



# Internal Controls Over Local Purchases and Payments – Summerland Key, FL, Post Office

December 27, 2017





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**Internal Controls Over Local Purchases and  
Payments – Summerland Key, FL, Post Office**  
Report Number FCS-FM-18-004

***BACKGROUND:***

The U.S. Postal Service Office of Inspector General (OIG) Field Financial Risk Model identified the Summerland Key, FL, Post Office made \$61,656 in local purchases and payments using 88 no-fee money orders (NFMO) October 1, 2016, to September 30, 2017. This unit made 82 percent of all local purchases within the South Florida District during that period.

The Postal Service prefers to pay for its goods and services through its electronic purchasing system. When that is not possible, authorized users may use assigned credit cards. Cash not to exceed \$25 or a NFMO not to exceed \$1,000 may be used to make a one-time emergency payment. In addition, local payments made to individuals, proprietorships, or corporations with cash or money orders must be reported for tax purposes. Further, the vehicle credit card must be used for maintenance repair of postal vehicles.

The objective of this audit was to determine whether internal controls were in place and effective for making local purchases and payments at the Summerland Key, FL, Post Office.

***WHAT THE OIG FOUND:***

Internal controls for local purchases and payments were in place, but were not always effective at the Summerland Key, FL, Post Office. We reviewed 88 NFMOs used for 38 payments identified

from October 1, 2016, to September 30, 2017. Unit personnel made 24 of 38 local payments valued at \$59,852 for cleaning services and vehicle repairs using 74 NFMOs instead of the Postal Service's preferred methods of payment. Specifically, the unit's management made:

- Twenty-two of the 38 payments using 69 NFMOs totaling \$56,180 to one vendor for cleaning services. The unit did not have an authorized contract to make these payments as required.
- Two of the 38 payments totaling \$3,672 using five NFMOs to a local vehicle services company instead of using the vehicle credit card as required. The unit did not have authorization from the responsible Vehicle Maintenance Facility manager or their designee.

Finally, unit personnel split payments using multiple NFMOs for invoices over \$1,000, circumventing the NFMO payment limit.

This occurred because the postmaster was not aware of the Postal Service's preferred payment methods and the supervisor, who was the acting postmaster during the postmaster's absence was not aware of the process to pay for the vehicle service charges. In addition, unit management had not completed the required eBuy and

vehicle credit card for Site Manager training as required.

Further, unit personnel did not collect vendor tax data for the 24 payments of services using 74 NFMOs valued at \$59,852 as required by federal law. Unit personnel stated they were unaware of the policy to submit the required form to the Internal Revenue Service for services paid.

We referred these issues to the OIG's Office of Investigations for further review.

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

- Unauthorized transactions using NFMOs for services.
- Violating federal law if tax reportable payments are not reported, as required.

As a result of this audit, the postmaster contacted headquarters to establish a contract for cleaning services on November 21, 2017.

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

We recommended district management:

1. Implement controls to ensure the Summerland Key, FL, Post Office uses the preferred payment methods.
2. Require all unit management to complete eBuy training, focusing on procedures for local purchases and payments.
3. Require all unit management to complete Voyager card training,

focusing on procedures for the use of the office's vehicle credit cards for vehicle repair charges.

4. Reiterate to all unit personnel the IRS reporting requirements as applicable and to submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, to Accounting Services to report the \$59,852 vendor service payments.

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



December 27, 2017

**MEMORANDUM FOR:** TIMOTHY R. COSTELLO  
DISTRICT MANAGER (A), SOUTH FLORIDA DISTRICT

E-Signed by Michelle Lindquist   
VERIFY authenticity with eSign Desktop  
*Michelle Lindquist*

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

**SUBJECT:** Audit Report – Internal Controls Over Local Purchases and  
Payments – Summerland Key, FL, Post Office  
(Report Number FCS-FM-18-004)

This report presents the results of our audit of the Internal Controls Over Local Purchases and Payments – Summerland Key, FL, Post Office (Project Number 18BFM002FT000).

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

Attachment

cc: Postmaster General  
Corporate Audit and Response Management

**Table of Contents**

Introduction ..... 1

Finding #1: Local Payments ..... 2

    Recommendation #1 ..... 5

    Recommendation #2 ..... 5

    Recommendation #3 ..... 5

Finding #2: Tax Reportable Vendor Payments ..... 5

    Recommendation #4 ..... 5

Evaluation of Management’s Comments ..... 6

Appendix A ..... 7

## Introduction

This report presents the results of our self-initiated audit of Internal Controls Over Local Purchases and Payments Process at the Summerland Key, FL, Post Office (Project Number 18BFM002FT000). The Summerland Key Post Office is located in the South Florida District of the Southern Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

The Postal Service prefers to use eBuy2<sup>1</sup> to pay for goods and services. But, if a purchase cannot be satisfied through eBuy2, authorized postal employees may use the SmartPay2<sup>2</sup> credit card.<sup>3</sup> Cash can be used for emergency one-time expenses, not to exceed \$25. No-fee money orders (NFMO) can be used for emergency one-time local expenses, not to exceed \$1,000.<sup>4</sup> In addition, local payments made to individuals, proprietorships, or corporations with cash or money orders must be reported for tax purposes.

To determine whether internal controls over local purchases and payments were in place and effective, we interviewed the postmaster, customer service supervisor, and other personnel responsible for overseeing the process authorized to make local purchases and payments. We also analyzed purchase and payment data identified between October 1, 2016, and September 30, 2017, and examined images from cashed money orders purchased from the unit for miscellaneous expense transactions. Due to the national disaster, Hurricane Irma, September 2017, we were unable to verify the unit's documentation to the payments made since the documents were destroyed.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW)<sup>5</sup> and the Federal Reserve Bank's FedImage system.<sup>6</sup> Although we did not test the validity of controls over these systems, we assessed the accuracy of the data by reviewing internal controls, tracing selected information to supporting source records from the FedImage system, and interviewing knowledgeable Postal Service personnel. Therefore, we determined the data were sufficiently reliable for the purposes of this report.

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<sup>1</sup> An electronic commerce portal that provides employees with electronic requisitioning, approval, and certification capability.

<sup>2</sup> The purchase card may be used only by the designated cardholder and only for official Postal Service business.

<sup>3</sup> Handbook F-101, *Field Accounting Procedures*, June 2016, Section 19-1.

<sup>4</sup> *No-Fee Money Order Quick Reference*, December 2015.

<sup>5</sup> A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

<sup>6</sup> The FedImage system allows authorized users to access electronic images of checks and money orders. The system allows the authorized user to enter individual money order numbers or a range of money order numbers, retrieve the images, and save them as needed.

We conducted this audit from October through December 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 13, 2017, and included their comments where appropriate.

### **Finding #1: Local Payments**

Unit personnel made 24 of 38 local payments<sup>7</sup> valued at \$59,852 for cleaning services and vehicle repairs using 74 NFMOs instead of the Postal Service's preferred methods of payment. Specifically, the unit's management made:

- Twenty-two payments using 69 NFMOs totaling \$56,180 to one vendor for cleaning services. The unit did not have an authorized contract to make these payments as required.<sup>8</sup>
- Two payments using five NFMOs totaling \$3,672 to a local vehicle services company instead of using the Voyager card. The unit did not have authorization from the responsible Vehicle Maintenance Facility manager or their designee.

Finally, unit's management split payments using multiple NFMOs for invoices over \$1000, circumventing controls the NFMO payment limit (see [Table 1](#)).

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<sup>7</sup> The unit made 38 payments using 88 NFMOs valued at \$61,656 during our scope period. We were not able to verify these payments using information at the unit because due to the recent hurricane, supporting documentation was destroyed. We verified the 24 local payments using information obtained from the Federal Reserve Bank's FedImage system. In addition, 14 of the 38 payments were properly approved, procured locally, and within authorized limits.

<sup>8</sup> Management Instruction SP-G4-2006-2, *Unauthorized Contractual Commitments*, November 30, 2006.

**Table 1. Fiscal Year (FY) 2017 Payments With More Than  
 One NFMO**

Payment Number	Payment Date	Number of Money Orders	Amount Paid
<b>Cleaning Services</b>			
1	10/26/2016	4	\$3,200.00
2	11/4/2016	4	2,480.00
3	11/22/2016	4	2,480.00
4	12/6/2016	3	2,480.00
5	12/20/2016	3	2,480.00
6	12/21/2016	3	3,000.00
7	1/17/2017	3	2,220.00
8	1/31/2017	4	3,800.00
9	2/8/2017	2	1,800.00
10	3/2/2017	3	2,480.00
11	3/9/2017	3	2,480.00
12	3/28/2017	3	2,480.00
13	4/11/2017	3	2,480.00
14	4/26/2017	3	2,480.00
15	5/9/2017	3	2,480.00
16	5/23/2017	3	2,480.00
17	6/6/2017	3	2,480.00
18	6/7/2017	3	2,480.00
19	7/18/2017	3	2,480.00
20	8/2/2017	3	2,480.00
21	8/15/2017	3	2,480.00
22	8/28/2017	3	2,480.00
<b>TOTAL</b>		<b>69</b>	<b>\$56,180.00</b>
<b>Vehicle Repairs</b>			
1	11/28/2016	3	\$2,649.00
2	12/21/2016	2	1,022.91
<b>TOTAL</b>		<b>5</b>	<b>\$3,671.91</b>
<b>GRAND TOTAL</b>		<b>74</b>	<b>\$59,851.91</b>

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

The Postal Service's preferred payment methods for local purchases, in order of priority, are:

- eBuy2.
- SmartPay2 credit card.
- Invoice payment through Postal Service (PS) Form 8230, *Authorization for Payment*, or PS Form 8232, *Payment for Personal Services Contracts*.<sup>9</sup>

<sup>9</sup> Submitted to the Scanning and Imaging Center and processed through the Accounts Payable System.

- Cash for emergency one-time expenses, not to exceed \$25, or NFMOs for emergency one-time local expenses, not to exceed \$1,000.<sup>10</sup>

Postal Service policy<sup>11</sup> states units must contact Supply Management, Facility Services Category Management Center (CMC) to establish a contract for cleaning services of \$10,000 or more per year for an individual and \$2,500 or more per year for a company, which must be serviced by the CMC.<sup>12</sup> Also, Postal Service policy<sup>13</sup> states Voyager cards must be used to purchase commercial fuel/oil and maintenance repair for postal vehicles. Since the two payments were over the \$300 daily expenditure limit, the policy<sup>14</sup> states the charges must be authorized and processed by the responsible Vehicle Maintenance Facility manager or their designee.

The postmaster stated that she was not aware of the Postal Service's preferred payment method policy and did not set up a cleaning agreement. In addition, the postmaster was absent when the vehicle repairs took place, and the supervisor, who was the acting postmaster during the postmaster's absence, was unaware of the process to pay for the two vehicle repair charges. Further unit management had not completed the required eBuy training or the online eFleet<sup>15</sup> Card for Site Manager Training. These training courses provide guidance to properly process local payments.

We referred this issue to the OIG's Office of Investigations for further review. When internal controls are not effective, the Postal Service has an increased risk of unauthorized transactions using NFMOs for services. We consider the local payments to the two vendors valued at \$59,852 for cleaning and vehicle repair services as unsupported questioned costs<sup>16</sup> because the payments should have been made under an authorized contract and with a Voyager card.

As a result of this audit, the postmaster contacted CMC to establish a contract for cleaning services on November 21, 2017.

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<sup>10</sup> Handbook F-101, *Field Accounting Procedures*, Section 19-1.1, June 2016, and *No-Fee Money Order Quick Reference*, December 2015.

<sup>11</sup> Handbook AS-709, *Local Buying and Purchase Card Policy and Procedures*, Section 1-15.3, February 2015.

<sup>12</sup> Handbook F-101, Section 19-3.4 (b); *Cleaning Services Local Buying Agreement Guidelines*, August 1, 2014, CMC Contracts.

<sup>13</sup> *Postal Service Voyager Fleet Card Standard Operating Procedure (SOP)*, Section 2.1, Usage Process, November 2016.

<sup>14</sup> *Postal Service Voyager Fleet Card SOP*, Section 2.2.1, Limit Changes, November 3, 2016.

<sup>15</sup> eFleet (aka Voyager) is the portal used to monitor expenses incurred from the operation and maintenance of postal-owned vehicles. The system allows authorized users to display and reconcile expenses charged to Voyager credit cards.

<sup>16</sup> A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures, but does not necessarily connote any real damage to Postal Service.

**Recommendation #1: We recommend the Manager (A), South Florida District,** implement controls to ensure unit management uses the proper payment methods.

**Recommendation #2: We recommend the Manager (A), South Florida District,** require unit management to complete eBuy training, focusing on procedures for local purchases and payments.

**Recommendation #3: We recommend the Manager (A), South Florida District,** require unit management to complete Voyager card training, focusing on procedures for the use of the office's vehicle credit cards for vehicle repair charges.

## Finding #2: Tax Reportable Vendor Payments

Unit personnel did not collect vendor tax data for 24 payments using 74 NFMOs valued at \$59,852 for cleaning and vehicle repair services in FY 2017. Unit personnel stated they were unaware of the requirement.

Postal Service policy<sup>17</sup> states PS Form 8231, Vendor Payment 1099 Reporting Form, must be completed to report services paid locally with cash or money orders. More importantly, federal law<sup>18</sup> requires the Postal Service to report services paid locally with cash or money orders.

We referred this issue to the OIG's Office of Investigations for further review. When tax reportable payments to vendors are not reported, as required, the Postal Service has an increased risk of violating federal law.

**Recommendation #4: We recommend the Manager (A), South Florida District,** to reiterate to all unit personnel requirements IRS reporting requirements, as applicable, and to submit the Postal Service Form 8231, Vendor Payment 1099 Reporting Form, to Accounting Services to report the \$59,852 vendor service payments.

<sup>17</sup> Handbook F-101, Section 19-6, and Handbook AS-709, Chapter 4-1.2.2. This includes services paid locally with cash or money order to individuals, proprietorships or corporations.

<sup>18</sup> IRS requires filing Form 1099-MISC, Miscellaneous Income, for each person in the course of an entity's business to whom the entity has paid during the year at least \$600 for services performed by someone that is not your employee.

## Management's Comments

Management agreed with the findings and monetary impact but disagreed with recommendation 1, as written, because they already have controls implemented to address the use of proper payment methods. However, the district manager will require all direct reports to certify that all purchase card holders have completed LMS Course 10019053, Field Unit Purchasing and Payment Processes, to further strengthen the control effectiveness.

Regarding recommendations 2, 3, and 4, the district manager will require the unit manager to complete LMS Course 34Q0105, eBuy Requisitioner Training; and 10019126, eFleet Card - Site Manager Training. The district manager will also require all direct reports to certify that all purchase card holders have reviewed IRS Form 1099 guidelines. Further, the district manager will require the unit manager to submit PS Form 8231, Vendor Payments 1099 Reporting Form, to Accounting Services to report the \$59,852 vendor service payments.

Management will complete these corrective actions by January 31, 2018. See [Appendix A](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. Regarding recommendation 1, the OIG agrees that controls exist regarding use of proper payment methods and management's planned actions meet the intent of the recommendation, to ensure the controls are consistently followed; therefore, we will not pursue the issue further. However, we may follow up as part of our ongoing financial controls oversight.

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

## Appendix A: Management's Comments



December 19, 2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Local Purchases and Payments – Summerland  
Key FL, Post Office (Report Number FCS-FM-18-Draft)

South Florida Management has reviewed the OIG report and are in agreement with the findings. There were no inaccuracies in the draft report. We agree with the monetary calculations they provided.

Recommendation [1]:

We recommend the manager, South Florida District, implement controls to ensure unit management uses the proper payment methods.

Management Response/Action Plan:

We disagree with this recommendation as written as we already have controls implemented to address us of proper payment methods. However, we agreed with the findings and therefore will have the District Manager require all direct reports to certify that all purchase card holders have completed LMS course 10019053, Field Unit Purchasing and Payment Processes to further strengthen the control effectiveness.

Target Implementation Date:

January 31, 2018

Responsible Official:

District Manager, South Florida District

Recommendation [2]:

We recommend the manager, South Florida District, require unit management to complete eBuy training, focusing on procedures for local purchases and payments.

Management Response/Action Plan:

The District Manager will require the unit manager, [REDACTED] PM Summerland Key, to complete LMS course 34Q0105, eBuy Requisitioner Training.

Target Implementation Date:

January 31, 2018

Responsible Official:

Manager, Post Office Operations, Area 1, South Florida District



December 19, 2017

Recommendation [3]:

We recommend manager, South Florida District, require unit management to complete Voyager card training, focusing on procedures for the use of the office's vehicle credit cards for vehicle repair charges.

Management Response/Action Plan:

The District Manager will require the unit manager, [REDACTED] PM Summerland Key, to complete LMS course 10019126, Efleet Card- Site Manager training.

Target Implementation Date:

January 31, 2018.

Responsible Official:

Manager, Post Office Operations, Area 1, South Florida District

Recommendation [4]:

We recommend the manager, South Florida District, to reiterate to all unit personnel requirements IRS reporting requirements, as applicable, and to submit the Postal Service Form 8231, Vendor Payments 1099 Reporting Form to Accounting Services to report the \$59,852 vendor service payments.

Management Response/Action Plan:

District Manager will require all direct reports to certify that all purchase card holders has reviewed the appendix from the F-17: IRS Form 1099-MISC Guidelines. The District Manager will require the unit manager, [REDACTED] PM Summerland Key, to complete and submit Postal Service Form 8231, Vendor Payments 1099 Reporting Form to Accounting Services to report the \$59,852 vendor service payments.

Target Implementation Date:

January 31, 2018

Responsible Officials:

District Manager, South Florida District  
Manager, Post Office Operations, Area 1, South Florida District



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Tim Costello, (A) District Manager, South Florida District