



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Monitoring Post Office Operational Risk in the Eastern Area

Audit Report

Report Number
DP-AR-14-004

August 27, 2014





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Highlights

Personnel were not 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 and 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 Eastern Area operations for the period October 1, 2008, through December 31, 2013.

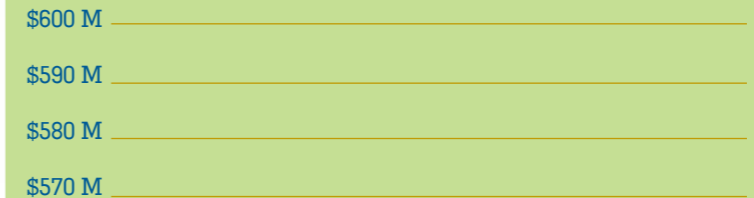
Our objective was to determine whether the Eastern Area effectively monitors risk related to the 13 selected operational elements.

What the OIG Found

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

We determined that for calendar years 2011 through 2013, refunds increased by \$2 million (from \$6.8 million to \$8.8 million, 28.6%), while associated revenue decreased by about \$4 million (from \$599.7 million to \$595.7 million, 0.7%).

Roll over the meter strip to see the breakdown





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Area and district personnel are not monitoring refunds because they are not required to do so under current Postal Service policy, they have limited resources, 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. Accordingly, a clerk might affix labels to mail in lieu of stamps and then process a refund to obtain funds.

What the OIG Recommended

We recommended the vice president, Eastern Area Operations, require the area controller and area marketing manager to monitor unit-level refunds, and emphasize the need to verify refunds during closeout.

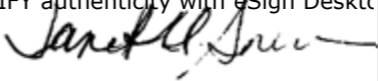
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 27, 2014

MEMORANDUM FOR: JOSHUA D. COLIN
VICE PRESIDENT, EASTERN AREA OPERATIONS

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop


FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Revenue and Resources

SUBJECT: Audit Report – Monitoring Post Office Operational Risk in the
Eastern Area
(Report Number DP-AR-14-004)

This report presents the results of our audit of the U.S. Postal Service's Monitoring of Post Office™ Operational Risk in the Eastern Area (Project Number 13RG037DP001).

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 11 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 Management of Post Office™ Operational Risk in the Eastern Area (Project Number 13RG037DP001). Our objective was to determine whether the Eastern 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™ 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 and periodically shares those risk evaluations with senior Postal Service officials.

Table 1. Post Office Operational Risk Elements Reviewed

Risk Elements
1. Postage Validation Imprinter (PVI) and Post Office 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 Post Office 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 based on capturing the most important aspects of monitoring Post Office operations, including refunds, cash balances, grievances, and overtime. Additionally, we included two important risk elements identified in previous audits: Post Office boxes and inactive caller service accounts. We tested these elements as they applied to Eastern Area operations for the period October 1, 2008, through December 31, 2013. See [Appendix A](#) for additional information about this audit.

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

Employees issue refunds when labels or meter strips are damaged or printed in error and voided. However, these refunds can also indicate fraudulent activity.

Conclusion

The Eastern Area effectively monitored 12 of the 13 operational risk elements we reviewed. However, we found the area and district managers do not monitor PVI and Post Office meter strip refunds. For calendar years (CY) 2011 through 2013, refunds to customers in the Eastern Area increased by about \$2 million (from \$6.8 million to \$8.8 million, or 28.6 percent), while associated revenue decreased by about \$4 million (from \$599.7 million to \$595.7 million, or 0.7 percent).

Monitoring Postage Validation Imprinter and Post Office Meter Strip Refunds

Managers at the Eastern Area office and the four district offices we visited are not monitoring PVI and Post Office meter strip refunds. There is adequate information available in the Enterprise Data Warehouse (EDW) for area and district managers to monitor unit-level refunds but they are not required to do so under current Postal Service policy. However, their involvement could reduce the number of refunds and potential for fraud.

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

Postal Service policy² 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 Post Office meter strip refunds.

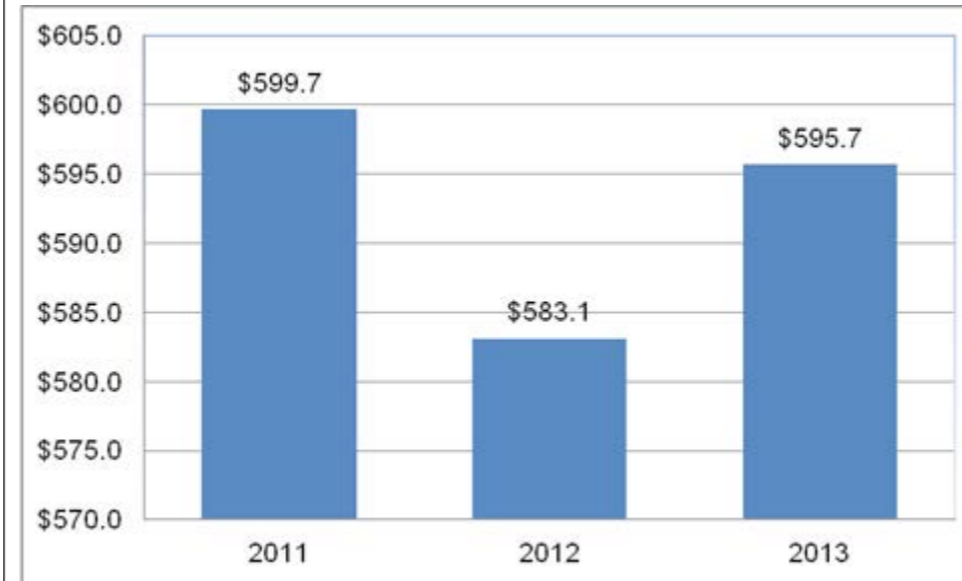
According to the Eastern Area accounting manager, the area does not monitor the refunds because there is no requirement to do so, the area has limited resources, and it considers the financial risk from errors to be low. In addition, the four district finance managers said they do not monitor PVI and Post Office meter strip refunds because it is not an area or Sarbanes-Oxley Act requirement. However, PVI and Post Office meter strip refunds have increased by \$2 million (or 29 percent) since December 2011 and fraud could be a factor. For example, a Postal Service employee at the Hobart, IN, Post Office 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 lost revenue and fraud.

² Handbook F-101, *Field Accounting Procedures*, Section 2-4.1, October 2013.

Within the Eastern Area, we found PVI and Post Office meter strip refunds increased by \$2 million while the associated revenue decreased by about \$4 million from CYs 2011 through 2013.

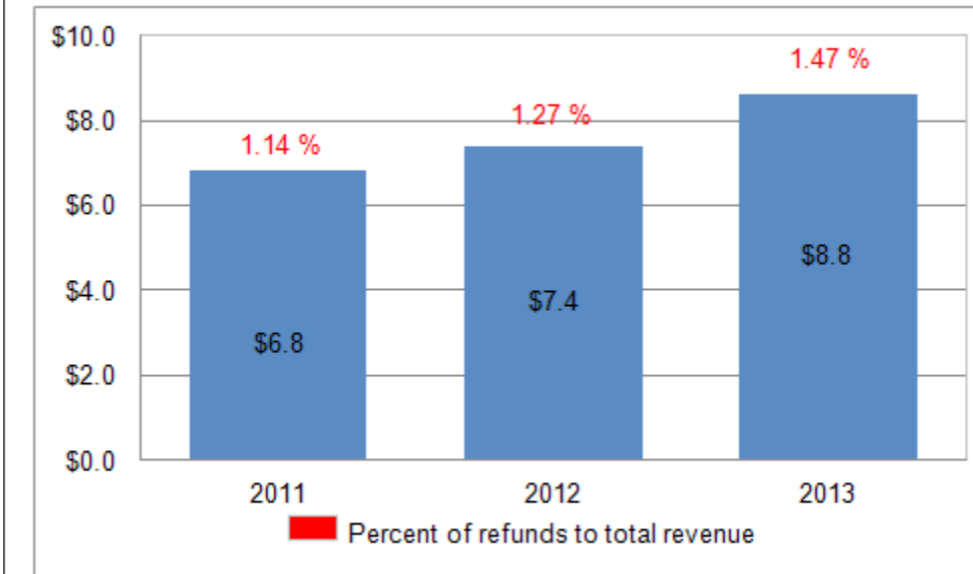
We found that Eastern Area PVI and Post Office meter strip refunds increased by \$2 million while the associated revenue decreased by about \$4 million from CYs 2011 through 2013.³ In CY 2013, Eastern Area PVI and Post Office meter strip revenue was about \$595.7 million, with about \$8.8 million refunded (1.47 percent). Figures 1 and 2 provide details of annual PVI and Post Office meter strip revenue and refunds between CYs 2011 and 2013 for the Eastern Area.

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



Source: Postal Service data EDW Accounting Data Mart (ADM).

Figure 2. PVI and Post Office Meter Strip Refund Breakdown CYs 2011 Through 2013 (in Millions)



Source: Postal Service data EDW ADM.

³ We used calendar years instead of fiscal years because PVI refund data was not available until January 2011.

Recommendation

We recommend management require the area controller and area marketing manager to monitor unit-level Postage Validation Imprinter and Post Office meter strip refunds for inappropriate activity.

We recommend the vice president, Eastern Area Operations:

1. Require the area controller and area marketing manager to monitor unit-level Postage Validation Imprinter and Post Office meter strip refunds for inappropriate activity and emphasize the importance of verifying refunds during closeout.

Management's Comments

Area management agreed with the finding and recommendation. Management will post a quarterly report identifying PVI and Post Office meter strip refunds by district and unit, comparing the same period last year to the current fiscal year. The Postal Service will notify district finance managers on September 2, 2014, of the new report identifying potential units that need to emphasize proper closeout procedures.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective action should resolve the issues identified in the report.

Appendices

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Appendix A: Additional Information

Background

The OIG has 17 risk models containing 148 risk elements. Of these, four models and 41 risk elements measure Post Office operations. We judgmentally selected 11 risk elements from the risk models based on capturing the most important aspects of monitoring Post Office operations. Additionally, we included two important risk elements related to Post Office box and caller service management identified in previous audits as high risk. We tested these elements as they applied to Eastern Area operations for the period October 1, 2008, through December 31, 2013.⁴ Table 2 defines the 13 risk elements.

Table 2. Definitions of Post Office Operational Risk Elements Reviewed

Risk Elements	Explanation
1. PVI and Post Office Meter Strip Refunds	Damaged PVI label errors, voids, or refunds as well as damaged Post Office 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	Amount of overtime city delivery operations uses in relation to total city delivery workhours.
4. Clerk Overtime	Amount of overtime clerks use in relation to total clerk workhours.
5. Carriers Arriving 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 Post Office 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 Post Office Boxes	Use of Web Box Activity Tracking System to manage closed Post Office 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 Post Office box information taken from prior OIG audit reports.

⁴ *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 Eastern 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 Eastern Area, the Appalachian, Central Pennsylvania, Kentuckiana, and Northern Ohio districts; and 16 judgmentally selected post offices. [Table 3](#) shows the names of post offices we visited.
- Evaluated whether management in the area, four districts, and 16 post offices we visited have sufficient information to effectively monitor Post Office operations including office cash, unscheduled leave, VOE index, WTIL, and customer complaints.
- Reviewed grievance settlement payments for the past 5 years and the process for monitoring informal grievances in Grievance Arbitration Tracking System (GATS). The audit team did not review data processed through the Eagan payroll (outside of the GATS), but limited the scope to grievances processed through GATS, which had a majority of the grievance data. We obtained the data through the following reports:
 - The Grievance Payout Summary Report, which includes a summary of grievance payouts and adjustments processed through GATS and outside of GATS.
 - The Grievance Payouts Processed by GATS Detail Report, which includes details of individual grievance payouts processed only through GATS. The detailed report is limited to a 3-month period and, for large amounts of data, the report must be run by the month.
- Met with the OIG Office of General Counsel to understand any impact on bargaining unit employees and their contracts related to grievance settlement and threshold reporting.
- Discussed with Eastern Area management and managers in the four districts we visited why they did not use information to monitor PVI refunds, inactive caller service, and closed Post Office 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 Post Office postage meter strips.⁵
- 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.

⁵ See *Postal Bulletin 22299*, Handbook F-101 Revision: *Handling Postage Validation Imprinter Label and Post Office Postage Meter Voids and Refunds*, December 2, 2010.

Table 3. Post Offices Visited

District	Post Offices
Appalachian	Charleston Main Post Office (MPO)
Appalachian	Milton Post Office
Appalachian	South Charleston Branch
Appalachian	Winfield MPO
Central Pennsylvania	Downtown Reading Station
Central Pennsylvania	Gus Yatron Post Office
Central Pennsylvania	Harrisburg MPO
Central Pennsylvania	Lancaster Station
Kentuckiana	Fort Knox Post Office
Kentuckiana	Frankfort Post Office
Kentuckiana	Louisville MPO
Kentuckiana	Middletown Branch
Northern Ohio	Beachwood Branch
Northern Ohio	Cleveland MPO
Northern Ohio	Mentor Post Office
Northern Ohio	Willoughby Post Office

Source: Post offices visited based on OIG analysis.

We conducted this performance audit from October 2013, through August 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on July 24, 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)
<i>Grievance Settlements and Payments Follow Up</i>	HR-AR-13-008	9/27/2013	\$3.4
<p>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.</p>			
<i>U.S. Postal Service Data Governance</i>	DP-AR-13-004(R)	4/23/2013	None
<p>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 fiscal years 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.</p>			
<i>Data Usage in Retail Operations</i>	DR-AR-13-002	3/8/2013	None
<p>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.</p>			
<i>Delivery Operations Data Usage</i>	DR-AR-13-001	10/11/2012	None
<p>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.</p>			
<i>Survey of Postmasters' Paperwork and Report Requirements</i>	DR-MA-12-001	5/25/2012	None
<p>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.</p>			

Appendix B: Management's Comments

JOSHUA D. COLIN, Ph.D.
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



August 21, 2014

MEMORANDUM FOR Lori Dillard
(A) Director, Audit Operations

Subject: Monitoring Post Office Operational Risk in the Eastern Area
(Report Number DP- AR-14-Draft)

The Eastern Area has reviewed the subject Draft Audit Report (Report Number DP-AR-14-Draft) and is in agreement in principle with the findings and recommendation. Additionally, we have no Freedom of Information Act (FOIA) issues related to this audit.

Comparing FY12 Postage Validation Imprinter and Post Office meter strip revenue to FY 13 there was a \$6.5M growth, aligning with the increased package business the Postal Service is experiencing. Consequently, refunds have increased by .2%. Although there is potential for fraud in any financial process the Eastern Area still considers it low risk.

Recommendation #1 – Require the Area Controller and Area Marketing Manager to monitor and manage unit-level Postage Validation Imprinter and Post Office meter strip refunds for inappropriate activity and emphasize the importance of verifying refunds during closeout.

Management Response/ Action Plan : The Eastern Area agrees in principle with the recommendation and has posted to the Area web a report of Postage Validation Imprinter and Post Office meter strip refunds by District, by Unit comparing same period last year (SPLY) to the current fiscal year. The report will be updated quarterly. Notification will be sent on Sept 2, 2014 to the District Finance Managers of the new report identifying potential units necessary to emphasize proper closeout procedures.

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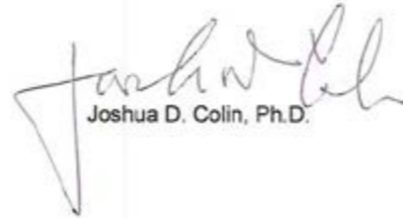
Target Implementation Date

Completed September 2, 2014.

Responsible Official

Mark Tappe, Area Accounting Manager

If you have any questions regarding this response please contact Mark Tappe,
Area Accounting Manager at 412-494-2574



Joshua D. Colin, Ph.D.

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