



# Internal Controls Over Permit Postage and Fee Refunds - Palm Coast, FL Branch

March 6, 2018





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**Internal Controls Over Permit Postage and  
Fee Refunds – Palm Coast, FL Branch**

Report Number FCS-FM-18-008

**BACKGROUND:**

The objective of this audit is to determine whether internal controls for issuing permit postage and fee refunds were in place and effective at the Palm Coast, FL, Branch.

The U.S. Postal Service Office of Inspector General (OIG) Field Financial Risk Model identified that the Palm Coast Branch refund and void amounts for fiscal year 2017 Quarters 3 and 4 exceeded \$105,000, an increase of 110 percent from the same period last year. Of the \$105,000 in refunds and voids, \$96,551, or 92 percent, were recorded as refunds of permit postage and fees. We audited 100 percent of the permit postage and fee refunds based on this refund category having the highest dollar value refund activity between April 1 and September 30, 2017.

**WHAT THE OIG FOUND:**

Internal controls over the issuance of 47 business reply mail (BRM) permit postage and fee refunds valued at \$96,551 were in place but not effective at the Palm Coast, FL Branch. We found:

- Procedures for destruction of BRM with postage were not followed for all 47 refunds reviewed. Specifically, the bulk mail technician did not include a witness and a supervisor during the destruction process or obtain their certification signatures.
- The technician was not aware of the witness or certification requirements.
- The bulk mail clerk computed BRM charge fees for refunds greater than \$500 incorrectly. The employee stated he was not aware that the charge fee needed to be computed based on the actual hours it took to process the refunds. We were unable to determine whether the clerk overcharged or undercharged the customer because employees at the unit did not always document actual hours spent processing the refunds.
- The unit delayed processing 27 of 47 BRM refunds by more than 30 days because the unit did not have sufficient coverage of employees trained in the process to cover during absences.
- Unit personnel did not always properly perform the daily financial closeout procedures. Specifically, the lead sales and service associate (associate) did not reconcile information to the daily financial report, and the supervisor did not review the report for accuracy. Further, the associate could not provide documentation for four of the 47 refunds valued at \$25,700. The associate stated she did not have time to perform the detailed procedures because of time constraints relating to preparing the

bank deposit for pick-up. The associate could not explain the missing refund documentation.

- A supervisor shared her logon identification and password to allow another employee to approve refunds when the supervisor was unavailable. We referred this issue to the OIG Office of Investigations.

When internal controls are not effective, the Postal Service has an increased risk of:

- Not being able to substantiate the validity of BRM refunds.
- Issuing incorrect or unauthorized BRM refunds.
- Damaging the Postal Service image and customer loyalty.

As a result of our audit, management:

- Assigned two new employees to serve as witnesses during BRM destruction and instructed the bulk mail technician to train them on the BRM refund procedures.
- Created a spreadsheet to log and track actual BRM refund work hours.
- Reinforced the requirement for the supervisor to be onsite to certify the destruction of postage affixed on BRM refunds.
- Streamlined the refund process at the unit from initiation through issuance by eliminating additional handling of the form, which caused processing delays.

- Changed the bank deposit dispatch time.
- Provided “Unit 1412 Closeout Training” to the associate and two other retail associates.
- Adjusted the supervisor work hours to allow adequate time to verify the daily financial report.
- Implemented a new filing system for the daily financial report and support documentation.
- Instructed the supervisor to change her password and not to share it again.

Therefore, we are not making recommendations related to training on BRM refunds, including tracking actual BRM refund work hours, properly computing charge fee amounts, processing refunds timely, completing the daily financial closeout procedures, and protecting passwords.

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

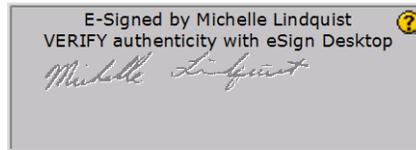
We recommend management provide BRM refresher training for destroying BRM with postage affixed to the bulk mail technician.

[\*Link to review the entire report\*](#)



March 6, 2018

**MEMORANDUM FOR:** ERIC D. CHAVEZ  
MANAGER, SUNCOAST DISTRICT



**FROM:** Michelle Lindquist  
Director, Financial Controls

**SUBJECT:** Audit Report – Internal Controls Over Permit Postage and  
Fee Refunds – Palm Coast, FL Branch  
(Report Number FCS-FM-18-008)

This report presents the results of our audit of the Internal Controls Over Permit Postage and Fee Refunds – Palm Coast, FL Branch (Project Number 18BFM005FCS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dianna Smith, Operational Manager, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the Internal Controls Over Permit Postage and Fee Refunds at the Palm Coast, FL, Branch (Project Number 18FCS005FT000). The Palm Coast Branch is in the Suncoast District of the Southern Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

To determine whether internal controls over permit postage and fee refunds were in place and effective, we extracted and analyzed Enterprise Data Warehouse (EDW)<sup>1</sup> system data for refunds issued at the Palm Coast Branch between April 1 and September 30, 2017. We conducted interviews and walk-throughs with personnel<sup>2</sup> knowledgeable about processing business reply mail (BRM)<sup>3</sup> postage permit and fee refunds. We also examined the unit's supporting documentation for all 47 refund transactions recorded to account identifier code (AIC)<sup>4</sup> 528, Refund Permit Postage and Fees. AIC 528 records refunds related to permit mailings, postage amounts of permit mailings damaged by the Postal Service, and refunds of customers' annual bulk mailing fee if no mailings are made. A completed and authorized Postal Service (PS) Form 3533, Application for Refund of Fees, Products and Withdrawal of Customer Accounts, is required to request refunds of permit postage and fees.

We relied on computer-generated data from EDW. We did not test the validity of controls over this system; however, we assessed the accuracy of the data by reviewing internal controls, tracing selected information to supporting source records, and interviewing knowledgeable Postal Service personnel. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from January through March 2018, 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 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 January 29, 2018, and included their comments where appropriate.

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<sup>1</sup> 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.

<sup>2</sup> Personnel included Officer-in-Charge (OIC), Customer Service Supervisor (CSS), bulk mail technician, the bulk mail clerk, and the lead sales and service associate (associate).

<sup>3</sup> A service that enables a permit holder to receive First-Class Mail and Priority Mail items back from customers and pay postage and a per piece fee only for the pieces returned.

<sup>4</sup> The AIC consists of three digits. It is used to classify financial transactions to the proper general ledger account.

## Finding #1: Processing Business Reply Mail Refund Requests

### Business Reply Mail Destruction

The procedures for destruction of postage affixed on BRM were not followed for all 47 refunds reviewed. Specifically, the unit did not include a witness or a supervisor in the BRM destruction process or obtain their certification signatures on PS Forms 3533 prior to destruction. Postal Service policy<sup>5</sup> requires a post office employee and a witness to destroy the postage stamps on business reply envelopes, postage meter stamps, envelopes, and other evidence submitted for a refund. In addition, a post office supervisor and a witness must certify the destruction on a PS Form 3533.

The bulk mail technician that prepared and processed the BRM for offsite destruction explained that he was not informed of the requirements for witness or certification signatures. The employee's training records show he completed BRM refresher training in March 2012. When witnesses are not present during destruction, the Postal Service has an increased risk of not being able to substantiate the validity of refunds.

We considered the refunds valued at \$96,551 to be unsupported questioned costs<sup>6</sup> because unit management did not follow destruction requirements. After our visit to the unit, the OIC assigned another employee and a backup employee to serve as the witness for BRM destruction. In addition, based on the OIC's instruction, the bulk mail technician provided employees BRM on-the-job training on January 22, 2018. Further, the OIC reiterated the requirement for the supervisor to be onsite to witness and certify that business mail envelopes with postage affixed are properly prepared to be shipped for destruction. However, the OIG has concerns with the on-the-job training provided by the bulk mail technician since he was not aware of the witness and certification requirements during our audit.

**Recommendation #1: We recommend the District Manager** instruct the Officer-in-Charge to provide Business Reply Mail Refresher training for destroying business reply mail with postage affixed to the bulk mail technician.

### Charge Fees Assessments and Processing Timeliness

A bulk mail clerk did not always properly calculate the BRM charge fee for processing refunds and the unit did not always process refunds timely. The instructions on PS Form 3533 state the Postal Service should assess \$50 per hour for the actual hours used to process refunds for postage stamps on business reply envelopes, postage meter stamps, and envelopes when the postage face value amount is greater than \$500. The minimum charge is \$50. Instead, the clerk assessed a charge fee of either \$25 or \$50 per tray for refund applications greater than \$500. The clerk stated he received on-the-

<sup>5</sup> Postal Operations Manual (POM) Issue 9, Section 145.11.c and d, dated July 2002.

<sup>6</sup> A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures, but does not necessarily connote any real damage to Postal Service.

job-training and does not recall this requirement being mentioned or demonstrated. We were unable to determine whether the clerk overcharged or undercharged the customer because employees at the unit did not always document actual hours spent processing the refunds.

In addition, the unit did not process 27 of the 47 PS Forms 3533 reviewed timely. Specifically:

- Twenty of 28 forms valued up to \$1,000, were processed between 1 and 87 days late (see [Table 1](#)).
- Seven of 19 forms valued at \$1,000 or more, were processed between 3 and 293 days late (see [Table 2](#)).

**Table 1. Refunds Up to \$1,000 Delayed Processing More Than 30 Days**

Number of Delayed Refunds	Acceptance Date	Refund Date	Refund Amount	Number of Days to Process	Number of Days Late
1	2/17/2017	6/14/2017	\$12.31	117	87
2	2/17/2017	6/14/2017	21.11	117	87
3	2/17/2017	6/14/2017	15.30	117	87
4	2/17/2017	6/14/2017	15.42	117	87
5	2/17/2017	6/14/2017	15.60	117	87
6	2/28/2017	6/14/2017	10.87	106	76
7	2/15/2017	5/25/2017	47.39	99	69
8	2/17/2017	5/25/2017	26.10	97	67
9	2/17/2017	5/25/2017	93.18	97	67
10	2/17/2017	5/24/2017	55.53	96	66
11	3/22/2017	6/14/2017	19.80	84	54
12	3/17/2017	5/25/2017	272.78	69	39
13	3/22/2017	5/25/2017	220.65	64	34
14	3/22/2017	5/24/2017	685.00	63	33
15	4/24/2017	6/14/2017	19.80	51	21
16	6/28/2017	8/16/2017	74.24	49	19
17	4/11/2017	5/25/2017	46.27	44	14
18	4/17/2017	5/24/2017	219.99	37	7
19	4/19/2017	5/24/2017	45.63	35	5
20	4/24/2017	5/25/2017	489.00	31	1
<b>Total</b>			<b>\$2,405.97</b>		

Source: EDW, unit documentation, and U.S. Postal Service Office of Inspector General (OIG) analysis.

**Table 2. Refunds Greater Than \$1,000 Delayed Processing More Than 60 Days**

Number of Delayed Refunds	Acceptance Date	Refund Date	Refund Amount	Number of Days to Process	Number of Days Late
1	6/6/2016	5/25/2017	\$2,056.00	353	293
2	9/23/2016	5/25/2017	1,401.00	244	184
3	9/23/2016	5/25/2017	6,888.00	244	184
4	9/23/2016	5/25/2017	6,988.00	244	184
5	9/27/2016	5/25/2017	2,460.00	240	180
6	9/30/2016	5/25/2017	6,838.00	237	177
7	3/22/2017	5/24/2017	1,028.00	63	3
<b>Total</b>			<b>\$27,659.00</b>		

Source: EDW, unit documentation, and OIG analysis.

Postal Service policy<sup>7</sup> states that postage meter stamp refunds of less than \$1,000 must be processed within 30 days and refunds totaling \$1,000 or more must be processed within 60 days. Unit employees stated that refunds were delayed when any of the four individuals involved with completing at least one part of the refund process were absent.

When BRM charge fees are not computed correctly or timely, it increases the risk that the Postal Service may be issuing incorrect refund amounts and could damage the Postal Service image and customer loyalty. After our site visit, the OIC trained additional staff on processing PS Form 3533 to cover essential employee absences and created a new standard operating procedure (SOP) to streamline the process at this unit. The SOP requires the two employees that verify and destroy the BRM stamped envelopes to track their time, immediately compute and deduct the applicable charge fee from the original requested refund amount, and sign and date the form. This new process eliminates extra handling of the PS Form 3533 by employees not involved in the process and seeks to improve processing timeliness.

Based on the corrective actions taken, we are not making a recommendation at this time.

## **Finding #2: Daily Financial Closeout Procedures**

Unit personnel did not always properly perform the daily financial closeout procedures. Specifically, the associate did not reconcile information on PS Form 1412, Daily Financial Report, to PS Forms 3533 prior to closing the records in Retail Systems Software (RSS).<sup>8</sup> In addition, the CSS did not review PS Form 1412 for accuracy and ensure that it was properly supported. Furthermore, the associate could not locate documentation to support four of the 47 issued refunds valued at \$25,700.

<sup>7</sup> POM Issue 9, Section 145.11.k.

<sup>8</sup> The primary hardware and software system used to conduct retail sales transactions at post offices.

Postal Service policy<sup>9</sup> requires the closeout clerk to verify and certify in the RSS that entries on the PS Form 1412 match the amount on the PS Form 3533 and to file the documents locally. The associate stated that she does not always have enough time to perform the detailed daily financial closeout procedures before the bank deposit pick-up time. The associate also stated that she did not have an explanation as to why the four refund request forms were missing from the office files. The CSS stated that performing other duties in the business mail entry unit and in carrier operations prevents her from properly reviewing the documents and she was not aware that support documents for four refunds were missing.

When internal controls are not followed, the Postal Service has an increased risk of maintaining inaccurate and incomplete refund documentation. After our visit at the unit, the OIC changed the bank deposit pick up time and provided “Unit 1412 Closeout Training” to the associate and two other retail associates.<sup>10</sup> The OIC also implemented a filing system to retain documentation that supports transactions on PS Form 1412 and changed the CSS's workhours to allow her additional time to oversee the daily financial closeout process.

Based on the corrective actions taken, we are not making a recommendation at this time, but will continue to monitor the issues.

### **Finding #3: Password Security**

A CSS shared her RSS logon identification and password with another employee so that other employee could process a \$2,597 refund. The Postal Service trains<sup>11</sup> its employees to protect their password and not share it with anyone, including their manager or co-worker. The CSS completed the CyberSafe Password training in December 2016; however, she did not recall the training related to not sharing her logon identification and password with anyone.

When passwords are not protected, the Postal Service increases its risk of unauthorized and improperly approved refunds. As a result of our audit, the OIC instructed the CSS to change her password and not to share it again; therefore, we are not making a recommendation. We referred the security violation to the OIG's Office of Investigations.

### **Management's Comments**

Management agreed with the findings, recommendation, and \$2,023 of the monetary impact. Management disagreed with the remaining monetary impact of \$94,528.

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<sup>9</sup> Handbook F-101, *Field Accounting Procedures*, Section 5-4.2.j (3), dated June 2016.

<sup>10</sup> Completed February 16, 2018.

<sup>11</sup> Postal Service CyberSafe Password Security Training.

Regarding the recommendation, the district manager instructed the postmaster to provide training for destroying BRM with postage affixed. The postmaster will provide the training to bulk mail technicians and BRM clerks by March 16, 2018.

The district manager disagreed with most of the monetary impact because the postmaster of Flagler Beach<sup>12</sup> reviewed and substantiated \$94,528 in refunds in which we found management did not follow destruction requirements. PS Forms 3533 were located and have witness signatures.

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

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report.

Regarding the monetary impact, we acknowledge that the postmaster provided documentation in response to our report for most of the refunds identified during our audit; however, at the time of our audit, the Postal Service could not provide evidence that an employee and witness were present to destroy BRM with postage affixed. As a result, we will continue to claim the monetary impact because of the unit's failure to follow required procedures.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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<sup>12</sup> The postmaster of Flagler Beach is the current Officer-in-Charge of the Palm Coast, FL Branch.

## Appendix A: Management's Comments



March 2, 2018

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS  
OFFICER OF INSPECTOR GENERAL

SUBJECT: Internal Controls Over Permit Postage and Fee Refunds Palm Coast FL Branch  
Report Number FCS-FM-18-DRAFT

Thank you for your time in reviewing the operations of our internal controls over permit postage and fee refunds in Palm Coast, Florida. We agree with your finding that there is opportunity to improve with the items noted in your report.

Suncoast District Manager disagrees with the total listed monetary impact. The Postmaster of Flagler Beach has reviewed and substantiated \$94,528.42 in refunds during the audit dates of April 1, 2017 through September 30, 2017. The PS Form 3533's were located and are attached, with witness signatures. Suncoast District Manager agrees with the monetary impact of \$2,022.52.

The following steps have been taken to address the item discovered during the audit.

**Recommendation #1:** Suncoast District Manager instruct the Officer-in-Charge to provide Business Reply Mail Refresher training for destroying business reply mail with postage affixed to the bulk mail technician.

**Management Response/Action Plan:** Suncoast District Manager agrees and instructed the Postmaster, through the Manager of Post Office Operations, to provide Business Reply Mail refresher training for destroying business reply mail with postage affixed to the bulk mail technician.

The Postmaster agrees to provide Business Reply Mail refresher training (BRM Refresher Training: LMS Course 10020029) for destroying business reply mail with postage affixed to the bulk mail technicians and business reply mail clerks.

**Target Implementation Date:** 03/16/2018

**Responsible Official:** Catherine Heidkamp, Postmaster

  
Eric D. Chavez  
District Manager  
Suncoast District

cc: file