds valued at \$2,049 that were processed without complete supporting documentation.

Management Response to Finding #1: We are in agreement with the findings of the 192 spoiled or damaged postage label refunds valued at \$2,049 that were processed without complete supporting documentation. As noted, the defective postage meter was taken out of service on January 27, 2017.

Recommendation #1: Instruct the host Postmaster to provide financial reporting training to the Quartz Hill Contract Postal Unit employees.

Management Response to Recommendation #1: The Lancaster Postmaster was instructed to provide financial reporting training to the Quartz Hill CPU employees on Monday, March 13, 2017. This training was provided on Thursday, January 26, 2017. The Postmaster was also instructed to ensure that the daily reporting requirements of the CPU adhere to Postal Service accounting policies.

Finding #2: 185 of 192 (96%) labels valued at \$1,970 submitted for refunds were not recorded on PS Form 1412, Daily Financial Report, the day the transactions occurred, as required.

Management Response to Finding #2: We are in agreement with the finding that 185 of the 192 labels valued at \$1,970 submitted for refunds were not recorded on the PS Form 1412, Daily Financial Report, the day the transactions occurred, as required.

Recommendation #2: Instruct the host Post Office Postmaster to verify all required supporting documentation is submitted with applications for postage label refunds before approving.

Internal Controls Over Postage Label Refunds
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Management Response to Recommendation #2: The Lancaster Postmaster was instructed on Monday, March 13, 2017 to assure that all required supporting documentation is submitted with applications for postage label refunds before approval.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.



Larry P. Munoz
District Manager

cc: Manager Corporate Audit Response Management
 Controller, Pacific Area
 Manager, Accounting (Area)
 Manager, Post Office Operations