



July 13, 2007

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VICE PRESIDENT, CAPITAL METRO AREA OPERATIONS

SUBJECT: Audit Report – Review of the Postal Service’s Refund Process – Capital Metro Area (Report Number DR-AR-07-011)


This report presents the results of our self-initiated audit of the U.S. Postal Service’s Refund Process in the Capital Metro Area (Project Number 05YG044DR000). The overall objective was to determine whether retail associates and customer service supervisors were properly processing and recording refunds of stamps, fees, retail services, and Express Mail® services.

Capital Metro Area retail associates and customer service supervisors were not always properly processing and recording refunds of stamps, fees, retail services, and Express Mail services. Specifically, retail associates did not always complete refund documentation, enter the proper refund account identifier codes in the Point-of-Service system, and provide signatures on Postal Service (PS) Forms 1412, Daily Financial Report. These conditions occurred because customer service supervisors did not always adequately oversee the refund process. As a result, we projected the four sites visited in the Capital Metro Area have incurred \$180,619 in unsupported questioned costs and \$531,784 in assets at risk for refunds of stamps, fees, retail services, and Express Mail services, which we will report in our *Semiannual Report to Congress*.

We recommended the Vice President, Capital Metro Area Operations, direct district managers to ensure customer service supervisors provide oversight of retail associates to ensure they follow established procedures for processing and recording refunds. We also recommended directing area finance and retail managers to reissue the area refund policy memorandum to remind employees of refund procedures, and ensure customer service supervisors verify whether retail associates are properly signing their individual clerk PS Forms 1412. Finally, we recommended directing district managers to ensure customer service supervisors review PS Forms 1412 and supporting documentation.

Management agreed with our findings, recommendations, and monetary impact and has initiatives completed and planned to address the issues in this report. Management's comments and our evaluation of these comments are included in this report. The U.S. Postal Service Office of Inspector General considers recommendations 1, 2, 3, and 4 significant, and considers the support provided by management detailing corrective ongoing actions to be sufficient to close these recommendations.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Rita F. Oliver, Director, Delivery, or me at (703) 248-2100.

E-Signed by Colleen McAntee   
VERIFY authenticity with ApproveIt  
*Colleen McAntee*

Colleen McAntee  
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## EXECUTIVE SUMMARY

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### Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's Refund Process in the Capital Metro Area. The overall objective was to determine whether retail associates and customer service supervisors were properly processing and recording refunds of stamps, fees, retail services, and Express Mail® services.

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### Results in Brief

Capital Metro Area retail associates and customer service supervisors were not always properly processing and recording refunds of stamps, fees, retail services, and Express Mail services. Specifically, retail associates did not always complete refund documentation, enter the proper refund account identifier codes in the Point-of-Service (POS) system, and provide signatures on Postal Service (PS) Forms 1412, Daily Financial Report. These conditions occurred because customer service supervisors did not always adequately oversee the refund process. As a result, we projected the four sites visited in the Capital Metro Area have incurred \$180,619 in unsupported questioned costs and \$531,784 in assets at risk for refunds of stamps, fees, retail services, and Express Mail services, which we will report in our *Semiannual Report to Congress*.

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### Summary of Recommendations

We recommended the Vice President, Capital Metro Area Operations, direct district managers to ensure customer service supervisors provide oversight of retail associates to ensure they follow established procedures for processing and recording refunds. We also recommended directing area finance and retail managers to reissue the area refund policy memorandum to remind employees of refund procedures. In addition, we recommended directing district managers to ensure customer service supervisors verify whether retail associates are properly signing their individual clerk PS Forms 1412. Finally, we recommended directing district managers to ensure customer service supervisors review PS Forms 1412 and supporting documentation.

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**Summary of  
Management's  
Comments**

Management agreed with the findings, recommendations, and monetary impact. Management issued a policy memorandum, PS Form 3533 Instructions and Closeout Procedures for Retail Associates, on June 25, 2007 to all Capital Metro Area district offices. Management also stated verification procedures will be added to the fiscal year (FY) 2007 Post Office Quarterly Self-Audit Checklist for customer services supervisors, managers and postmasters. In addition, management reissued the policy memorandum, Proper Recording of Refund Account Identification Codes, on April 10, 2007 to all district managers. Finally, management stated they issued financial closeout procedures to retail associates. Also, management added the responsibility for review of PS Form 1412 supporting documentation at the end of each day to the FY 2007 Post Office Quarterly Self-Audit Checklist for customer services supervisors, managers and postmasters. Management's comments, in their entirety,<sup>1</sup> are included in Appendix C.

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**Overall Evaluation of  
Management's  
Comments**

Management's actions taken and planned are responsive to the recommendations and should address the issues identified in the findings.

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<sup>1</sup> Management's comments do not include full attachments.

## INTRODUCTION

### Background

The U.S. Postal Service established policies and procedures to process refunds. Specifically, it has grouped all refund requests into categories and assigned accounting codes to facilitate the refund process. These accounting codes allow the Postal Service to effectively track revenue by customer type and help attribute refunds to the correct postage category.

The Postal Service has assigned twelve Account Identification Codes (AIC)<sup>2</sup> to use when processing refunds of postage and fees. During fiscal year (FY) 2005, the Postal Service processed approximately \$252 million<sup>3</sup> in refund transactions. However, we limited our review to AICs 553, 535, and 676, which accounted for approximately \$75 million of the refund transactions in FY 2005. Table 1 shows the total dollars refunded in these three accounts for FY 2005.

**Table 1. Summary of Refunds for AICs 553, 535 and 676 for FY 2005**

Area	Total Amount of Refunds for Postage and Fees (AIC 553)	Total Amount of Refunds for Fees and Retail Services (AIC 535)	Total Amount of Refunds for Express Mail® (AIC 676)	Area Totals
Great Lakes	\$5,902,634	\$975,513	\$666,224	\$7,541,371
Pacific	10,197,620	1,567,090	1,125,496	12,890,206
Eastern	6,865,091	1,475,387	723,776	9,064,254
Northeast	4,581,910	709,185	510,621	5,801,716
Southeast	7,242,534	1,210,988	979,970	9,433,492
Western	7,310,653	1,575,794	778,589	9,665,036
Capital Metro	5,366,322	530,093	273,887	6,170,312
New York Metro	6,135,185	551,261	784,633	7,471,079
Southwest	5,237,092	1,021,171	552,263	6,810,526
<b>TOTAL</b>	<b>\$58,839,051</b>	<b>\$9,613,482</b>	<b>\$6,395,459</b>	<b>\$74,847,992</b>

Source: Postal Service Accounting Data Mart

The Postal Service disburses refunds to customers who have submitted the proper documentation. Management reviews the documentation to verify the transaction. (See the flow chart for

<sup>2</sup>The Postal Service uses twelve AICs to categorize refund transactions to include: 525 Precanceled Stamp Refund; 526 Customer Meter Postage; 528 Permit Postage; 535 Refund of Fees; 536 Removed and Reserved; 537 Postage Refunds of Printed Stamped Envelopes; 541 Value Added Services; 553 Stamps and Fees; 558 Customer Meter Withdrawn; 608 Postal Related Products; 624 Refund of Miscellaneous; and 676 Express Mail. However, for the scope of this audit we only reviewed AICs 535, 553, and 676 because these AICs had the higher dollar amounts.

<sup>3</sup> We extracted refund information from the Accounting Data Mart, which indicated the Postal Service processed approximately \$252 million in refund transactions during FY 2005.

the refund process in Appendix A.) The following describes AICs 553, 535, and 676:

- Employees use AIC 553, Refunds for Postage and Fees, to process and record a refund if postage and special or retail service fees are paid and no service is rendered, or if the amount collected was more than the lawful rate. To receive a refund, the customer must submit a completed Postal Service (PS) Form 3533, Application and Voucher for Refund of Postage, and supporting documentation such as a receipt, Postage Validation Imprinter (PVI) label or invoice. In addition, this AIC includes Business Reply Mail (BRM), which authorizes mailers to receive First-Class Mail® (without pre-paid postage) back from customers by paying the postage and fee upon receipt of the mail pieces. To receive a refund, the permit holder must submit a completed PS Form 3533 to the postmaster, documenting the excess postage payment for which they want a credit or refund. The permit holder must also present to the designated office properly faced and banded bundles of 100 identical BRM pieces with identical amount of postage affixed. The Postal Service assesses a charge of \$35 per hour, or a fraction thereof, for the workhours used to process the refund.
- Employees use AIC 535, Refunds of Fees and Retail Service, to process and record a refund for post office box keys and refundable Post Office Box®/Caller service fees. To receive a refund, the customer must submit a completed PS Form 3533 and supporting documentation such as a receipt, post office box key or invoice.
- Employees use AIC 676, Express Mail Refunds, for Express Mail service. This special service is the Postal Service's premium delivery service for documents and packages weighing up to 70 pounds. This money-back guarantee service includes tracking, proof of delivery, and insurance up to \$100. Delivery to most destinations is available 365 days a year, with no extra charge for Saturday, Sunday, or holiday delivery. If an Express Mail item is not delivered or made available for the customer as guaranteed under the applicable service purchased, the mailer may request a postage refund. To receive a refund, the customer must submit a completed PS Form 3533 and supporting documentation, such as an express mail label tracking receipt.

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**Objective, Scope, and Methodology**

The overall objective was to determine whether retail associates and customer service supervisors were properly processing and recording refunds of stamps, fees, retail services, and Express Mail services.

To accomplish our objective, we reviewed applicable policies and procedures in regards to the verification, approval, and disbursement of refunds. We obtained, reviewed, and analyzed data from the Point-of-Service (POS) system, Retail Data Mart,<sup>4</sup> and Accounting Data Mart<sup>5</sup> for the area and districts under review to determine the amount of refunds processed. We also reviewed applicable documentation, such as PS Forms 3533, PS Forms 1412, and other supporting documentation to determine whether appropriate signatures had been obtained for approval, verification, and disbursement of funds for refunds. In addition, we interviewed customer service supervisors and retail associates.

We judgmentally selected four retail units within the Capital and Northern Virginia Districts: [REDACTED] and [REDACTED] Processing & Distribution Center ([REDACTED]), [REDACTED],<sup>6</sup> [REDACTED], and [REDACTED]. We constructed a stratified sample and randomly selected 483 refund transaction days and reviewed 2,995 refund transactions totaling \$1.5 million for FY 2005.<sup>7</sup> Table 2 shows the total number of transaction days, total number of refund transactions, and total dollar amounts reviewed for all four sites. See Appendix B for details regarding the stratified random sample of refund transactions.

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<sup>4</sup> The Retail Data Mart (RDM) was developed to give access to retail transaction data and critical business information used for operational planning, fraud detection, and strategy development, as well as sales and market analysis. The RDM was established to harness the power of retail data to allow the Postal Service to generate more revenue, improve customer service, manage inventory, align staff with customer demands and improve store performance.

<sup>5</sup> The Accounting Data Mart (ADM) is a financial and operational reporting vehicle that functions as a key part of the Postal Service's financial reporting system. A significant amount of financial reporting and all operational reporting is performed through access to the ADM.

<sup>6</sup> The [REDACTED] and [REDACTED] Post Office processed Business Reply Mail transactions, which generated large refund amounts.

<sup>7</sup> Since the fieldwork initially started in January 2006, we reviewed and analyzed FY 2005 refund transaction data from the ADM.



**Table 2. Summary of Refund Transactions Reviewed**

Site location	Total Number of Transaction Days Reviewed	Total Number of Refund Transactions Reviewed	Total Dollar Amount
[REDACTED]	122	1,041	\$1,147,961
[REDACTED]	112	322	4,284
[REDACTED]	140	1,299	356,141
[REDACTED]	109	333	6,054
<b>Total</b>	<b>483</b>	<b>2,995</b>	<b>\$1,514,440</b>

Source: Postal Service Refund Transaction Documentation

We conducted this audit from January 2006 through July 2007<sup>8</sup> in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We relied on data obtained from the Accounting Data Mart within Retail Data Mart to determine the refund amounts for AICs 553, 535, and 676 during FY 2005. Although we did not directly audit these systems, we performed a limited data integrity review to support our data reliance. We discussed our observations and conclusions with management officials on March 2, 2007 and included their comments where appropriate.

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**Prior Audit Coverage**

The Office of Inspector General (OIG) conducts financial audits in support of the annual financial statement opinion. These audits examine a broad range of expenditures, including refunds. While there were no systemic issues related to refunds in our latest report, *Audit Report – Fiscal Year 2006 Financial Installation Audit – Post Offices, Stations, and Branches* (Report Number FF-AR-07-094, dated February 20, 2007), there were some instances of refund compliance issues at individual audit sites.

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<sup>8</sup> This project was suspended for a period of time to conduct higher priority audit work.

## AUDIT RESULTS

### Refund Process

Capital Metro Area retail associates and customer service supervisors were not always properly processing and recording refunds of stamps, fees, retail services, and Express Mail services. Specifically, retail associates did not always complete refund documentation, enter the proper refund account identifier codes in the POS system, and provide signatures on PS Forms 1412. These conditions occurred because customer service supervisors did not always adequately oversee the refund process. As a result, we project the four sites visited in the Capital Metro Area have incurred \$180,619 in unsupported questioned costs and \$531,784 in assets at risk for refunds of stamps, fees, retail services, and Express Mail services. (See Appendix B.)

### Incomplete or Missing Refund Documentation

Retail associates did not always complete PS Forms 3533 and attach supporting documentation because they did not follow policies and procedures for processing and recording refund transactions. Of the 2,995 refund transactions reviewed, 997 refund transactions did not have completed PS Forms 3533 and 56 refund transactions were missing a PS Form 3533 from the daily closeout packets. In addition, 239 refund transactions were missing the required supporting documentation. Table 3 shows the total number of refund transactions reviewed and a summary of refund transactions with incomplete or missing documentation.

**Table 3. Refund Transactions with Incomplete or Missing Supporting Documentation**

Site Location	Total Number of Refund Transactions Reviewed	Total Number of PS Forms 3533 Incomplete	Total Number of PS Forms 3533 Missing from File	Total Number of Refund Transactions Missing Supporting Documentation
[REDACTED]	1041	426	20	35
[REDACTED]	322	61	3	110
[REDACTED]	1299	419	27	78
[REDACTED]	333	91	6	16
<b>Total</b>	<b>2,995</b>	<b>997</b>	<b>56</b>	<b>239</b>

Source: Postal Service Refund Transaction Documentation

For example, a retail associate processed a refund transaction in the amount of \$13.65. The PS Form 3533 used to process the transaction was missing information such as employee and witness signatures. Another retail associate processed a refund transaction in the amount of \$78.30, but the PS Form 3533 and supporting document were missing from the file. In addition, a retail associate processed a refund for an Express Mail transaction in the amount of \$13.65. Supporting documentation, such as the customer receipt and the internet tracking form to confirm the late delivery, was missing from the file.

Handbook F-1, *Post Office Accounting Procedures*, outlines the procedures for disbursing postal funds for the three AICs we reviewed. Refund requests must be submitted with a properly completed PS Form 3533 and supporting documentation. Retail associates stated they were aware of the proper procedures for processing and recording refund requests. Further, retail associates stated the refund procedures were moderate to easy to follow and supervisors have provided training sessions such as stand-up talks. Nevertheless, retail associates often submitted refund requests with incomplete PS Forms 3533.

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**Recommendation**

We recommended the Vice President, Capital Metro Area Operations, direct District Managers, Capital and Northern Virginia, to ensure customer service supervisors:

1. Provide oversight of retail associates to ensure they follow established procedures for processing and recording refunds.

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**Management's  
Comments**

Management agreed with the finding, recommendation, and monetary impact.<sup>9</sup> Management issued a policy memorandum, PS Form 3533 Instructions and Closeout Procedures for Retail Associates, on June 25, 2007 to all Capital Metro Area district offices. The memorandum instructed district managers to distribute this information and take action to eliminate assets being at risk and unsupported cost. In addition, management stated they

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<sup>9</sup> In subsequent discussions with management on July 3, 2007, management agreed with the monetary impact.

will add verification procedures to the FY 2007 Post Office Quarterly Self-Audit Checklist for customer services supervisors, managers, and postmasters.

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**Evaluation of  
Management's  
Comments**

Management's comments are responsive to the finding and recommendation. Management's actions are sufficient to address the issues identified in the finding.

**Improper Recording of Refund Account Identifier Codes**

Retail associates did not always enter the proper AIC into the POS system when processing refund transactions because they did not follow recording instructions in the area policy memorandum. Of the 2,995 refund transactions reviewed, 449 transactions did not have the proper AIC entered on PS Form 1412, Daily Financial Report. Table 4 shows the total number of refund transactions reviewed and the total refund transactions with incorrect accounting codes.

**Table 4. Refund Transactions with Incorrect AIC**

Site Location	Number of Refund Transactions	Incorrect Accounting Codes on PS Form 1412
[REDACTED]	1,041	341
[REDACTED]	322	15
[REDACTED]	1,299	85
[REDACTED]	333	8
<b>Total</b>	<b>2,995</b>	<b>449</b>

Source: Postal Service Refund Transaction Documentation

Many of the PS Forms 3533 reviewed did not have an AIC checked or the correct AIC was not indicated on the form to coincide with the PS Form 1412. Specifically, in some cases, refund transactions were marked as AIC 553 on PS Form 3533, however, they were categorized as a different AIC on PS Form 1412. Also, many refund transactions were marked as AIC 553 on PS Form 1412; however, there was no AIC indicated on the corresponding PS Forms 3533. For example, a retail associate processed a refund transaction for \$163.95 and checked AIC 553. However, the refund amount on PS Form 1412 was assigned to AICs 526 and 553 in the amounts of \$160.10 and \$3.85, respectively.

Capital Metro Area officials issued a policy memorandum, Proper Recording of Refund AIC Codes, dated January 24, 2002. Area officials issued the memorandum to provide additional guidance on how to properly record refund transactions under the appropriate AIC because they had identified many instances of noncompliance with properly recording AICs 535 and 553. According to the area officials, incorrect coding can negatively impact retail revenue.

According to postal officials, since issuing the memorandum in January 2002, there have been several organizational changes within individual retail units, including promotions, retirements, and position rotations. Consequently, customer service supervisors and retail associates stated they were not aware of the memorandum.

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<b>Recommendation</b>	We recommended the Vice President, Capital Metro Area Operations, direct the Area Finance Manager and the Area Retail Manager to:  2. Reissue the policy memorandum, Proper Recording of Refund Account Identification Codes, dated January 24, 2002, to remind employees of the procedures to be followed regarding the processing and recording of refund account identifier codes.
<b>Management's Comments</b>	Management agreed with the finding and recommendation. Management reissued the policy memorandum, Proper Recording of Refund Account Identification Codes, on April 10, 2007 to all district managers.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to the finding and recommendation. Management's actions are sufficient to address the issues identified in the finding.

**Appropriate  
Signatures Missing  
from PS Forms 1412**

Retail associates did not always provide signatures on PS Forms 1412 maintained in the daily closeout packets because they did not follow financial reporting procedures. In addition, customer service supervisors did not always adequately oversee the refund process. Of the 483 refund transaction days reviewed, 294 transaction days did not have the appropriate signatures on the PS Form 1412. Table 5 shows the total number of transaction days reviewed and the total number of PS Forms 1412 without appropriate signatures.

**Table 5. Total Number of Transaction Days Reviewed Without Appropriate Signatures on PS Forms 1412**

Site Location	Total Number of Transaction Days	PS Forms 1412 Without Appropriate Signatures
[REDACTED]	122	55
[REDACTED]	112	72
[REDACTED]	140	72
[REDACTED]	109	95
<b>Total</b>	<b>483</b>	<b>294</b>

Source: Postal Service Refund Transaction Documentation

For example, a retail associate processed a refund transaction for \$25.29, but the individual PS Form 1412 was not signed. Another retail associate processed a refund transaction for \$37.82, but the designated closeout employee had not signed or verified the unit's PS Form 1412.

Handbook F-1, *Post Office Accounting Procedures*, outlines procedures for preparing and finalizing individual PS Forms 1412 and consolidating the unit PS Form 1412. This form is a financial report which summarizes transactions for each retail associate. The closeout employee then consolidates the individual forms to create a unit PS Form 1412. Retail associates are responsible for signing their PS Form 1412 and submitting supporting documentation to the designated closeout employee. The closeout employee is responsible for consolidating the individual PS Forms 1412 and verifying supporting documentation.

However, the Postal Service requires customer service supervisors to provide managerial oversight to all retail associates. Moreover, they are tasked to direct and monitor

programs, projects, and the work of all retail associates to meet organizational goals. According to customer service supervisors, their signature is required to confirm the necessary review and accuracy of the unit's PS Form 1412.

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<b>Recommendation</b>	We recommended the Vice President, Capital Metro Area Operations, direct District Managers, Capital and Northern Virginia, to ensure customer service supervisors:  3. Verify whether retail associates are properly signing their individual clerk PS Forms 1412, Daily Financial Report.
<b>Management's Comments</b>	Management agreed with the finding and recommendation. Management stated responsibility for review of properly signed PS Forms 1412 is assigned to the customer services supervisor and they have added this item to the FY 2007 Post Office Quarterly Self-Audit Checklist which is monitored by Finance.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to the finding and recommendation. Management's actions are sufficient to address the issues identified in the finding.
<b>Recommendation</b>	We recommended the Vice President, Capital Metro Area Operations, direct District Managers, Capital and Northern Virginia, to ensure customer service supervisors:  4. Review PS Forms 1412, Daily Financial Report, and supporting documentation at the end of each day.
<b>Management's Comments</b>	Management agreed with the finding and recommendation. Management stated they have issued financial closeout procedures to retail associates. Management also added responsibility for reviewing PS Form 1412 supporting documentation at the end of each day to the FY 2007 Post Office Quarterly Self-Audit Checklist for customer services supervisors, managers, and postmasters.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to the finding and recommendation. Management's actions are sufficient to address the issues identified in the finding.



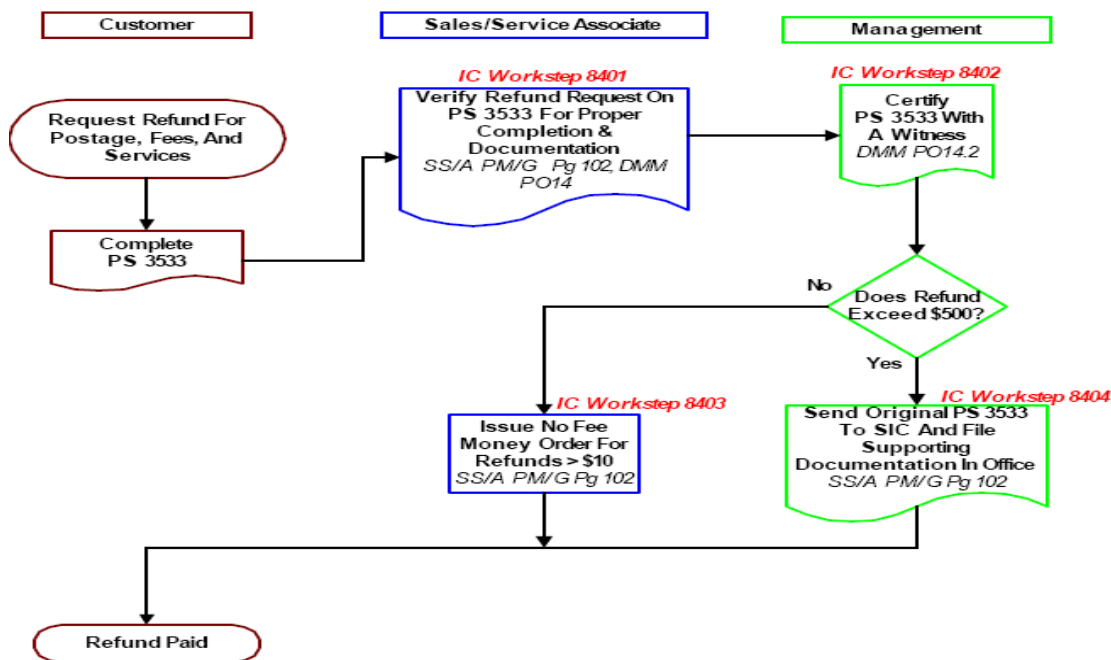
## APPENDIX A

### REFUND DISBURSEMENT PROCESS

The Postal Service has an established process to follow when disbursing refunds. Customers may request a refund by completing PS Form 3533, Application and Voucher for Refund of Postage, Fees, and Services, and submitting it to the retail associate with evidence of postage and fees paid. The retail associate is required to verify the information presented to ensure it is complete and accurate.

Before issuing the refund, the retail associate must sign PS Form 3533 and obtain a witness signature to verify the transaction. If the requested refund amount does not exceed \$500.00, the retail associate must issue a no fee money order to the customer, which is processed and maintained at the postal retail unit or post office. However, if the refund amount does exceed \$500.00, the retail associate must forward the documentation to the Scanning and Imaging Center for the customer to receive their refund. Also, the associate is required to maintain a copy of the documentation in the retail unit for record keeping purposes. Figure 1. below outlines the complete refund process.

Figure 1. Postal Service's Refund Process



## APPENDIX B

### STATISTICAL SAMPLING AND PROJECTIONS FOR REVIEW OF POINT-OF-SERVICE REFUNDS

#### Purpose of the Sampling

The overall objective was to determine whether retail associates and customer service supervisors were properly processing and recording refunds of stamps, fees, retail services, and Express Mail services. In support of this objective, the audit team employed a cluster sample of AIC 535, 553, and 676 refund transaction records. The sample design allows statistical projection of the total amount of refunds without proper records at each of four judgmentally selected sites.

#### Definition of the Audit Universe

In FY 2005, the Capital District and Northern Virginia District had a total of 181 window units with total AIC 535, 553, and 676 refunds exceeding \$3,000. The total value of refunds for those units with those codes was \$3,829,120. The audit team obtained this ADM information from the Postal Service's Electronic Data Warehouse (EDW). The OIG's Computer Assisted Assessment Techniques directorate assisted in summarizing the data to support the sampling effort.

Audit resource constraints limited us to four judgmentally selected sites: two with refund totals greater than or equal to \$50,000 and two with refund totals greater than \$3,000, but less than \$50,000. With this limitation, we lost the ability to project to the original audit universe. However, these four sites accounted for \$2,276,245 of the FY 2005 refunds in the Capital District and the Northern Virginia District, as shown below:

<b>Capital and Northern Virginia Districts</b>	<b>FY 2005 Refund Transactions</b>
All units	\$3,992,908
All units with greater than \$3,000 in refunds	\$3,829,120
Four sites tested	\$2,276,245

The refund amounts included BRM refunds, but we could not explicitly identify the universe amount for BRM refunds from the database.

Sample Design and Modifications

The universe data were sufficient to provide the total value of the target transactions by day at each site. The data did not, however, identify the number of transactions per day or individual transaction values. Therefore, we chose a cluster sample design for transaction testing. For each site visited, we selected a sample of refund days and the team tested all refunds for those days:

- Our sample of refund days was chosen to allow projection within each site individually. At each site, we identified several refund days that we wished to group into a census stratum.
- For the remainder of the days at each site, we calculated sample sizes based on the compliance test attribute, because we had no information regarding what variability we might expect in the unsupported dollar amounts.

For the calculation of the number of test days at each site, we used a desired 95 percent confidence level, a desired +/- 7 percent precision on an attribute projection, and an expected 50 percent compliance error rate. We hoped this would provide a sufficiently large sample of individual refunds to project the dollar value with +/- 20 percent relative precision. We did not, however, achieve this desired precision at all sites, largely because of variability introduced by high-value BRM refunds.

Our universe and sample sizes are summarized below:

Site	Number of Days			
	Stratum I Universe	Stratum I Sample	Stratum II Universe	Stratum II Sample
[REDACTED]	27	27	266	85
[REDACTED]	14	14	247	110
[REDACTED]	20	20	336	125
[REDACTED]	34	25	255	85

We made all selections for inclusion in the sample using the “randbetween” function in Excel to assign random numbers to the days on the universe listing of refund days for each site.

Sample Results

Table 1 summarizes the number of errors found in the sampled refunds at each of the four audit sites. For example, we observed that:

- [REDACTED] had 58 refunds with four errors.

- Overall, [REDACTED] had at least one error in 40 percent of its sampled refunds.
- Out of 11,783 criteria tested in the sampled [REDACTED] refunds (9 criteria x 1,299 refunds + 2 criteria x 46 Express Mail refunds), 1,395 criteria were failed, for a criterion error rate of 12 percent.

The audit compliance testing contained nine criteria that applied to all refunds. An additional two criteria applied only to Express Mail refunds. Table 2 summarizes the number of compliance deviations noted by criterion. For example, of the 322 refunds tested at [REDACTED]:

- Six did not have the customer's signature on PS Form 3533.
- 110 did not have the appropriate supporting documentation attached.

Refunds were grouped into categories according to the error types observed.<sup>10</sup> The two critical criteria were the presence of the customer's signature on Form 3533 and the existence of the required supporting documentation (e.g., receipt, PVI label). Refunds with an error in either or both of these criteria were considered unsupported questioned costs (UQC). Most other error types were considered in the assets at risk (AAR) category in that they did not indicate an unsupported refund, merely a refund for which the paperwork did not comply with policy in all regards. Three of the "other" error types were considered reportable conditions, but not assets at risk, in the absence of any other error types; two gave the wrong AIC for the refund; and one did not have a supervisory signature on the daily PS Form 1412. Table 3 summarizes the errors observed in the sample by error category, as well as notes the number and associated dollar amounts for the refunds (in total), in the UQC and AAR categories. For example, the [REDACTED] sample included 333 refunds totaling \$6,053. Of those refunds:

- 21 refunds representing a total of \$493 were in the UQC category.
- 16 refunds representing \$475 were in the AAR category.
- 269 refunds did not have the correct AIC or the supervisor's signature on PS Form 1412, but contained no errors in the UQC or AAR categories.
- 69 refunds contained no deviations.

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<sup>10</sup> The types of errors and associated monetary impact reported in this audit may differ slightly from OIG financial audits conducted in support of the annual financial statement opinion. The differences are related to the objectives and scope of each audit. The financial audits examine a broad range of expenditures, not just refunds, and reportable conditions related to refunds are generally limited to the critical errors. This performance audit specifically examined compliance issues related to the "refund process" within the Capital Metro Area. Critical compliance issues were reported as unsupported questioned costs, similar to the financial audits. However, we also reported other compliance issues (both Postal Service and Area issues) as assets at risk.

Included in the refunds at [REDACTED] and [REDACTED] were many BRM refunds. These refunds are often quite large and they accounted for most of the amounts refunded at those two sites. ([REDACTED] in [REDACTED] had one BRM refund for \$1,097; [REDACTED] had none.) Table 4 summarizes the category results for the BRM refunds encountered in the sample. For example:

- 785 of the 1,041 sampled refunds at [REDACTED] were BRM refunds, accounting for \$1,121,170 of the \$1,147,961 refunded in the sample.
- Six of the BRM refunds (a total of \$58,575) were in the UQC category, without either a customer signature or the appropriate supporting document.<sup>11</sup>
- 310 of the BRM refunds accounted for \$308,848 in the AAR category.

### Statistical Projections of the Sample Data

For projection of the amount associated with compliance errors for the UQC and AAR categories in the audit universe, we analyzed the sample data using the formulas for estimation of a population total for a stratified random sample, as described in Chapter 5, *Elementary Survey Sampling*, Scheaffer, Mendenhall, and Ott, c.1990.

We made projections of the dollar value of refunds associated with refunds that fell into the Unsupported Questioned Cost and the Assets at Risk categories. All projections are limited to the audit universe of four sites and are made at an 80 percent confidence level.

### Unsupported Questioned Cost

Based on the sample results, our point estimate is that \$180,619 was associated with refunds not having a customer signature, not having appropriate supporting documents, or both. The point estimate represents 15 percent of the ADM information from the Postal Service's EDW amount for the four sites. The point estimate includes a projected \$110,133 associated with BRM refunds. The uncertainty interval at the 80 percent confidence level is that \$120,582 to \$240,656 was associated with refunds in the unsupported questioned cost category. The achieved relative precision is +/- 33.2 percent. Site-specific projections are included below:

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<sup>11</sup> In fact, two of the six accounted for \$51,924 in UQC: one (\$13,730) did not pass seven of the nine possible criteria and one (\$38,194) did not pass all nine possible criteria.

Facility	Unsupported Questioned Cost Summary			
	Lower Bound of 80 Percent Confidence Interval	Point Estimate	Upper Bound of 80 Percent Confidence Interval	Achieved Relative Precision, +/- percent
[REDACTED]	\$2,317	\$2,718	\$3,119	14.8
[BRM] [REDACTED]	\$68,768	\$128,785 [\$100,414]	\$188,802	46.6
[BRM] [REDACTED]	\$46,409	\$47,780 [\$9,718]	\$49,191	2.9
[REDACTED]	\$766	\$1,316	\$1,866	41.8
Combined <sup>12</sup> [BRM]	\$120,582	\$180,619 [\$110,132]	\$240,656	33.2

Assets at Risk

Based on the sample results, our point estimate is that \$531,784 was associated with refunds in the assets at risk category. The point estimate represents 23 percent of the ADM information from the Postal Service's EDW amount for the four sites. The point estimate includes a projected \$515,594 associated with BRM refunds. The uncertainty interval at the 80 percent confidence level is that \$420,898 to \$642,671 was associated with refunds in the assets at risk category. The achieved relative precision is +/-20.9 percent. Site-specific projections are included below:

Facility	Assets at Risk Summary			
	Lower Bound of 80 Percent Confidence Interval	Point Estimate	Upper Bound of 80 Percent Confidence Interval	Achieved Relative Precision, +/-percent
[REDACTED]	\$906	\$1,528	\$2,149	40.7
[BRM] [REDACTED]	\$335,766	\$437,628 [\$430,341]	\$539,489	23.3
[BRM] [REDACTED]	\$47,572	\$91,384 [\$85,256]	\$135,195	47.9
[REDACTED]	\$885	\$1,245	\$1,605	28.9
Combined <sup>12</sup> [BRM]	\$420,898	\$531,784 [\$515,594]	\$642,671	20.9

<sup>12</sup> Because the four sites were not randomly selected, we do not project to a larger universe. We do, however, project to the audit population of all refunds at the four facilities. This is the "Combined" result. The sum of the individual point facility point estimates equals the combined point estimate (differences due to rounding). The site upper and lower bounds are not additive. Bounds for the combined results are calculated by combining the variances as for a stratified sample, where the width of the combined uncertainty interval is the square root of the sum of the squared differences between the facility point estimates and the corresponding facility upper or lower bound.

Table 1. Sample Error Count

<b>Measure</b>	<b>Number of Refunds</b>	<b>Number of Refunds</b>	<b>Number of Refunds</b>	<b>Number of Refunds</b>
11 errors	0	0	0	1
10 errors	0	0	0	0
9 errors	1	7	0	1
8 errors	1	4	4	4
7 errors	1	6	11	0
6 errors	0	8	4	0
5 errors	2	9	40	4
4 errors	12	35	58	14
3 errors	20	84	136	49
2 errors	67	245	151	30
1 error	127	308	120	187
No errors	91	335	775	43
<b>Total number of refunds</b>	<b>322</b>	<b>1,041</b>	<b>1,299</b>	<b>333</b>
<b>Total number of refunds with at least one error</b>	<b>231</b>	<b>706</b>	<b>524</b>	<b>290</b>
<b>Refund error rate</b>	<b>72%</b>	<b>68%</b>	<b>40%</b>	<b>87%</b>
<b>Measure</b>	<b>Errors</b>	<b>Errors</b>	<b>Errors</b>	<b>Errors</b>
Possible number of criterion errors	2,948	9,413	11,783	3,051
Number of criterion errors	403	1,420	1,395	522
Criterion error rate	14%	15%	12%	17%

Table 2. Sample Errors by Type

Condition	██████████		██████████		██████████		██████████	
	Refunds with Deviation	Total Number of Refunds	Refunds with Deviation	Total Number of Refunds	Refunds with Deviation	Total Number of Refunds	Refunds with Deviation	Total Number of Refunds
AICs on PS Form 3533 and 1412 do not match	25	322	335	1,041	349	1,299	75	333
Refund not supported by PS Form 3533	3	322	20	1,041	27	1,299	6	333
PS Form 3533 Part I not completed and signed by customer	6	322	43	1,041	40	1,299	12	333
Retail associates did not check appropriate AIC on PS Form 3533	18	322	180	1,041	296	1,299	73	333
PS Form 3533 not reviewed and Part II signed by retail employee	23	322	34	1,041	120	1,299	13	333
PS Form 3533 not witnessed and Part II signed by second retail employee	26	322	196	1,041	203	1,299	31	333
Appropriate supporting documentation not attached (PVI labels, receipts, invoices, delivery confirmation, certified mail)	110	322	35	1,041	78	1,299	16	333
Proper accounting entries not entered on PS Form 1412 or 1412 missing	15	322	341	1,041	85	1,299	8	333
PS Forms 1412 do not have supervisory signature	160	322	226	1,041	187	1,299	283	333
For Express Mail: Express Mail label tracking number not below barcode	2	25	3	22	3	46	2	27
For Express Mail: Express Mail track/confirm intranet item inquiry not indicated	15	25	7	22	7	46	3	27
<b>TOTAL</b>	<b>403</b>	<b>2,948</b>	<b>1,420</b>	<b>9,413</b>	<b>1,395</b>	<b>11,783</b>	<b>522</b>	<b>3,051</b>



Table 3. Sample Results by Category

	Total Refunds	Total Dollar Amount	Total Refunds	Total Dollar Amount	Total Refunds	Total Dollar Amount	Total Refunds	Total Dollar Amount
Sample refunds amount per ADM	322	\$4,284.10	1,041	\$1,147,960.81	1,299	\$356,144.24	333	\$6,053.71
Sample refunds amount per PS Form 3533	322	\$4,283.56	1,041	\$1,148,764.08	1,299	\$354,311.82	333	\$6,053.51
Refunds: UQC	112	\$1,216.04	61	\$75,444.28	109	\$45,555.38	21	\$493.20
Refunds: Assets at Risk	31	\$673.15	463	\$313,313.29	163	\$41,517.91	16	\$475.23
Refunds: Reportable Conditions, No UQC, No Assets at Risk	88	n/a	182	n/a	167	n/a	269	n/a
No deviations	91	n/a	335	n/a	762	n/a	14	n/a

n/a = not applicable

Table 4. Sample Results by Category for Business Reply Mail Refunds

	Total Refunds	Total Dollar Amount	Total Refunds	Total Dollar Amount	Total Refunds	Total Dollar Amount	Total Refunds	Total Dollar Amount
<b>BRM refund amount in sample per PS Form 3533</b>	0	\$0.00	785	\$1,121,170.10	407	\$302,667.72	1	\$1,097.01
<b>BRM refunds: UQC</b>	0	\$0.00	6	\$58,575.00	3	\$9,256.40	0	\$0.00
<b>BRM refunds: Assets at Risk</b>	0	\$0.00	310	\$308,848.25	44	\$38,920.06	0	\$0.00
<b>BRM refunds with reportable conditions, no UQC, no Assets at Risk</b>	0	n/a	158	n/a	38	n/a	0	n/a
<b>BRM refunds with no deviations</b>	0	n/a	311	n/a	287	n/a	0	n/a

n/a = not applicable

## APPENDIX C. MANAGEMENT'S COMMENTS

VICE PRESIDENT  
CAPITAL METRO AREA OPERATIONS



June 25, 2007

Kim H Stroud  
Director, Audit Reporting  
1735 North Lynn Street  
Arlington, VA 22209-2020

SUBJECT: Review of the Postal Service's Refund Process – Capital Metro Area  
(Report Number DR-AR-07-DRAFT)

Capital Metro Area agrees with the findings and the importance of reducing the impact of unsupported costs and assets at risk cited within this audit. This office has taken the following actions in regard to the findings and recommendations of the audit:

**Recommendation #1:** Provide oversight of retail associates to ensure they follow established procedures for processing and recording refunds.

**Response:** See attachment – 1, dated June 25, 2007, sent to the District Managers and District Finance Managers concerning Refund and Financial Closeout procedures for all Capital Metro Area District Offices. In addition, to ensure proper oversight concerning refunds, verification procedures will be added to the FY 2007 Post Office Quarterly Self Audit Checklist for Customer Services Supervisors, Managers and Postmasters.

**Recommendation #2:** Reissue the policy memorandum, Proper Recording of Refund Account Identification Codes, dated January 24, 2002, to remind employees of the procedures to be followed regarding the processing and recording of refund account identifier codes.

**Response:** See attachment – 2, dated April 10, 2007, reissuing the policy concerning proper recording of refund account identification codes.

**Recommendation #3:** Verify whether retail associates are properly signing their individual clerk PS Forms 1412, Daily Financial Report.

**Response:** Attachment – 1 addresses this issue, indicating that the responsibility for review of properly signed PS Forms 1412 is assigned to the Customer Services Supervisor and this item has been added to the FY 2007 Post Office Quarterly Self Audit Checklist which is monitored by Finance.


**Recommendation #4:** Review PS Forms 1412, Daily Financial Report, and supporting documentation at the end of each day.

**Response:** Attachment – 1 addresses this issue. Financial closeout procedures have been issued to retail associates and the responsibility for review of PS Form 1412 supporting documentation at the end of each day has been added to the FY 2007 Post Office Quarterly Self Audit Checklist for Customer Services Supervisors, Managers and Postmasters.

MAILING ADDRESS:  
16501 SHADY GROVE ROAD  
GANTHERSBURG, MD 20698-9998  
301 548-1410  
FAX: 301 548-1434

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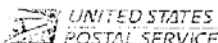
If you have any questions, please call Tim O'Reilly, Manager Finance, Capital Metro Area at 301-548-1417. This is a final report.

  
Dry D. Lane

Attachments (2)

cc: Area Manager, Operations Support  
Area Manager, Finance  
Area Manager, Marketing

VICE PRESIDENT  
CAPITAL METRO AREA OPERATIONS



Attachment 1

June 25, 2007

DISTRICT MANAGERS  
DISTRICT FINANCE MANAGERS

SUBJECT: PS Form 3533 Instructions and Closeout Procedures for Retail Associates

A recent audit performed by the Office of Inspector General (OIG) revealed that retail associates and customer service supervisors in the Capital Metro Area are not always properly processing and recording refunds of stamps, fees, retail services, and Express Mail and following post office closeout financial procedures. Specifically, refund documentation is not always completed, proper refund Account Identification Codes (AICs) are not always being entered, and PS Forms 1412 are not always being signed.

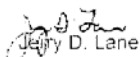
To assist in completing the above responsibilities, the following attachments are provided:

1. A copy of revised PS Form 3533 instructions – Postal Bulletin #22193 dated November 2006
2. A Refund Quick Reference Guide – PM/Field Guide dated July 2006
3. Post Office Financial Close Out Procedures - PM/Field Guide dated July 2006 and Southeast web site

Copies of these attachments are to be distributed to all Postmasters, Customer Services Supervisors, Retail Associates, and other employees responsible for processing and recording refunds, as well as post office financial closeouts.

In addition, to ensure proper oversight concerning refund procedures and proper closeout, the verification that retail associates properly sign PS Forms 1412 (Daily Financial Report) and review supporting documentation daily will be added to the FY-2007 Post Office Quarterly Self-Audit Checklist for Customer Services Supervisors, Manager and Postmasters. Managers of Finance, please follow-up on the self audits.

District Managers are to ensure that this information is distributed and actions are taken to eliminate our assets being at risk and unsupported cost.

  
Jeffrey D. Lane

Attachments (3)

cc: Area Manager, Operations Support  
Area Manager, Finance  
Area Manager, Marketing

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CAPITAL METRO

Attachment 2



April 10, 2007

DISTRICT MANAGERS

SUBJECT: Proper Recording of Refund AIC Codes

Refund AICs (account identifier codes) were developed to properly record refunds. To date, there are many employees working in retail units who are not following instructions to properly record and process refunds of postage and fees. A recent OIG audit has found many offices are not in compliance with properly recording AICs 535 and 553 which are attributed to either the Retail Services (box and caller service fees refunded) and/or the Refund of Stamps and Fees. In many cases retail associates did not complete PS Form 3533 (Application and Voucher for Refund of Postage) when necessary and attach the appropriate supporting documentation. Contract Postal Units (CPUs) use of refund AICs should receive the same attention as retail units, if not more. Approvals and signatures on PS Form 3533s must be obtained from USPS CORs/supervisors prior to AIC use. CPU suppliers should seek approvals and restrict use of refund AICs. Incorrect AICs are being used for refunds that do not pertain to the refund type. Misuse of refund AIC codes can negatively impact retail revenue by reducing it if proper attention is not given to using the correct refund type AIC code.

Please disseminate to all post office Retail Sales and Service Associates, supervisors, T-6s, Postmasters and Managers. The chart and descriptions provided can be used as a handy reference to properly identify the correct AIC codes. The following listed Account Identification Codes (AICs) have been assigned for processing refunds of Postage and Fees. Record all Postage and Fees refunds as follows using the appropriate AIC, depending on the refund type.

AIC	Refund Category
524	Local Commemorative Envelopes Refunds and Expense
526	Refund Spoiled/Unused Customer Meter Stamps
528	Permit Postage and Fees
535	Refund of Fees – Retail Services
537	Printed Stamped Envelopes Refund (SFS)
541	Refund - Value Added Services Rebates
553	Refunds of Postage and Fees
608	Postal Related Products Refund
624	Refund of Miscellaneous Non-postal Revenue
676	Express Mail Refunds

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FAX: 301-548-1471

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**AIC 524 – Local Commemorative Envelopes Refunds and Expense**

Refunds for local commemorative envelopes, non-personnel expenses and offset to stamps purchased for the use of commemorative envelopes.

**AIC 526 - Customer Meter Postage Refunded**

This AIC should be used only for refunds of spoiled meter strips from customer meters.

**AIC 528 - Permit Postage and Fees Refunded**

This AIC should be used for refunds of postage and fees paid by permit holders who are getting credit for a mailing paid for with a permit number. An example would be a political mailer who closes his account after Election Day. AIC 528 would be used to refund the account balance to the customer.

**AIC 535 – Refund of Fees – Retail Services**

This AIC should be used only for refunds of post office box keys and refundable post office box/caller service fees. A 3533 must be completed. Do not use this AIC to refund stamps and Express Mail. **Note: For any refunds over \$5.00, review and approval must be authorized by a supervisor/manager prior to performing a refund in this AIC.**

**AIC 537 – Postage Refund – Printed Stamped Envelopes**

This AIC should be used only for refunds of Printed Stamped Envelopes by the Philatelic Fulfillment Center and Stamped Envelope Unit only.

**AIC 541 - Value Added Service Rebates**

This AIC should be used for refunds to mailing agents for performing value-added services. An example would be a presort bureau that submits mail at a discounted rate when the mail has originally been metered at a single piece rate. (Value Added Service rebates are for mailing houses and presort bureaus that perform additional work-sharing services and share the mailing discounts with their customers.)

**AIC 553 - Stamps and Fees Refunded**

This AIC should be used for refunds of postage and fees paid by postage from retail customers not receiving the special services paid for at the time of mailing, and refund of unused or damaged PVI label or PO Meter. The window clerk would use AIC 553 to process this transaction. This AIC is used for stamp refunds to credit BRM mail only for examples when customers inadvertently affix stamps to prepaid BRM pieces. This money is processed under AIC 553 and the money is deposited into the BRM customer account. This AIC should never be used for refunds made for Express Mail failures, precanceled stamps, customer meters, permit accounts, or value-added rebates. We are finding many offices incorrectly using this AIC for commercial refunds.

**AIC 608 – Postal Related Products Refund**

This AIC should be used to refund customers who purchased and returned retail merchandise from the sale of (AIC 098) and Looney Tunes (AIC 231) retail merchandise items.

- 3 -

**AIC 624 – Refund of Miscellaneous Nonpostal Revenue**

This AIC should be used to refund amounts previously shown as revenue under account 44030 Miscellaneous Services and Service Charges. This should never be used for stamp refunds.

**AIC 676 – Express Mail Refunds**

This AIC should be used to refund customers for Express Mail only.

The process and documentation used for processing most refunds is still using the Form 3533, Application and Voucher for Refund of Postage and Fees. These AICs allow the Postal Service to more effectively track revenue by customer type, whether Retail or Commercial, and will help us better attribute refunds to the correct postage category. Increased understanding of our customer base will help the Postal Service retain and grow our core business.

