



Office of Inspector General | United States Postal Service

Audit Report

Bank Secrecy Act Compliance

Report Number 20-158-R21 | January 19, 2021



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Highlights

Objectives

To combat money laundering in the U.S., Congress enacted a series of laws, collectively referred to as the Bank Secrecy Act (BSA). The BSA required financial institutions, including money services businesses, to report suspicious activities to the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). Under the BSA, the U.S. Postal Service is defined as a money services business and is required to report suspicious activity involving money order sales transactions or patterns of transactions. The Postal Service must also provide BSA Anti-Money Laundering training to all employees responsible for or overseeing the sale of financial instruments such as money orders.

When a Postal Service sales and services associate is suspicious of a money order transaction, they must document the potential suspicious activity on an internal form for potential inclusion in a Suspicious Activity Report (SAR) filing to FinCEN.

This information enables law enforcement to support major investigations of money laundering, terrorist financing, and other criminal cases. When automated reporting is not available or supplemental information is needed, suspicious activities are filed using manual reports.

Between October 1, 2019, through March 31, 2020, sales and services associates submitted 57,174 suspicious activity forms for potentially suspicious activity to the Postal Service's BSA Compliance Office (Compliance Office), of which 52,026 were automated and 5,148 were manual. The Compliance Office included information from 54,559 of these forms in SAR filings to FinCEN. The remaining 2,615 did not meet Compliance Office SAR requirements because they

“Our objectives were to determine whether the Postal Service properly reviews and reports suspicious activity information, and to evaluate contractor compliance and Postal Service oversight of its BSA training contract.”

either did not have money order serial numbers or did not have a valid reason for the suspicious activity.

Our objectives were to determine whether the Postal Service properly reviews and reports suspicious activity information, and to evaluate contractor compliance and Postal Service oversight of its BSA training contract.

Findings

The Compliance Office properly reviewed suspicious activity information using a three-tier review process to determine money order eligibility for suspicious activity reporting. However, they did not always appropriately report suspicious activity information to FinCEN. In addition, the BSA training contractor did not obtain a required security clearance and the Postal Service did not ensure the accuracy of employees exempt from internal training goals.

We statistically selected and reviewed 200 of the 5,148 manually processed suspicious transaction forms and 207 of the 52,026 automated suspicious transaction forms. We found 69 (35 percent) of the manual forms and 53 (26 percent) of the automated forms were either incomplete or inaccurately reported as suspicious. Given these exception rates, we estimate 1,802 of the 5,148 (35 percent) manually processed forms and 13,527 of the 52,026 (26 percent) automated forms contained exceptions.

These issues occurred because the BSA database was not designed with mechanisms in place to appropriately address these situations. The Compliance Office stated they will address them as part of an ongoing project scheduled for completion by December 31, 2021.

We also noted the Postal Service has an opportunity to increase the effectiveness of suspicious activity reporting. Specifically, the Compliance Office did not always account for all money orders listed on suspicious transaction forms in its combined SAR.

Further, the Postal Service, did not always notify retail offices when Compliance Office personnel discovered errors in the BSA reporting process at retail units.

Regarding the BSA contract, we found one BSA contractor did not acquire and maintain a Postal Service sensitive security clearance as required by the contract, even though the contractor had access to Postal Service information regarding customer identification and suspicious transaction analysis.

Further, the Compliance Office informed us they are committed to a goal of 100 percent annual training completion although annual training is not required by the BSA. However, the Compliance Office did not confirm the accuracy of 71 employees categorized as exempt from completing the mandatory training. After we advised them of the issue, the Compliance Office researched these employees and found 34 should have completed the training. As a result of this commitment to achieve Postal Service training goals, the Compliance Office developed a new oversight process to monitor and track employee training status. Because of the corrective action taken, we are not making a recommendation.

Care given to include complete and accurate information provides law enforcement with important details about the subject or the transaction and could increase the chances of identifying individuals trying to launder money or commit other fraudulent activity schemes.

Recommendations

We recommended management:

- Revise the BSA database to report all available information from suspicious transaction reports in SARs filed and exclude information deemed not suspicious.
- Enhance policies and procedures for suspicious activity reporting, to include any revisions to BSA database requirements or the suspicious transaction report.
- Modify and document the process for filing combined suspicious activity reports.
- Revise the procedures to resolve the conflict for sending notification of errors to retail offices.
- Obtain and maintain sensitive security clearances for all contract personnel.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

January 19, 2021

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE
PRESIDENT

A handwritten signature in black ink, reading "M Schoenberg", is positioned below the recipient's name.

FROM: Mitchell Schoenberg
Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Bank Secrecy Act Compliance
(Report Number 20-158-R21)

This report presents the results of our audit of the U.S. Postal Service's Bank Secrecy Act Compliance Program.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Finance, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Bank Secrecy Act (BSA) Compliance (Project Number 20-158). Our objectives were to determine whether the Postal Service properly reviews and reports suspicious activity information, and to evaluate contractor compliance and Postal Service oversight of its BSA training contract. See [Appendix A](#) for additional information about this audit.

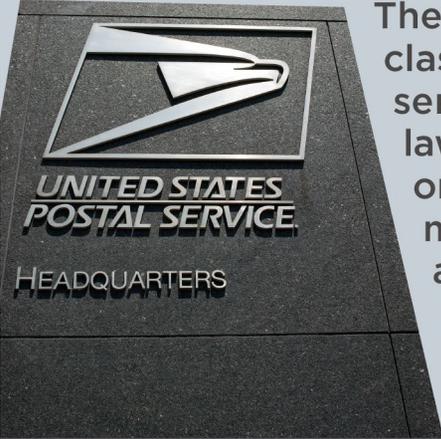
Background

To combat money laundering¹ in the U.S., Congress enacted a series of laws,² collectively referred to as the BSA. The BSA requires financial institutions to deter and detect potential money laundering activities and report suspicious activities to the U.S. Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN).³

Among the financial institutions subject to BSA and FinCEN oversight are money services businesses.⁴ The Postal Service is classified as a money services business under the law because it sells money orders.⁵ The Postal Service must report suspicious activity involving money order transactions or patterns of transactions. The Postal Service must also provide BSA Anti-Money Laundering training to all employees responsible for the sale of financial instruments such as money orders.⁶



To combat money laundering in the U.S., Congress enacted a series of laws, collectively referred to as the Bank Secrecy Act.



The Postal Service is classified as a money services business under the law because it sells money orders. The Postal Service must report suspicious activity involving money order transactions or patterns of transactions.

¹ Money laundering is the process of concealing the existence, source, or application of income derived from criminal activity, and the subsequent disguising of the source of that income to make it appear legitimate.

² The Currency and Foreign Transactions Reporting Act, 31 United States Code (U.S.C.) §§ 5311-5330 and 12 U.S.C. §§ 1829 (b), 1951-1959, is also known as the BSA. Its implementing regulation is 31 Code of Federal Regulation (CFR) 103.

³ The agency responsible for administering the BSA and safeguarding the financial system from financial crime, including terrorist financing, money laundering, and other illicit activities.

⁴ A money services business is a non-bank financial institution, such as money transmitters, check cashers, dealers in foreign exchange, issuers or sellers of travelers' checks and money orders, and providers and sellers of prepaid access products.

⁵ BSA Regulations at 31 CFR 1010.100(ff)(6).

⁶ 31 CFR 1022.210 (3).

Suspicious activity may include customers who:

- Routinely request money orders valued at slightly less than \$3,000.
- Request money orders for lesser dollar amounts after being asked to complete Postal Service (PS) Form 8105-A, *Funds Transaction Report* (Form A).⁷
- Work together with others to make money order purchases of \$3,000 or more.
- Purchase money orders under \$3,000 and attempt further purchases.

When a sales and services associate is suspicious of a money order transaction, they must complete the internal PS Form 8105-B, *Suspicious Transaction Report* (Form B), from which information is added into the Web BSA Application (BSA database).⁸ Information from the Form B included in *Suspicious Activity Report* (SAR) filings to FinCEN may be helpful to supplement law enforcement's investigations of money laundering, terrorist financing, and other criminal cases.

Sales and services associates at retail units with Retail Systems Software⁹ capability complete automated Forms B using the Retail Systems Software and web-interface to enter potentially suspicious activity information directly into the BSA database. Sales and services associates use hard copies (manual) of Form B where there is no Retail Systems Software capability, when the Retail Systems Software is offline, or when they provide supplemental information related to previously submitted automated copies of Form B.

Our audit focused on potentially suspicious transactions reported by sales and services associates. During our scope period, October 1, 2019, through March 31, 2020, sales and services associates submitted 57,174 Forms B to the Postal Service's BSA Compliance Office (Compliance Office),¹⁰ for consideration,

⁷ The customer must complete Forms A for all sales of money orders totaling \$3,000 or more to the same customer in the same day. We did not include Forms A in our audit scope.

⁸ The Web BSA Application was implemented to comply with the federal laws and regulations stemming from the BSA. The application has various components to support data entry, analysis, queries and reporting of data relating to possible violations of BSA.

⁹ The primary hardware and software system used to conduct retail sales transactions at post offices.

¹⁰ The Compliance Office is responsible for the development, maintenance and continual enhancement of a comprehensive, effective BSA/Anit-Money Laundering Compliance Program (Compliance Program).

¹¹ Information from 52,026 automated and 2,533 manual forms were included in SAR filings. The remaining 2,615 manual forms were not included in SAR filings.

¹² The remaining 2,615 did not meet Compliance Office suspicious transaction reporting requirements because they either did not have money order serial numbers or did not have a valid reason for the suspicious activity.

¹³ [REDACTED]

of which 52,026 were automated and 5,148 were manual. The Compliance Office included information from 54,559¹¹ of these in Suspicious Activity Report filings to FinCEN.¹²

The Compliance Office submits information from Forms B on two types of SAR filings to FinCEN:

- *Combined Money Order Suspicious Activity Report* is filed as the result of the SAR aggregation process which looks for all money orders entered into the BSA database that [REDACTED]

[REDACTED] The aggregation process also considers information collected on Forms A and B. This information is used as part of the process to determine if a transaction is suspicious.

- *PS Form 8105-B - Suspicious Transaction Report* is the potentially suspicious activity reported on Form B. The *PS Form 8105-B - Suspicious Transaction Report* process includes all money orders associated with a Form B that have not been reported on a *Combined Suspicious Activity Report* after [REDACTED]

The Compliance Office uses a three-tier review process to determine whether money orders are suspicious. Specifically, Compliance Office analysts review money order transactions from Forms B and automated system monitoring to determine whether suspicious activity existed. If they cannot clearly determine whether the transaction meets suspicious activity requirements, analysts forward it for enhanced review. Similarly, if the enhanced review does not result in a clear decision, analysts forward it for a final review. Information for money orders deemed suspicious are updated in the BSA Database and are eligible for SAR

reporting. Money orders deemed not suspicious are marked as such and moved to the archives. We determined the Postal Service process to review suspicious activity information is appropriate.

We statistically selected and reviewed 200 out of 5,148 manually processed Forms B for the period October 1, 2019, through March 31, 2020 and 207 out of 52,026 automated Forms B for the same time period. We found 69 of the manual forms (35 percent) and 53 of the automated forms (26 percent) that were either incomplete or inaccurately reported as suspicious. Given these exception rates, we estimate 1,802 of the 5,148 manually processed forms (35 percent), and 13,527 of the 52,026 automated forms (26 percent) contain exceptions.

Finding #1: Suspicious Activity Reporting

The Compliance Office did not always appropriately report suspicious activity information. Specifically:

- The Postal Service did not always include available descriptive information¹⁴ collected from both automated and manual Forms B in SAR filings to FinCEN. This occurred because the BSA database is designed to incorporate information written in the comment section only when sales and services associates check comment box number four, *Unusual Activity*, on Forms B.
- The Postal Service filed *PS Form 8105-B - Suspicious Transaction Reports* for money orders deemed not suspicious. The BSA database transfers all money orders to SAR filings after the waiting period, whether or not the money orders were deemed suspicious.
- The Postal Service did not report suspicious activity details from Form B when money order serial numbers were missing. The BSA database does not have a mechanism in place to report Form B information when the money order serial number is not available.

The Compliance Office could mitigate the risk of any omission of information that may be helpful for the identification and analysis of suspicious activity by

¹⁴ Descriptive information includes [REDACTED]

¹⁵ This project will modify the Retail Systems Software/BSA Form B screens to match the new Form B that was primarily changed to include additional comment checkbox selections.

¹⁶ During our audit, the Compliance Office advised they discovered the issue in May 2020.

including all available descriptive information regarding the transaction, excluding information from non-suspicious transactions, and including valid, suspicious comments not associated with money order serial numbers. The Compliance Office stated they will address these issues as part of the Form B Rewrite Project,¹⁵ scheduled for completion by December 31, 2021.

Suspicious Activity Report Descriptive Details

The Compliance Office did not always include available descriptive information collected from Form B in SAR filings to FinCEN. We found descriptive information from 52 of 200 manual forms and 29 of 207 automated forms was not included in SAR filings. The most common missing information was the subject's [REDACTED] information. Sales and services associates provided descriptive information in the comment section of Form B but did not always select comment box number four, *Unusual Activity*. The BSA database is designed to incorporate information from the comment section of Form B only when comment box number four is checked.

Postal Service policies and procedures do not specifically state how descriptive information should be incorporated into SAR filings. The Compliance Office acknowledged the SAR filings

did not always include all available descriptive information and stated they did not know how long the issue persisted.¹⁶ They believed the Postal Service was in compliance with BSA reporting requirements because FinCEN does not identify the subject's [REDACTED] as a critical reporting element. However, FinCEN

“The Compliance Office did not always include available descriptive information collected from Form B in SAR filings to FinCEN. The most common missing information was the subject’s [REDACTED] information.”

guidance¹⁷ states if additional information about the subject is available that has not been recorded in other sections, record it in the suspicious activity information narrative section of the SAR. Further, FinCEN identifies the narrative section of the report as critical to understanding the nature and circumstances of the suspicious activity.

Money Orders Deemed Not Suspicious

The Compliance Office incorrectly filed *PS Form 8105-B - Suspicious Transaction Reports* for money orders deemed not suspicious. Specifically, information from five of 200 manual forms and eight of 207 automated forms reviewed were included in PS Form 8105-B - Suspicious Transaction Report filings after the waiting period expired, even though the money orders were already deemed not suspicious. Postal Service BSA procedures¹⁸ state money orders deemed not suspicious are marked as such and moved to the archives. The Compliance Office stated that, currently, money order serial numbers listed on Forms B are filed on a *PS Form 8105-B* after the [REDACTED] whether or not the money orders have been deemed suspicious.

Missing Money Order Serial Numbers

The Compliance Office did not report suspicious activity details from Forms B when money order serial numbers were missing. Specifically, we found five of 200 manual forms reviewed did not have money order serial numbers but had valid suspicious comments and were not included in SAR filings. In three of the five instances, the sales and services associate completed a Form B without a money order serial number after the customer canceled their request for money orders, valued at \$3,000 or more.

“The Compliance Office did not report suspicious activity details from Forms B when money order serial numbers were missing.”

Forms B with missing money order serial numbers are captured as an “Other” transaction type in the BSA database. They are not transferred to SAR filings because the BSA database does not have a mechanism in place to perform this process when Forms B do not have a money order serial number. The Compliance Office became aware of this issue in January 2020 and advised that, in FYs 2018 and 2019, there were 7,650 and 9,865 “Other” transactions, respectively. Postal Service policies and procedures do not specifically address how “Other” transaction type information is included in SAR filings. The Compliance Office stated their process requires Form B to contain a money order serial number and a potentially suspicious comment to be included in a SAR filing; however, they advised FinCEN does not require a money order serial number to report suspicious activity.

Recommendation #1

We recommend the **Chief Financial Officer and Executive Vice President** revise the Bank Secrecy Act database to report all available information from the *Suspicious Transaction Report*, in suspicious activity reports filed with the U.S. Department of the Treasury’s Financial Crimes Enforcement Network, including descriptive details, potentially suspicious comments when money order serial numbers are missing, and excluding information not deemed suspicious.

Recommendation #2

We recommend the **Chief Financial Officer and Executive Vice President** enhance policies and procedures for suspicious activity reporting to include any revisions to the Bank Secrecy Act database requirements or the *Suspicious Transaction Report*.

Finding #2: Combined Suspicious Activity Reports

The Compliance Office has an opportunity to increase the effectiveness of suspicious activity reporting. Specifically, the Compliance Office’s *Combined Suspicious Activity Reports* did not always account for all money order serial numbers listed on Forms B. The Compliance Office files a *Combined Suspicious*

¹⁷ FinCEN User Guide, Part V, Suspicious Activity Information Narrative, July 2020.

¹⁸ *United States Postal Service BSA/Anti-Money Laundering Compliance Program Procedures Manual*, Suspicious/Non-Suspicious Decision, fiscal year (FY) 2020.

¹⁹ [REDACTED]

Activity Report with FinCEN based on aggregated money order sales and [REDACTED]

The *Combined Suspicious Activity Report* filings include details only for those money order [REDACTED] information that already exist in the BSA database. Unmatched money order serial numbers listed on the same form with matched money order serial numbers are not included in the *Combined Suspicious Activity Report* filing, even though the reason for the potentially suspicious money order transaction provided by the sales and services associate on Form B is applicable to all of the money order serial numbers. We identified 36 instances²⁰ in which unmatched money order serial numbers were not included in a *Combined Suspicious Activity Report* filing.

FinCEN provides general guidance on suspicious activity reporting; however, it does not mandate how a business identifies suspicious transactions. The Compliance Office confirmed the 36 instances we identified met Form B validity requirements²¹ but were not included in SAR filing because they did not match other [REDACTED] in the BSA database.

The Postal Service's process to identify and report suspicious money orders in a *Combined Suspicious Activity Report* filing is not documented. Further, we believe the process conflicts with the Postal Service's position to include information from Forms B in SAR filings when they have 10-digit money order serial numbers and a suspicious reason. By omitting unmatched money orders from SAR filings, the Postal Service risks not reporting money orders that may have been used in illegal activities because they did not match money orders included in the *Combined Suspicious Activity Report*. The Postal Service can improve its suspicious activity reporting effectiveness by modifying its process to include money order [REDACTED] information that already exist in the BSA database, on Form B in SAR filings to FinCEN.

²⁰ Fifteen manually processed and 21 processed using Retail Systems Software and BSA interface automation.

²¹ Examples of suspicious reasons are [REDACTED]

²² *United States Postal Service BSA/Anti-Money Laundering Compliance Program Procedures Manual*, Data Entry of Paper Forms B, FY 2020.

Recommendation #3

We recommend the **Chief Financial Officer and Executive Vice President** modify and document the process for filing combined suspicious activity reports with the U.S. Department of the Treasury's Financial Crimes Enforcement Network, to include money order [REDACTED] listed on valid *Suspicious Transaction Reports* that do not match [REDACTED] information that already exist in the Bank Secrecy Act database.

Finding #3: Notification of Errors

The Compliance Office did not always notify retail offices when Compliance Office personnel discovered errors made by sales and services associates during the BSA reporting process. For example, the comment section on one of the Forms B we reviewed noted that a customer wanted to purchase \$4,500 in money orders but was informed by the sales and services associate that the money order

“The Compliance Office did not always notify retail offices when Compliance Office personnel discovered errors made by sales and services associates during the BSA reporting process.”

purchasing limit was \$2,999. The customer reduced the amount of the money orders purchased to \$2,999 based on the information provided. However, the Postal Service does not have a money order purchase limit. Customers may purchase multiple money orders up to any amount, with the maximum value of \$1,000 for each money order. The Form A is completed when the customer purchases \$3,000 or more during the same transaction on the same day.

BSA procedures²² require a notification to be sent to the retail office along with a copy of the form outlining the error when the retail office sends a Form B to the Compliance Office containing this type of error. However, the procedures

also stated the unit ‘may’ be notified of the errors. The Compliance Office acknowledged there is a conflict within their procedures and stated they notify retail offices of the errors when resources are available. The Postal Service may forgo opportunities to increase revenue from money order sales or to correct dissemination of inaccurate information when they do not send error notifications to reiterate policy.

Recommendation #4

We recommend the **Chief Financial Officer and Executive Vice President** revise the procedures to resolve the conflict for sending notification of errors to retail offices.

Finding #4: Contractor Security Clearances

Compliance Office contract personnel did not always comply with security clearance requirements of the contract. Specifically, one BSA contractor did not acquire and maintain a Postal Service sensitive security clearance as required. This contractor provided expert advisory support to the Compliance Office, reviewed and made recommendations to enhance current Postal Service programs, and provided customer identification and suspicious transaction analysis. According to the contract,²³ all personnel must obtain a Postal Service sensitive clearance prior to performing work. Further, contractors will maintain a sensitive security clearance during the period of their performance. Also, Postal Service policy²⁴ requires individuals who provide contract services to the Postal Service, at any tier, who have access to postal information and resources, must undergo a

“Compliance Office contract personnel did not always comply with security clearance requirements of the contract.”

background investigation from the Postal Service before being provided that access.

The Compliance Office stated that the BSA contractor is a regulatory expert who provides advice, guidance, and opinions, and has no access to the BSA database; therefore, no security clearance was needed. However, even though the contractor cannot access the BSA database itself, the contractor has access to Postal Service information regarding customer identification and suspicious transaction analysis. The Postal Service could risk significant financial loss, inconvenience, or delay in the performance of its mission if it does not ensure all contractors have appropriate security clearances.

Recommendation #5

We recommend the **Chief Financial Officer and Executive Vice President** obtain and maintain sensitive security clearances for all contract personnel.

Finding #5: Annual Training

The BSA training contractor, in coordination with the Compliance Office, developed annual BSA training.²⁵ The BSA requires all employees that sell or oversee the sale of financial instruments, such as money orders, complete the BSA Anti-Money Laundering training. The Compliance Office informed us they are committed to a goal of 100 percent annual training completion although annual training is not required by the BSA.

“The BSA training contractor, in coordination with the Compliance Office, developed annual BSA training.”

We reviewed the training log dated December 27, 2019, and identified 71 applicable employees²⁶ were categorized as exempt²⁷ from completing the mandatory training. The Compliance Office did

²³ BSA/Anti-Money Laundering Professional Services Contract, Statement of Work, Section 2.5.1, dated October 30, 2019.

²⁴ *Administrative Support Manual 13*, July 1999, updated through July 31, 2020, Section 272.411.

²⁵ BSA/Anti-Money Laundering Professional Services Contract, Statement of Work, Section 2.5.1, dated October 30, 2019.

²⁶ Sales and services associates and their supervisors.

²⁷ These employees had a training completion status ‘Exempt – Other.’

not confirm the accuracy of the exempt status. However, after we advised them of the issue, the Compliance Office immediately researched these employees and found 34 should have completed the FY 2019 training. As a part of the Compliance Office's commitment to ensure the Postal Service's mandatory annual training is 100 percent completed, they also developed a new oversight process to monitor and track the status of employees on the training log. Further, the Compliance Office advised us that the 'Exempt – Other' option was replaced with a 'Not Available for Training' option. This new option will display as 'Available' notifying the employees to take the training upon their return. As a result of the corrective actions taken, we are not making a recommendation.

Management's Comments

Management disagreed with the tone of the report and stated that it was not reflective of the quality or adequacy of the BSA program. They asserted that the Postal Service has an effective Anti-Money Laundering program that includes effective policies, procedures and internal controls, an Anti-Money Laundering compliance officer to ensure compliance and provision of education and training, and mechanisms to ensure independent review of the program. However, they recognized that all programs remain effective by striving for continuous improvement and agreed to implement several recommendations to achieve that goal.

Management's strongest disagreement was that the Compliance Office did not appropriately report suspicious activity and that SARs were incomplete or inaccurately reported, because that implies the Compliance Office failed to include required information on the SARs. Regarding the SAR descriptive details finding, they emphasized that the descriptive information cited is not required to be included in the SAR. Further, they stated that law enforcement can and does receive the descriptive information after the SAR is filed, and reiterated that their internal Form 8105-B is not required, is not the equivalent of a SAR, and its contents are not required to be reported on a SAR. They agreed that the SAR form requires that substantial information about the subject of the SAR must be reported if known and repeated that they have consistently provided it in the SAR itself.

Regarding the money order serial numbers finding, management disagreed that the Compliance Office did not report details from Forms 8105-B when money order serial numbers were missing. They stated that in the examples provided, there was no data to report because no money orders were purchased; or when transactions did occur, they were deemed to be not suspicious.

Management agreed with the finding that a small percentage of money orders included on Forms 8105-B that were deemed not suspicious were later reported on a SAR. However, they disagreed that the descriptive details, money orders deemed not suspicious, and money order serial numbers issues occurred because the BSA database was not properly designed and stated that characterization of the entire database that way is a misrepresentation. However, management advised that they are currently enhancing the BSA system as part of its continuous improvement project that will resolve the issues regarding additional descriptive information and reporting information not deemed suspicious. They also advised that when the BSA system enhancement is complete, the policy and procedures manuals will be updated. Management expects to complete these actions by December 31, 2021.

Regarding the combined SARs finding, management disagreed that unmatched money orders should be reported on a SAR and stated that the examples in the audit report were those that had been analyzed and did not meet reporting criteria. They reiterated that money orders from Forms 8105-B that are deemed to be not suspicious following analysis or do not meet SAR filing criteria are not included in a SAR. As such, management will not take action regarding this issue.

Regarding the notification of errors finding, management advised that the incidents reported were operational training issues and that the Compliance Office notifies retail offices about instances involving BSA policies and procedures. In the future, the Compliance Office will notify field offices when ongoing issues are identified. Management expects to begin notifications by January 29, 2021.

Regarding the annual training finding, management stated that the Postal Service meets BSA Anti-Money Laundering training requirements and the minor exceptions noted were not violations of FinCEN's periodic training requirement.

Management stated that the process to exempt employees from training was new in FY 2020 but is no longer in effect. They further stated that the 34 employees that should have taken the training had taken BSA training previously and upon hire.

Regarding security clearances, management is working with Supply Management to address. Management expects to obtain a security clearance for the contractor mentioned in the report by March 31, 2021.

Management disagreed with the statistical representations because the exception rate included SARs that did not contain descriptive information, but the information was not required so that can result in misleading conclusions or exaggerations. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the findings and recommendations in the report. We acknowledge that the Postal Service has an effective Anti-Money Laundering program that is reasonably designed to prevent it from being used to facilitate money laundering and the financing of terrorist activities.

Regarding reporting details when money order serial numbers were missing, the intent was to ensure information is reported when potentially fraudulent activity is stopped prior to completing the transaction. We continue to believe this information should be reported and could be useful to ongoing investigations. Also, during our audit, Compliance Office personnel advised they were aware of the issue and were pursuing it as part of their continuous improvement project. Therefore, we will not pursue this issue further at this time; however, we will continue to monitor this as part of our ongoing oversight.

Regarding the BSA database, our intent was not to characterize the entire database as not properly designed. Instead the BSA database was not designed with mechanisms in place to appropriately address descriptive information in SAR filings; money orders deemed not suspicious in SAR filings; and suspicious activity details when money order serial numbers were missing. We adjusted our report verbiage accordingly.

Regarding the combined SARs finding, we offered the enhancement as an opportunity to improve suspicious reporting, not as a noncompliance with existing FinCEN requirements. Therefore, although we continue to believe unmatched money orders should be reported on a SAR when they are deemed suspicious, we will not pursue this issue further.

As stated in the report, we consider the descriptive information in the comments section of the Form 8105-B as critical. Therefore, we believe our statistical projections are an accurate reflection of the magnitude of the exceptions reported.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Until the OIG provides written confirmation, recommendations 1, 2, 4 and 5 should not be closed in the Postal Service's follow-up tracking system. With the issuance of this report, we consider recommendation 3 closed, but not implemented by the Postal Service.

Appendices

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Appendix A: Additional Information

Scope and Methodology

Our audit focused on suspicious transactions reported by sales and services associates. During our scope period, October 1, 2019, through March 31, 2020, sales and services associates submitted 57,174 Forms B to the Compliance Office, of which 52,026 were automated and 5,148 were manual. The Compliance Office included information from 54,559 of these in SAR filings to FinCEN. We statistically selected and reviewed 200 out of 5,148 manually processed Forms B. We also statistically selected and reviewed 207 out of 52,026 automated Forms B.

To accomplish our objectives, we:

- Extracted and analyzed data from the BSA database to identify the volume, content and type of Form B submissions, automated or manual, for the period October 1, 2019, through March 31, 2020.
- Conducted interviews with BSA Compliance Office personnel knowledgeable of the BSA database.
- Observed a virtual walkthrough of the data entry process for five Forms B.

- Discussed the Postal Service SAR filing activities with FinCEN officials.
- Reviewed BSA laws and regulations.

We conducted this performance audit from March 2020 through January 2021 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 objectives. 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 December 1, 2020, and included their comments where appropriate.

We assessed the reliability of the BSA database data through interviews with BSA Compliance Office personnel, who were knowledgeable about the data, and by examining and comparing Form B source documents with data included in SARs filed. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
<i>Fiscal Year 2017 Bank Secrecy Act Program</i>	Determine whether the Postal Service anti-money laundering program is adequately designed and implemented to ensure compliance with the BSA and to identify opportunities to enhance the program.	FT-AR-18-006	1/17/2018
<i>Bank Secrecy Act Compliance for Fiscal Year 2015</i>	Determine why there are large discrepancies in suspicious activity reporting among post offices located in the same high-risk districts.	FT-AR-15-007	6/10/2015

Appendix B: Management's Comments



January 4, 2021

JOSEPH E. WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Bank Secrecy Act Compliance (Project Number 20-158 DRAFT)

We appreciate the time and effort expended by the Office of Inspector General (OIG) staff and its management in undertaking this project as well as the opportunity to respond to the draft report.

Management Response Summary

We assert that the United States Postal Service (Postal Service) has an effective Anti-money Laundering (AML) program "reasonably designed to prevent (it) from being used to facilitate money laundering and the financing of terrorist activities."¹ This program includes effective policies, procedures, and internal controls to ensure compliance with Bank Secrecy Act (BSA) requirements², an AML compliance officer responsible for assuring such compliance on an ongoing basis³, the provision of education and training for all appropriate personnel⁴, and mechanisms to ensure an independent review of the adequacy of the program.

We strongly disagree with some of the report's findings as is explained in more detail later in this response as well as the overall tone of the report not being reflective of the quality or adequacy of the program under review. Nevertheless, we do recognize that all compliance programs remain effective by striving for continuous improvement and we will implement several recommendations made by the OIG to achieve this goal.

Our strongest disagreement is with the findings that the Compliance Office did not "appropriately" report suspicious activity or that suspicious activity reports were "incomplete" or "inaccurately" reported. These statements are inaccurate and misleading in that they imply the Compliance Office failed to include information on reported Suspicious Activity Reports (SARs) that was required by regulation. The draft report appears to refer solely to some instances in which certain [REDACTED] about a customer, obtained on our internal 8105-B form, was not included in a SAR. It should be emphasized that such [REDACTED] cited is not required by regulation to be included on a SAR. Nevertheless, we will incorporate supplemental information in the narrative section of a SAR to the extent it is determined that it might be useful.

The audit further states "Care given to include complete and accurate information provides law enforcement with important details about the subject or the transaction and could increase the chances of identifying individuals trying to launder money or commit other fraudulent activity schemes." This statement seems to imply that the Postal Service is not meeting its regulatory requirements by not including supplemental information that is not required by regulation.

¹ 31 CFR §1022.210(a)

² 31 CFR §1022.210(d)(1)

³ 31 CFR §1022.210(d)(2)

⁴ 31 CFR §1022.210(d)(3)

475 L'Enfant Plaza SW Room 8021
Washington, DC 20260-0001

We also strongly disagree with the statement that these, "issues occurred because the BSA database was not properly designed and did not have available mechanisms in place to address these situations." The Compliance Office is currently involved in a project to enhance its system as part of its continuous improvement. To characterize the entire database as not properly designed is a misrepresentation.

Management does agree that there was an issue with a small percentage (approximately 1.10 percent of money orders filed on a SAR in FY2020) of money orders reported on an 8105-B form that were deemed not suspicious following analysis that were later reported on a SAR. The Compliance Office detected this as part of its ongoing quality assurance review process and disclosed this during the commencement of the audit to the OIG and reported to them that the issue would be resolved with the continuous improvement project.

We disagree with the implication that "unmatched" money orders listed on an internal 8105-B form should necessarily be reported on a SAR. The money orders referred to as "unmatched" in the audit were those that had been analyzed by the BSA Compliance Office and did not meet the SAR reporting criteria. This scenario also applies to the finding that, "The Compliance Office did not always account for all money orders listed on suspicious transaction forms in its combined SAR." Money orders that are reported to the Compliance Office on an 8105-B form that are deemed to be not suspicious following analysis by the Compliance Office or do not meet SAR filing criteria are not included on a SAR.

We also disagree with the statistical representations in the audit. The calculations used to determine an "exception" rate included SARs that did not contain descriptive information that was not mandated in the regulation. Statistics that include extraneous data can result in misleading conclusions or exaggerate the order of magnitude.

The finding of a single contractor without a security clearance is under the purview of Supply Management and we will work with them to address this issue. It should be noted that the one contractor mentioned in the audit did not have access to postal facilities, networks, systems, databases, or customer identification.

The Postal Service meets the requirements of periodic BSA/AML training and did provide training to 110,000 employees of the target group in 2020. To be clear, there were only 34 employees of our 110,034 who should have taken the annual training but had been exempted. This number is extremely small when compared with the substantial number of employees who received annual training. Indeed, these employees had received BSA training previously, also upon hire, and this was not a violation of the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) periodic training requirement.

Management Response Detail

Reporting Suspicious Activity

All required SAR information is identified on the FinCEN Electronic SAR form, which does not include the descriptive information collected on our internal 8105-B form. Indeed, as stated in the SAR instructions, 9.6.2. **Item Instructions** required fields are identified with the (asterisk) symbol in front of the data element number. These descriptive items are not designated as required. Law enforcement can and does receive all information from the 8105-B form, including the descriptive information, when requested, after a SAR is filed.

Further, the internal form (8105-B form) referred to in the audit is used by the Compliance Office which is not a BSA report nor is required by regulation. It is a voluntary, internal form developed and utilized by the Postal Service to help identify potential suspicious activity that is observed by postal associates at the time a transaction is conducted. This form is not the equivalent of a SAR nor are its contents required to be reported on a SAR.

The SAR form does require that substantial information about the subject of a SAR be reported, if known, such as the [REDACTED]. The Postal Service has consistently provided such explicitly required information in the SAR itself.

Management disagrees with the finding that, "The Compliance Office did not report suspicious activity details from 8105-B forms when money order serial numbers were missing. Specifically, we found five of 200 manual forms reviewed did not have money order serial numbers but had valid suspicious comments and were not included in SAR filings. In three of the five instances, the sales and services associate completed a 8105-B form without a money order serial number after the customer canceled their request for money orders, valued at \$3,000 or more." In these examples, no transaction took place and there was no data to report because no money orders were purchased. In the remaining two instances, transactions did take place, but the transactions were deemed to be not suspicious after analysis by the BSA Compliance Office.

Training

In FY2020, a new process was in place through which field management could exempt employees from training, usually based on sensitive human resources issues. The Postal Service trained 110,000 employees who sold postal financial instruments and those who supervised them. Through our research, we discovered that 34 employees who should have taken the training had been exempted (amounting to only .03 percent). These employees had received BSA training previously, and upon hire, but did not take the FY2020 annual training.

The exemption policy was rescinded and is no longer in effect.

Retail Office Notification

Management disagrees with the finding. As discussed during the exit interview, the incidents cited by the OIG were operational training issues. In the future, the BSA Compliance Office will notify field offices when ongoing issues are identified. It should be noted that the Compliance Office does notify retail offices in specific instances involving BSA policies and procedures.

OIG RECOMMENDATIONS AND MANAGEMENT RESPONSE

Recommendation 1

Revise the Bank Secrecy Act database to report all available information from the Suspicious Transaction Report in suspicious activity reports filed with the U.S. Department of the Treasury's Financial Crimes Enforcement Network including descriptive, potentially suspicious comments money order serial numbers are missing, and excluding information not deemed to be suspicious.

Management Response

The Postal Service is in compliance with SAR regulatory requirements and, as stated earlier, the additional information is not a mandatory requirement. The Postal Service is in the process of enhancing the BSA system and, understanding that additional information may be potentially beneficial to law enforcement, the Postal Service is already planning to add additional descriptive information to SARs, when available and deemed helpful, as part of its continuous improvement project.

Target Implementation Date

The enhancements in response to this recommendation will be implemented by December 31, 2021.

Responsible Reporting Individual
Title: BSA/AML Compliance Officer
Organization: Corporate Treasury

Recommendation 2

Enhance policies and procedures for suspicious activity reporting to include any revisions to the BSA database requirements for Suspicious Transaction Report.

Management Response

The Compliance Office updates its Policy and Procedures manuals at least once a year and when there are applicable regulatory, policy, or procedures changes. When the BSA system is enhanced, the Policy and Procedures manuals will be updated.

Target Implementation Date

The action in response to this recommendation will be implemented December 31, 2021.

Responsible Reporting Individual
Title: BSA/AML Compliance Officer
Organization: Corporate Treasury

Recommendation 3

Modify and document the process for filing combined suspicious activity reports with the U.S. Department of the Treasury's Financial Crimes Enforcement Network, to include money order [REDACTED] listed on valid Suspicious Transaction Reports that [REDACTED] information that already exist in the BSA database.

Management Response

Management disagrees with this finding. The 8105-B Suspicious Transaction Report is an internal document for retail associates to report potentially suspicious activity so that they are flagged for review by the Compliance Office. Once the forms are submitted, the Compliance Office analyzes the transactions and makes the final determination if a money order is truly suspicious and is required to be reported under the rules. If a money order is determined to be not suspicious, or does not otherwise meet the SAR criteria, the money order will not be reported on a SAR.

Action

No action to be taken.

Recommendation 4

Revise the procedures to resolve the conflict for sending notification errors to retail offices.

Management Response

As discussed during the exit interview, the incidents cited by the OIG were operational training issues. The BSA Compliance Office will notify field offices when ongoing issues are identified. It should be noted that the Compliance Office does notify retail offices in specific instances involving BSA policies and procedures.

Target Implementation Date

The action in response to this recommendation will be implemented January 29, 2021.

Responsible Reporting Individual
Title: BSA/AML Compliance Officer
Organization: Corporate Treasury

Recommendation 5

Obtain and maintain sensitive security clearances for all contract personnel.

Management Response

The one contractor mentioned did not have access to postal facilities, networks, systems, databases, or customer identification. Even though the contractor does not have access to these systems, we will ensure that he obtains and maintains a sensitive security clearance.

Target Implementation Date

The actions in response to this recommendation are in progress and will be implemented on March 31, 2021.

Responsible Reporting Individual
Title: BSA/AML Compliance Officer
Organization: Corporate Treasury

Though we are implementing most of the OIG's recommendations, we are reasserting that the Postal Service has an effective AML program reasonably designed to prevent (it) from being used to facilitate money laundering and the financing of terrorist activities.

E-SIGNED by JOSEPH CORBETT
on 2021-01-04 17:16:01 CST

Joseph Corbett

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**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

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1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100

For media inquiries, contact Agapi Doulaveris
Telephone: 703-248-2286
adoulaveris@uspsig.gov