OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Monitoring Post Office Operational Risk in the Southern Area

Audit Report

Report Number
DP-AR-14-006

September 11, 2014

Highlights

Personnel were not continuously monitoring refunds because they are not required to do so under current Postal Service policy.

Background

The U.S. Postal Service Office of Inspector General (OIG) maintains four risk models containing 41 risk elements related to Post Office™ operations. The OIG uses these risk elements, which measure financial, operational, and human resources activity, to evaluate overall risk. The OIG periodically shares the evaluations with senior U.S. Postal Service officials.

We judgmentally selected 11 elements from the risk models that captured the most important aspects of monitoring Post Office operations, including refunds, cash balances, grievances, and overtime. Additionally, we selected two important risk elements related to Post Office Box and caller service management that were identified in previous audits as high risk areas. We tested these elements as they applied to Southern Area operations for the period October 1, 2008, through December 31, 2013.

Our objective was to determine whether the Southern Area effectively monitors risk related to the 13 selected operational elements.

What the OIG Found

The Southern Area is effectively monitoring 12 of the 13 risk elements we reviewed. However, we found area and district managers did not continuously monitor refunds.

We found that for calendar years 2011 through 2013, refunds increased by $3.6 million (from $9.9 million to $13.5 million, or 36.6 percent), while associated revenue increased by about $7.7 million (from $838.4 million to $846.1 million, or 0.9 percent). Area and district personnel were not continuously monitoring refunds because they are not required to do so under current Postal Service policy and they consider the financial risk from errors to be low.

Without refund monitoring, there is an increased opportunity for refund fraud against the Postal Service. Specifically, the Postal Service issues refunds when labels or meter strips are damaged or printed in error and voided. Falsifying refunds would provide employees the opportunity to convert Postal Service funds for personal use.

What the OIG Recommended

During the audit, the Southern Area Controller established a quarterly variance report to identify units with a high percentage of refunds to total revenue. As a result of this process, from January through June in calendar years 2013 and 2014, the Southern Area's refunds decreased by $1.1 million (from $6.9 million to $5.8 million, or about 15.9 percent). Therefore, we will not be making a recommendation.

We determined that for calendar years 2011 through 2013, refunds increased by $3.6 million (36.6%), while associated revenue increased by about $7.7 million (0.9%).

Roll over the meter strip to see the breakdown

$850 M

$840 M

$830 M

$820 M
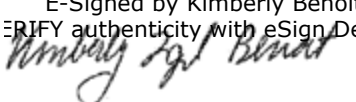
1

Transmittal Letter

September 11, 2014

MEMORANDUM FOR: JO ANN FEINDT
VICE PRESIDENT, SOUTHERN AREA OPERATIONS

E-Signed by Kimberly Benoit
VERIFY authenticity with eSign Desktop

FROM: Kimberly F. Benoit
Deputy Assistant Inspector General
 for Information Technology and Data Analysis

SUBJECT: Audit Report – Monitoring Post Office Operational Risk
in the Southern Area
(Report Number DP-AR-14-006)

This report presents the results of our audit of the U.S. Postal Service's Monitoring Post Office™ Operational Risk in the Southern Area (Project Number 13RG037DP002).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Analysis and Performance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

We judgmentally selected elements from the risk models to capture the most important aspects of monitoring Post Office operations.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's monitoring of Post Office™ Operational Risk in the Southern Area (Project Number 13RG037DP002). Our objective was to determine whether the Southern Area effectively monitored risk related to the 13 selected operational elements.

The U.S. Postal Service Office of Inspector General (OIG) maintains four risk models containing 41 risk elements related to Post Office (PO) operations.[1] The OIG uses these risk elements, which measure financial, operational, and human resources activity, to evaluate the U.S. Postal Service's overall risks. It periodically shares those risk evaluations with senior Postal Service officials.

Table 1. PO Operational Risk Elements Reviewed

Risk Elements
1. Postage Validation Imprinter (PVI) and PO Meter Strip Refunds
2. Office Cash
3. City Delivery Overtime
4. Clerk Overtime
5. Carriers Arriving After 5 p.m.
6. Street Efficiency
7. Grievances
8. Unscheduled Leave
9. Wait-Time-in-Line (WTIL)
10. The Voice of Employee (VOE) Index
11. Number of Customer Complaints
12. Inactive Caller Service
13. Closed PO Boxes

Source: Risk elements based on OIG analysis of risk models and OIG audit reports.

We judgmentally selected 11 risk elements from the risk models that capture the most important aspects of monitoring PO operations, such as refunds, cash balances, grievances, and overtime. Additionally, we included two important risk elements identified in previous audits: PO Boxes and inactive caller service accounts. We tested these elements as they applied to Southern Area operations for the period October 1, 2008, through December 31, 2013. See Appendix A for additional information about this audit.

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1 The OIG has 17 risk models containing 148 risk elements.

Conclusion

The Southern Area effectively monitored 12 of the 13 operational risk elements we reviewed. However, we found the area and district managers did not continuously monitor PVI and PO meter strip refunds. For calendar years (CYs) 2011 through 2013, PVI and PO meter refunds to customers in the Southern Area have increased by about $3.6 million (from $9.9 million to $13.5 million, or 36.6 percent), while associated revenue has increased by about $7.7 million (from $838.4 million to $846.1 million, or 0.9 percent).

PVI and Post Office meter strip refunds as a percentage of revenue have increased by 36.6 percent (from $9.9 million to $13.5 million) from CYs 2011 through 2013.

Monitoring Postage Validation Imprinter and Post Office Meter Strip Refunds

Managers at the Southern Area office and the four district offices we visited did not continuously monitor PVI and PO meter strip refunds effectively. There is adequate information available in the Enterprise Data Warehouse (EDW) for managers to monitor unit-level refunds but they are not required to do so. However, their involvement could reduce the number of refunds and potential for fraud.

PVI and PO meters produce postage labels that show payment of postage and fees. The Postal Service issues refunds when labels or meter strips are damaged or when they are printed in error and voided. However, these refunds can also indicate fraud. For example, a clerk might affix PVI or PO meter strip labels to mail in lieu of stamps and then process a refund to obtain funds.

Postal Service policy[2] states that field unit managers must review supporting documentation for all entries included on daily Postal Service Forms 1412, Daily Financial Report, and concur with the overall presentation of the report each day during closeout. This includes reviewing and validating all documentation provided by clerks for PVI or PO meter strip refunds.

According to the Southern Area accounting manager, PVI and PO meter refunds are the responsibility of managers at the PO level and the financial risk from errors is low. In addition, three of the four district finance managers we interviewed said they do not monitor PVI and PO meter strip refunds because it is not an area requirement. The fourth district manager said he monitors refunds monthly, although refund monitoring is not an area requirement and he considers the financial risk from errors to be low. However, PVI and PO meter strip refunds have increased by $3.6 million (or 36.6 percent[3]) since January 2011 and fraud could be a factor. For example, a Postal Service employee in the Great Lakes Area at the Hobart, IN, PO is accused of creating fraudulent PVI refunds of more than $13,000 between January and September 2013. The employee allegedly created false PVI labels for $25 to $50 and then processed refunds for them and kept the money. Monitoring the refund process would decrease the areas' and districts' vulnerability to fraud.
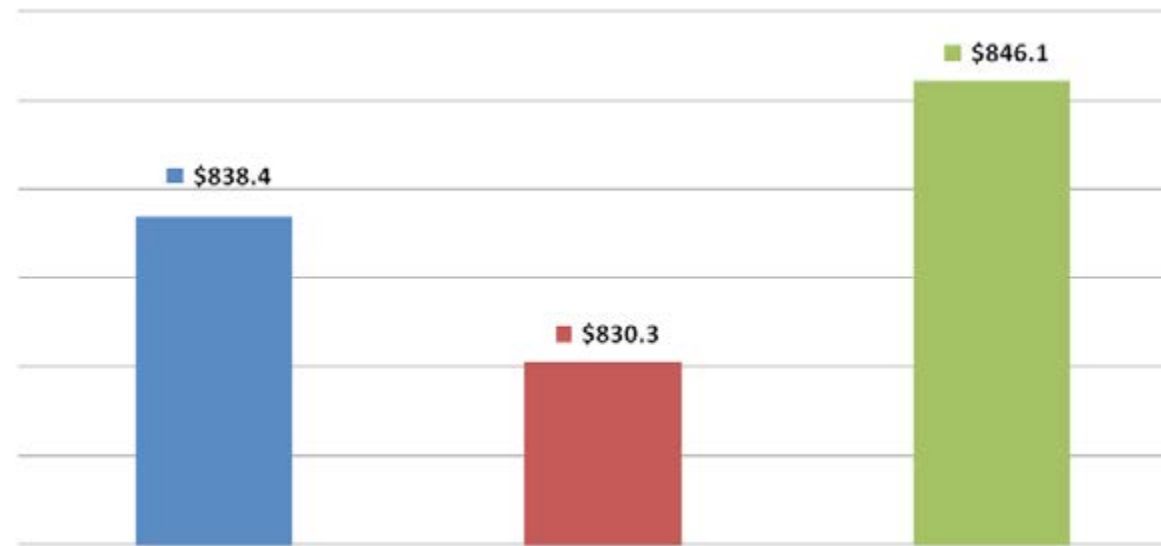
We found that Southern Area PVI and PO meter strip refunds as a percentage of revenue have increased by 36.6 percent (from $9.9 million to $13.5 million) from CYs 2011 through 2013.[4] In CY 2013, Southern Area PVI and PO meter strip revenue was about $846.1 million, with about $13.5 million refunded (1.6 percent). In 2011, refunds were 1.18 percent of revenue; in 2012 refunds were 1.33 percent of revenue; and, finally, in 2013 they increased again to 1.6 percent of revenue. Figures 1 and 2 provide details of annual PVI and PO meter strip revenue and refunds between CYs 2011 and 2013 for the Southern Area.

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2   Handbook F-101, *Field Accounting Procedures*, Section 2-4.1, October 2013.
3   Percentage based on unrounded amounts.
4   We used calendar years instead of fiscal years because PVI refund data was not available until January 2011.

Figure 1. PVI and PO Meter Strip Revenue Breakdown CYs 2011 Through 2013 (in Millions)

Source: Postal Service data EDW Accounting Data Mart.

Figure 2. PVI and PO Meter Strip Refund Breakdown CYs 2011 Through 2013 (in Millions)
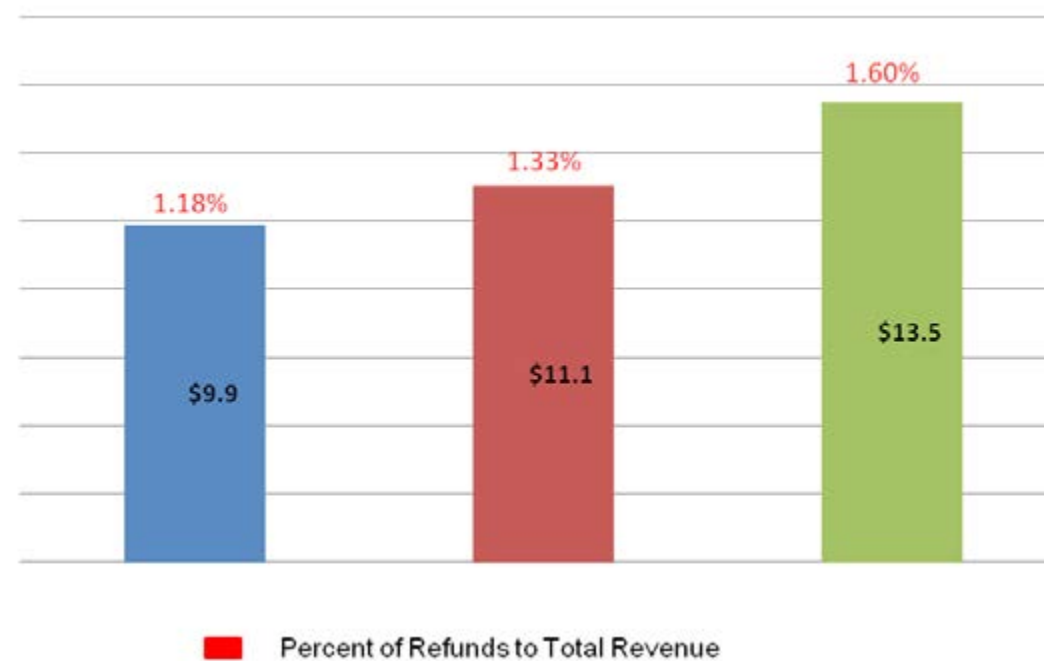
Source: Postal Service data EDW Accounting Data Mart.

During the audit, the Southern Area Controller established a quarterly PVI and PO meter strip variance report which is monitored by the Southern Area Controller office. This report displays the amount of voided PVI and PO meter strips and identifies units with a high percentage of refunds to total revenue. The area uses the variance report to determine which POs to review and established using a threshold of 1.5 percent of refunds to total revenue. As a result of this process, from January through June in CY 2013 and 2014, the Southern Area's refunds decreased by $1.1 million (from $6.9 million to $5.8 million, or about 15.9 percent). Therefore, we will not be making a recommendation.

Recommendations

Management corrected the issues during our audit, therefore, we are making no recommendations.

Management's Comments

Management reviewed a discussion draft of this report and provided corrective actions implemented since the audit started. Management demonstrated that the percent of refunds to associated revenue are now decreasing because of a monitoring activity implemented in February 2014.

Evaluation of Management's Comments

The OIG considers management's corrective actions responsive to the issue identified in this report. Therefore, we are issuing this report without a recommendation.

Appendicies

Click on the appendix title to the right to navigate to the section content.

Background

The OIG has 17 risk models containing 148 risk elements. Of these, four models and 41 risk elements measure PO operations. We judgmentally selected 11 risk elements from the risk models that capture the most important aspects of monitoring PO operations. Additionally, we included two important risk elements related to PO Box and caller service management identified in previous audits as high risk. We tested these elements as they applied to Southern Area operations for the period October 1, 2008, through December 31, 2013.[5] Table 2 defines the 13 risk elements.

Table 2. Definitions of PO Operational Risk Elements Reviewed

Risk Elements	Explanation
1. PVI and PO Meter Strip Refunds	Damaged PVI label errors, voids, or refunds as well as damaged PO postage meter strips. This risk element is a component of refunds within the cost and controls model.
2. Office Cash	Amount of cash units maintain.
3. City Delivery Overtime	The amount of overtime used by city delivery in relation to total city delivery workhours.
4. Clerk Overtime	The amount of overtime used by clerks in relation to total clerk workhours.
5. Carriers After 5 p.m.	Percentage of carriers who return to the station after 5 p.m., determined by the total number of carriers returning after 5 p.m. divided by the total number of carriers.
6. Street Efficiency	Percentage shows how efficiently city carriers are delivering the mail. The percentage is cumulative possible deliveries and total number of actual street delivery workhours on city delivery routes divided by Street Hours.
7. Grievances	Complaints filed by Postal Service unions on behalf of bargaining employees involving any issue in the collective bargaining agreement, including workplace environment issues.
8. Unscheduled Leave	Employees with more than 20 unscheduled leave occurrences.
9. WTIL	Percentage of customers waiting in line over 5 minutes.
10. VOE Index	A data collection instrument used to obtain information from career employees on how they feel about the Postal Service.
11. Number of Customer Complaints	Percentage of customer complaints compared to last year.
12. Inactive Caller Service	Caller service is a premium service available to those customers (for a fee) who want to pick up their mail at a designated Postal Service unit. Customers obtain this service when they routinely receive more mail than can be delivered to the largest installed PO Box or need to collect mail periodically during the day. This mail is separated for each caller service address the customer pays for. The audit team identified inactive accounts using the Electronic Uncoded Address Resolution Service system, a web-based application that works in conjunction with mail processing equipment.
13. Closed PO Boxes	Use of Web Box Activity Tracking System to manage closed PO Boxes to ensure they are not receiving any more mail.

Source: Risk element explanations obtained from OIG guidance and models; Inactive Caller Service and Closed PO Box information taken from prior OIG audit reports.

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5   *Caller and Reserve Service Operations* (Report Number DP-AR-13-001, dated January 3, 2013) and *Postal Service Management of Closed Post Office Boxes* (Report Number DP-AR-13-007, dated June 18, 2013).

Objective, Scope, and Methodology

Our objective was to determine whether the Southern Area effectively monitored risk related to the 13 selected operational elements. To accomplish this objective we:

■ Visited and conducted interviews and reviewed information at the Southern Area, the Gulf Atlantic, Houston, Mississippi, and South Florida districts, and 16 judgmental selected POs. Table 3 shows the names of POs we visited.

■ Evaluated whether management in the area, four districts, and 16 POs we visited have sufficient information to effectively monitor PO operations including grievances, office cash, unscheduled leave, VOE index, WTIL, and customer complaints.

■ Discussed with management in the Southern Area and the four districts we visited why information was not used to monitor PVI refunds, inactive caller service, and closed PO Boxes. We were unable to obtain PVI and meter strip information for refunds issued prior to CY 2011 because they were not accounted for separately prior to CY 2011, but were included with other types of refunds. In December 2010, the Postal Service implemented a new policy to record damaged PVI label errors, voids, or refunds as well as damaged PO meter strips.[6]

■ Analyzed reports for overtime and city delivery operations used by district management to identify excessive and inconsistent information and interviewed district managers to evaluate their monitoring process.

■ Extracted and analyzed data pertaining to informal grievances.

Table 3. POs Visited

District	PO	District	PO
Gulf Atlantic	Hinesville Main Office	Mississippi	Clinton MPO
Gulf Atlantic	Jacksonville Beach Branch	Mississippi	Jackson LeFleur Station
Gulf Atlantic	North Jacksonville Station	Mississippi	Ridgeland MPO
Gulf Atlantic	South Jacksonville PO	Mississippi	Westland PO
Houston	Conroe PO	South Florida	Dania MPO
Houston	Fresno Main Post Office (MPO)	South Florida	Hallandale MPO
Houston	Richmond PO	South Florida	Hollywood MPO
Houston	University PO	South Florida	Gratigny Branch

Source: POs visited based on OIG analysis.

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6   See *Postal Bulletin* 22299, Handbook F-101 - *Revision: Handling Postage Validation Imprinter Label and PO Postage Meter Voids and Refunds,* December 2, 2010.

We conducted this performance audit from February 2013 through September 2014 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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective. We discussed our observations and conclusions with management on August 14, 2014, and included their comments where appropriate.

We did not assess the reliability of any computer-generated data for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Grievance Settlements and Payments Follow Up	HR-AR-13-008	9/27/2013	$3.4

Report Results:
Our report found that management has strengthened internal controls and documentation supporting grievance settlements and payments has significantly improved since our prior audit. We reviewed 600 randomly selected grievance case files from 10 districts and found that 97 (or 16 percent) did not contain one or more of the required documents. Of these, 46 did not have specific support for settlements and payments, resulting in about $3.4 million in unsupported questioned costs. Management agreed with the recommendation. Management disagreed with the conclusion of a potential $3.4 million in unsupported questioned costs identified in the report, stating that missing settlement documentation in a case file does not necessarily correlate with unsupported and questioned costs.

U.S. Postal Service Data Governance	DP-AR-13-004(R)	4/23/2013	None

Report Results:
Our report found that the Postal Service could improve management of critical data to assist managers and employees to achieve strategic and operational goals. We identified 148 data-related issues in OIG reports issued in FYs 2009 through 2012. Although the Postal Service defined a structure for a data governance program in 2003, full roles and responsibilities were not uniformly adopted across the enterprise. We identified best practices used by companies with successful data governance programs. Management agreed with the finding and, subsequent to their formal response, the recommendation in the report.

Data Usage in Retail Operations	DR-AR-13-002	3/8/2013	None

Report Results:
Our report found that retail operations have a substantial amount of information to manage operations, including 11 systems/models, 250 reports generated from these systems, and hundreds of data elements that reside in these systems. We also found that some managers did not know how to use these tools and data to manage operations. Further, 10 prior OIG and Government Accountability Office reports describe numerous data usage, availability, and accuracy issues involving retail operations. Management agreed with the recommendation.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Delivery Operations Data Usage	DR-AR-13-001	10/11/2012	None

Report Results:

Our report found that city delivery operations have a substantial number of systems, reports, and data to manage operations. In addition, new supervisors and managers did not always know how to use these tools and data to manage operations. Further, our assessment of 32 prior delivery reports showed ongoing issues with data usage, availability, and accuracy. For rural delivery, there is no centralized system containing routes, workhours, and other management information. Management agreed with the findings and recommendations and took corrective actions.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Survey of Postmasters' Paperwork and Reporting Requirements	DR-MA-12-001	5/25/2012	None

Report Results:

Our report found that some postmasters stated they never used certain reports and indicated that headquarters, area, and district officials required them to prepare additional reports with information already contained in the daily reports. Excessive reporting requirements reduce the time available to manage daily operations, such as time that could be spent interacting with carriers and identifying opportunities to improve customer service. Management agreed with the findings and recommendations and took corrective actions.

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