



AUDIT REPORT

August 6, 2019

Postage and Fee Refunds - Bellmawr, NJ, Main Window

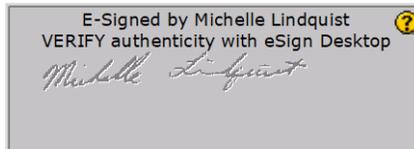


Report Number FCS-FM-19-016



August 6, 2019

MEMORANDUM FOR: JAMES DRUMMER
MANAGER, SOUTH JERSEY DISTRICT



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Postage and Fee Refunds Bellmawr, NJ,
Main Window (Report Number FCS-FM-19-016)

This report presents the results of our audit of the Postage and Fee Refunds – Bellmawr, NJ, Main Window (Project Number 19BFM020FCS000).

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

Attachment

cc: Corporate Audit Response Management

Background

This report presents the results of our self-initiated audit of Postage and Fee Refunds – Bellmawr, NJ, Main Window¹ (Project Number 19BFM020FCS000). The Bellmawr Main Window is in the South Jersey District of the Eastern Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

Account Identifier Code (AIC)² 553, *Refund Postage and Fees*, is used to record refunds of customers postage and fees paid for special services not received. The U.S. Postal Service Office of Inspector General's (OIG) data analytics identified the Bellmawr Main Window as having the highest amount recorded to AIC 553 during fiscal year (FY) 2018 quarter (Q) 4, and FY 2019, Q1.³ During this period the unit reported \$78,659 in AIC 553, with more than \$60,000 in FY 2018, Q4. In addition, refunds during this period exceeded those of the same period last year by \$45,730, an increase of 139 percent. In addition, postage and fee refunds for the Bellmawr Main Window were nearly 64 percent of the overall refunds in this AIC in the South Jersey District during this period.

Objective, Scope, and Methodology

The objective of this audit was to determine whether postage and fee refunds were valid, properly supported, and processed at the Bellmawr Main Window. We reviewed daily financial records; Postal Service (PS) Forms 3533, *Application for Refund of Fees, Products and Withdrawal of Customer Accounts*; and attached supporting documentation maintained by the unit from July 1 through December 31, 2018. While on-site, we observed stock destruction procedures and reviewed the associated postage product and documentation and interviewed unit personnel and management.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).⁴ We did not test the validity of controls over this system; however, we verified the accuracy of the data by reviewing related documentation, 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 May through August 2019, 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

¹ Finance branch of Gloucester City, NJ, Post Office.

² The AIC consists of three digits. It is used to classify financial transactions to the proper general ledger account.

³ FY 2018, Q4, is July 1 through September 30, 2018; FY 2019, Q1 is October 1 through December 31, 2018.

⁴ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

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 July 9, 2019, and included their comments where appropriate.

Finding #1: Postage and Fee Refunds

We determined the postage and fee refunds processed at the unit were not always valid, properly supported, or processed. Specifically, unit personnel:

- Improperly processed 12 of 24 refund transactions totaling about \$50,656 for large volumes of unused, precanceled stamped envelopes returned by major mailers on PS Form 3533. According to Postal Service policy,⁵ this type of returned postage should have been processed as redeemed stamp stock using PS Form 3210, Receipt for Stamp Stock Submitted for Redemption, and PS Form 17, Stamp Requisition/Stamp Return. During our visit, we examined samples of returned stock received on May 9, 2019, from one mailer and on May 21, 2019, from another mailer. Both mailers had returned unused envelopes with precanceled nonprofit and standard mail stamps affixed.

Postal Service policy⁶ states that it does not make refunds for adhesive stamps affixed to unmailed matter. This policy also states that stamped paper (cards and envelopes) may be exchanged only for an equal number of stamps, or stamped paper, alike and of the same denomination and postage stamps (ordinary or precanceled when applicable) affixed to commercial envelopes and postcards at 90 percent of postage value.

- Verified and destroyed nearly 800,000 pieces of unused, precanceled stamped envelopes returned without proper district-level authorization. Additionally, the on-site file for destruction activity that occurred was incomplete. Specifically:
 - Two of the five destruction invoices⁷ did not have the matching “Certificate of Destruction” on file.
 - Two of the three “Certificate of Destruction” on file were not signed certifying the destruction.

Postal Service policy⁸ states that postal retail units (PRU) that exchange 10,000 or more envelopes with precanceled postage affixed may verify and recycle them locally if the district marketing manager authorizes an exception.

⁵ Handbook F-101, *Field Accounting Procedures* (Draft), Section 11.6.2.2, May 2017.

⁶ *Domestic Mail Manual*, Section 604.9.2.4.d., March 2019.

⁷ Vendor invoices received for on-site shredding.

⁸ Handbook F-101 (Draft), Section 11.6.2.2.

- Posted nine of 24 customer meter refunds to the incorrect AIC in the Retail Systems Software system.⁹ The refunds were appropriate; however, were posted incorrectly to AIC 553. Based on the PS Form 3533, AIC 526, Refund Spoiled or Unused Customer Meter Stamps, should have been used. Postal Service policy¹⁰ requires unit management to review supporting documents for all entries included on PS Form 1412 and concur with the overall presentation of the report each day.
- Did not properly complete PS Forms 3533 for the an additional three of the 24 refunds. Specifically, one form was missing a witness' signature and the postage on the other two forms had not been destroyed. Last year we audited this unit for Stamps and Meter refunds and identified similar issues.¹¹ Postal Service policy¹² requires the retail associate to ensure that PS Form 3533 is properly completed and that only the types of postage specified are refunded and recorded to the AICs listed.

These issues occurred because unit personnel and management were unfamiliar with the policies and procedures for refunds and exchanges and did not seek the proper guidance to ensure these transactions were processed correctly. As mentioned by several employees at the unit, there has been high management turnover at this unit in the past two years.

If employees at the Bellmawr Main Window do not ensure refunds are valid and exchanges properly processed, the Postal Service risks issuing incorrect or unauthorized refunds. We consider the 12 transactions incorrectly processed as refunds and valued at \$50,656.15 as loss revenue.¹³ Further, without the appropriate authorization and adherence to stamp stock destruction procedures, there is an increased risk of fraud and theft.

As a result of our audit, the Officer-in-Charge at the Bellmawr Main Window contacted the marketing manager at the South Jersey District Business Mail Entry Unit to determine the proper procedures for processing redeemed postage products. District management also plans to meet with the major mailers regarding this issue.

⁹ The primary hardware and software system used to conduct retail sales transactions at post offices. PS Form 1412 provides individual retail associates and PRUs with a uniform method to report financial transactions in the Retail System Software system

¹⁰ Handbook F-101 (Draft), Section 2-4.1.

¹¹ *Stamps and Meter Revenue Refunds – Bellmawr, NJ, Main Window*, (Report Number [FCS-FM-18-011](#), dated April 13, 2018).

¹² Handbook F-101 (Draft), Section 21-2.

¹³ Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).

Recommendation #1: We recommend the Manager, South Jersey District, direct the District Marketing Manager to reiterate the policies and procedures for processing exchanges and refunds to all unit personnel.

Management's Comments

Management agreed with the findings, recommendation, and monetary impact.

Regarding recommendation 1, the Marketing Manager provided the standard operating procedures for Large Quantity Destruction Exception for envelopes with pre-canceled stamps in writing to the manager, Business Mail Entry, and the Officer-in-charge of the Bellmawr Window on July 10, 2019.

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 and corrective action should resolve the issues identified in the report.

We reviewed management's correspondence and found it adequate to resolve the issues identified in this report. We consider recommendation 1 closed with the issuance of this report.

Appendix A. Management's Comments

John Melusky
Finance Manager
South Jersey District



August 1, 2019

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Postage and Fee Refunds – Bellmawr, NJ, Main Window
Report Number FCS-FM-19-DRAFT

Thank you to you and the team for providing a critical look at the Bellmawr window operation. I can assure you we are now processing returned postage, where applicable, as redeemed stamp stock and not as cash refunds. We agree with the findings presented in your July 19th report and the corresponding highlights under Finding #1 section and the calculations related to the monetary impacts of \$50,656.15 for twelve postage and fee refunds improperly processed.

Recommendation #1

We recommend **the Manager, South Jersey District**, direct the district marketing manager to reiterate the policies and procedures for processing exchanges and refunds to all unit personnel.

Management Response/Action Plan:

We agree that reiterating the policies and procedures for processing exchanges and refunds to all unit personnel is critical to this unit's financial responsibility to USPS.

Actions taken: As a result of the audit, Rosemary Fox, Marketing Manager, provided in writing the standard operating procedure for Large Quantity Destruction Exception for envelopes with Pre-canceled Stamps (F-101-Field Accounting Procedures 11-6.2.2) to Manager, Business Mail Entry and the Officer in charge (OIC) of the Bellmawr Window Section.

Target Implementation Date:

Completed July 10, 2019

Responsible Official:

Officer-In-Charge



John Melusky

Finance Manager, South Jersey District

cc: Manager, Corporate Audit Response Management