



## AUDIT REPORT

# Local Purchases and Payments - Otisville, MI, Main Post Office

August 21, 2018



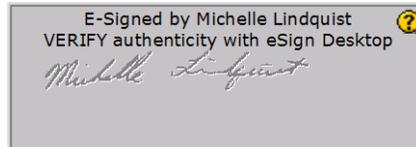
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Report Number FCS-FM-18-023



August 21, 2018

**MEMORANDUM FOR:** KARLETT GILBERT  
ACTING DISTRICT MANAGER, DETROIT



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

**SUBJECT:** Audit Report – Local Purchases and Payments - Otisville,  
MI, Main Post Office (Report Number FCS-FM-18-023)

This report presents the results of our audit of the Local Purchases and Payments - Otisville, MI, Main Post Office (Project Number 18BFM020FCS000).

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

Attachment

cc: Corporate Audit and Response Management

## Background

This report presents the results of our self-initiated audit of Local Purchases and Payments - Otisville, MI, Main Post Office (Project Number 18BFM020FCS000). The Otisville Post Office is located in the Detroit District of the Great Lakes 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 eBuy<sup>2</sup> to pay for goods and services. But if a purchase cannot be satisfied through eBuy<sup>2</sup>, authorized postal employees may use the SmartPay<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 (money orders) 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.

Account Identifier Code (AIC)<sup>5</sup> 587, Miscellaneous Services, is used to record purchases or expenses associated with payment for non-custodial, custodial and all miscellaneous services only. The U.S. Postal Service Office of Inspector General's (OIG) data analysis identified Otisville, MI, Main Post Office had local purchases totaling \$5,668, or 62 percent of all local purchases in the Detroit District, for the period October 1, 2017, through April 13, 2018. It is unusual for one office to have such a high percentage of local purchases as it relates to other offices in the same district.

## Objective, Scope and Methodology

Our objective was to determine whether local purchases and payments were valid and properly supported at the Otisville, MI, Main Post Office.

We interviewed unit personnel and Postal Service management. We also analyzed purchase and payment data and examined money order receipts for miscellaneous expense transactions that occurred between October 1, 2017, through April 13, 2018.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).<sup>6</sup> We did not test the validity of controls over this system; however, we assessed the accuracy of the data by reviewing related documentation, tracing selected information to

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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*, May 2017 DRAFT, Section 19-1.

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

<sup>5</sup> The AIC consists of three digits. It is used to classify financial transactions to the proper general ledger account.

<sup>6</sup> A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes from the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

supporting source records, and interviewing knowledgeable Postal Service personnel. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from June through August 2018, 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 audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 31, 2018, and included their comments where appropriate.

### Finding #1: Local Purchases and Payments

Although local purchases and payments reviewed were supported, the unit did not follow Postal Service’s preferred method of payment. Unit personnel made six payments totaling \$5,668 for services using money orders instead of one of the Postal Service's preferred methods of payment. Specifically, unit personnel:

- Made six payments using eight money orders totaling \$5,668 to two vendors instead of using the preferred electronic funds transfer (EFT) method. Additionally, unit personnel split two of the six payments for amounts over \$1,000 using four money orders totaling \$2,595 (see Table 1).

**Table 1. Payments for Cleaning, Landscaping, and Snow Removal**

Payment Number	Payment Date	Number of Money Orders	Amount Paid
1	1/5/2018	2	\$1,545
2	1/19/2018	1	737
3	2/12/2018	2	1,050
4	3/13/2018	1	516
5	3/19/2018	1	960
6	4/13/2018	1	860
<b>TOTAL</b>		<b>8</b>	<b>\$5,668</b>

Source: Postal Service EDW and OIG analysis.

Postal Service policy<sup>7</sup> states that the office must use the purchase card for local buying when needs cannot be satisfied through eBuy2 or through other priority sources.

<sup>7</sup> Handbook AS-709, *Purchase Card Buying Policies and Procedures*, June 2018, Section 2-3.1.

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

- eBuy2 (EFT).
- National/area contracts.
- SmartPay2 credit card.
- Cash for emergency one-time expenses, not to exceed \$25, or money orders for emergency one-time local expenses, not to exceed \$1,000.<sup>8</sup>

The postmaster stated that she was unaware of the preferred payment methods for local purchases and that she could not use more than one money order for purchases. In addition, she stated that she has requested a purchase card but has not received one. When preferred payment methods are not used, the Postal Service has an increased risk of unauthorized services transactions. We consider the local payments made to the two vendors as questioned costs<sup>9</sup> because the payments should have been made using eBuy2 instead of money orders.

**Recommendation #1: We recommend the Manager, Detroit District,** reiterate to all unit management the policy for using the Postal Service's preferred methods of payment.

## **Finding #2: Tax Reportable Vendor Payments**

The postmaster did not complete the required tax documentation for seven money order payments valued at \$5,152 for cleaning, landscaping, and snow removal services from October 1, 2017, through April 13, 2018. The postmaster stated she was unaware of the requirement.

Postal Service policy<sup>10</sup> states that Postal Service (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>11</sup> requires the Postal Service to report services paid locally with cash or money orders. When tax reportable payments to vendors are not reported, as required, the Postal Service has an increased risk of violating federal law.

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<sup>8</sup> Handbook F-101, Section 19-1.1, and *No-Fee Money Order Quick Reference*.

<sup>9</sup> Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events.

<sup>10</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>11</sup> The IRS requires each person to whom an entity has paid at least \$600 during the year for services performed in the course of that entity's business but is not their employee to file Form 1099-MISC, Miscellaneous Income.

**Recommendation #2: We recommend the Manager, Detroit District,** instruct the postmaster to complete and submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, to Accounting Services to report the \$5,152 vendor service payments.

## Management's Comments

Management agreed with recommendations but disagreed with the monetary impact. Regarding recommendation 1, the Finance Manager for the Detroit District emailed the purchasing policy for using the Postal Service's preferred methods of payment to all Postmasters and Station Managers on July 31, 2018.

Regarding recommendation 2, on August 8, 2018, the Finance Manager for the Detroit District instructed the Otisville Postmaster to complete and submit PS Form 8231 to Accounting Services to report the \$5,152 vendor service payments. Management stated the target completion date is August 31, 2018.

Regarding the monetary impact, management agreed the method of payment for these services was not the preferred method, and the payment should have been made using eBuy2 instead of money orders. However, management disagreed that the identified costs of \$5,668 met any of the criteria in the definition for "questioned costs." Management believed these costs were necessary, reasonable, supported with documentation, and did not violate law or regulation or contract, so they should not be characterized as "questionable."

See [Appendix A](#) or management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and corrective action should resolve the issues identified in the report. Regarding monetary impact, because the unit did not follow the Postal Service's preferred method of payments, we consider that a violation of Postal Service regulation and, therefore, a "questioned cost."

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 2 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. Based on the information provided separately to support recommendation 1, we consider recommendation 1 closed with the issuance of this report.

## Appendix A: Management's Comments



August 16, 2018

MICHELLE LINDQUIST  
DIRECTOR, FINANCIAL CONTROLS

SUBJECT: Management Response to OIG Audit of Local Purchases and Payments  
- Otisville, MI, Main Post Office [FCS-FM-18-DRAFT]

Management agrees with both recommendations from the OIG audit of the Local Purchases and Payments - Otisville, MI, Main Post Office (Project Number 18BFM020FCS000).

Recommendation #1:

The OIG recommended the Manager, Detroit District, reiterate to all unit management the policy for using the Postal Service's preferred methods of payment.

Management Response/Action Plan:

Management agrees with the recommendation and has implemented it. The District Finance Manager for the Detroit District emailed the purchasing policy for using the Postal Service's preferred methods of payment to all Postmasters and Station Managers on July 31, 2018. Supporting documentation for the actions taken are provided as a separate attachment.

While we agree with Recommendation #1, we disagree with how the costs were characterized in Finding #1. Specifically, we disagree with the word "questioned" in the following statement: "We consider the local payments made to the two vendors as questioned costs because the payments should have been made using eBuy2 instead of money orders."

A "questioned" cost is defined in footnote 11 as: "Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events."

We acknowledge and agree the *method of payment* for these costs was not the preferred method and could be deemed "questionable." We agree that the payment should have been made using eBuy2 instead of money orders. But the identified *costs* of \$5,668 do not meet any of the criteria in the definition. These costs were necessary, reasonable, supported with documentation, and did not violate law or regulation or contract so they shouldn't be characterized as "questionable".

Target Implementation Date:

The recommended corrective action was completed in July 2018

Responsible Official:

Larry Dean, District Finance Manager

Recommendation #2:

The OIG recommended the Manager, Detroit District, instruct the postmaster to complete and submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, to Accounting Services to report the \$5,152 vendor service payments.

Management Response/Action Plan:

Management agrees with the recommendation and has implemented it. On August 8, 2018, the District Finance Manager for the Detroit District instructed the Postmaster of Otisville to complete and submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, to Accounting Services to report the \$5,152 vendor service payments. Supporting documentation for the actions taken are provided as a separate attachment. The Postmaster will submit the form in August 2018.

Target Implementation Date:

August 2018

Responsible Official:

Larry Dean, District Finance Manager

  
Karlett Gilbert  
A / District Manager  
Detroit District  
United States Postal Service

cc: Vilayvone Visoutsri  
Erica Brix  
Mark Rosenwinkel  
Beverly Williams  
Manager, Corporate Audit Response Management