



AUDIT REPORT

Local Purchases and Payments – Marietta, OH, Post Office

August 24, 2018

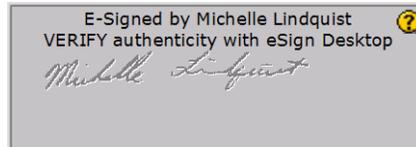


Report Number FCS-FM-18-024



August 24, 2018

MEMORANDUM FOR: MELVIN J. ANDERSON
DISTRICT MANAGER, OHIO VALLEY



FROM: Michelle Lindquist
Director, Financial Controls

SUBJECT: Audit Report – Local Purchases and Payments – Marietta,
OH, Post Office (Report Number FCS-FM-18-024)

This report presents the results of our audit of the Local Purchases and Payments – Marietta, OH, Post Office (Project Number 18BFM021FCS000).

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 – Marietta, OH, Post Office (Project Number 18BFM021FCS000). The Marietta Post Office is in the Ohio Valley District of the Eastern 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 eBuy2¹ to pay for goods and services. However, if a purchase cannot be satisfied through eBuy2, authorized postal employees may use the SmartPay2² credit card.³ Postal employees can use cash for emergency one-time expenses, not to exceed \$25 and can use no-fee money orders (money orders) for emergency one-time local expenses, not to exceed \$1,000.⁴ In addition, local payments made to individuals, proprietorships, or corporations with cash or money orders must be reported for tax purposes.

Employees use Account Identifier Code (AIC)⁵ 587, Miscellaneous Services, 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 that the Marietta, OH, Post Office had local purchases totaling \$13,281, or 54 percent, of all local purchases in the Ohio Valley District for the period of October 1, 2017, through May 31, 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. In addition, the Marietta Post Office's local purchases were \$13,281 compared to \$1,770 for same period in fiscal year 2017.

Objective, Scope and Methodology

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

We interviewed unit personnel and Postal Service management; analyzed purchase and payment data; and examined money order receipts for miscellaneous expense transactions occurring between October 1, 2017, and May 31, 2018.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).⁶ We did not test the validity of controls over this system; however, we assessed the

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

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

³ Handbook F-101, *Field Accounting Procedures*, Section 19-1, May 2017 DRAFT.

⁴ *No-Fee Money Order Quick Reference*, December 2015.

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

⁶ 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.

accuracy of the data by reviewing related documentation, tracing selected information to 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 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 July 27, 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 11 payments totaling \$13,280 for services using 19 money orders instead of the Postal Service’s preferred methods of payment. Specifically, unit personnel made:

- Eight payments totaling \$12,372 to one vendor for landscaping services using 16 money orders instead of using the preferred electronic funds transfer (EFT) method. Additionally, unit personnel split six of the eight payments for amounts over \$1,000 using 14 money orders totaling \$11,299 (see Table 1). The postmaster stated that the landscaping company would not accept credit card payments and he did not know about the requirement to set up a contract to avoid splitting payments.

Table 1. Payments to One Vendor For Landscaping Services

Payment Number	Payment Date	Number of Money Orders	Amount Paid
1	2/12/2018	2	\$1,073
2	2/12/2018	1	429
3	2/12/2018	2	1,421
4	2/12/2018	2	1,904
5	2/12/2018	3	2,791
6	3/21/2018	3	2,533
7	5/10/2018	1	644
8	5/10/2018	2	1,578
TOTAL		16	\$12,372

Source: EDW and OIG analysis.

- Three payments totaling \$909 for two Highway Contract Routes (HCR)⁷ suppliers for late slip payments⁸ using money orders instead of using the Service Change

⁷ The Postal Service uses HCRs to transport mail between its facilities and other designated points.

⁸ Due to detained HCR trips. Late Slip claims normally result when the origin facility delays an HCR trip past its scheduled departure time.

Request⁹ (SCR) system (see Table 2). In addition, the payments covered 17 invoices and 16 of those were processed from 10 to 356 days late. The late processing occurred because local management responsible for this function did not monitor the payment processing of the late slips. The postmaster stated that he initially made the necessary entries into the SCR system on time; however, he subsequently left the office on a temporary detail assignment. Due to a HCR rate change, the system rejected the SCR payments, so they could not be processed, leading the postmaster to use money orders to make the payments.

Table 2: Payments to Transportation HCR Suppliers For Non-Emergency Services

Transportation Supplier	Payment Number	Invoice Date	Number of Days Late	Individual Invoice Amount ¹⁰	Payment Date	Number of Invoices per Payment	Total Amount* Paid
HCR Supplier 1	1	2/28/2017	356	\$64	3/21/2018	13	\$715
		3/31/2017	325	132			
		4/30/2017	295	29			
		5/31/2017	264	40			
		6/30/2017	234	31			
		7/31/2017	203	20			
		8/31/2017	172	11			
		9/30/2017	142	124			
		10/31/2017	111	6			
		11/30/2017	81	34			
		12/31/2017	50	33			
		1/31/2018	19	10			
		2/28/2018	0	180			
		2	3/31/2018	10	16	5/10/2018	1
Sub-Total						14	\$731
HCR Supplier 2	3	6/19/2017	245	43	3/21/2018	3	178
		1/2/2018	48	28			
		1/2/2018	48	108			
TOTAL						17	\$909

Source: EDW and OIG analysis.

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

- eBuy2 (EFT).
- National/Area Contracts.

⁹ The SCR application is an automated tool managed by the Transportation Contract Support System for submitting and managing requests to add, modify, or delete service on HCRs.

¹⁰ The total is off due to the rounding of the individual invoice amounts.

- 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 \$1,000.¹¹

Postal Service policy¹² states that the office must use the purchase card for local buying when needs cannot be satisfied through eBuy2 or other priority sources. Postal Service regulations¹³ state that proper payment documentation for late slip payments must be submitted within a month after the service takes place. The Prompt Payment Act requires the Postal Service to make prompt payments to its contractors and pay interest on late payments.

The postmaster stated the Postal Service used the landscape company for cleanup from a river flooding and clearing snow and ice due to several snowstorms during this fiscal year. The postmaster stated he did not know the policy for making local payments with money orders, therefore, he authorized money order payments instead of using another preferred method of payment. In addition, HCR late slip payments were not processed timely and were eventually deemed obsolete in the SCR system. In order to pay the HCR suppliers, the postmaster used money orders.

When preferred payment methods are not used, the Postal Service has an increased risk of unauthorized services transactions and penalty interest payments can occur. We consider the local payments made to the landscape company valued at \$12,372 as unsupported questioned costs¹⁴ because the payments should have been made using eBuy2 instead of money orders. We also consider the local payments made to the two HCR suppliers valued at \$909 as questioned costs¹⁵ because the payments should have been made through the SCR system.

¹¹ Handbook F-101, Section 19-1.1; and *No-Fee Money Order Quick Reference*.

¹² Handbook AS-709, *Local Buying and Purchase Card Policy and Procedures*, Section 2-3.1, September 2017.

¹³ Management Instruction PO-530-2017-1, *Highway Contract Route Exceptional Service Performance Payment Reconciliation*, August 31, 2017.

¹⁴ 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.

¹⁵ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events.

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

Recommendation #2: We recommend the Manager, Ohio Valley District, instruct employees to process late slip authorization forms timely.

Finding #2: Tax Reportable Vendor Payments

The postmaster did not complete the required tax documentation for 18 of the 19 money order payments valued at \$13,102 for landscaping and transportation services during FY 2018 (October 1, 2017 through May 31, 2018). The postmaster stated he was unaware of the requirement.

Postal Service policy¹⁶ 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 law¹⁷ 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.

Recommendation #3: We recommend, the Manager, Ohio Valley District, instruct the postmaster to complete and submit Postal Service Form 8231, *Vendor Payment 1099 Reporting Form*, to Accounting Services to report the \$13,102 vendor service payments.

Management's Comments

Management agreed with the findings and recommendations but disagreed with the monetary impact. Regarding recommendation 1, management stated the Manager, Post Office Operations will review the policy for using the Postal Service's preferred methods of payment. Management stated the target completion date is August 31, 2018.

Regarding recommendation 2, management stated they will ensure that all employees are instructed to process late slip authorization forms timely. They are now under

¹⁶ Handbook F-101, Section 19-6, and Handbook AS-709, Chapter 4-1.2.2. This includes services paid locally with cash or money orders to individuals, proprietorships or corporations.

¹⁷ The IRS requires each person to whom an entity in the course of that entity's business has paid during the year at least \$600 for services performed by someone who is not an employee to file a Form 1099-MISC, Miscellaneous Income.

Dynamic Routing Optimization (DRO), and the late slips are processed electronically, making it easy for management to track. Further, all management employees have already been instructed to follow this process. Management stated this will be completed by August 31, 2018.

Regarding recommendation 3, management stated the PS Form 8231 has already been sent to Accounting Services. In addition, the postmaster re-took the training for the local purchase card.

Regarding monetary impact, management agreed that procedures were not followed but disagreed that local management can be in violation of something that is preferred or suggested, and not required. Management also stated that due to the implementation of DRO, the payments could not be made in the SCR system. Further management stated the payments were supported, so they questioned why they were categorized as unsupported questioned costs.

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 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 payment, we consider that a violation of Postal Service regulation and, therefore, questioned costs. Additionally, we consider them unsupported because of the regulation violation.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 2 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed. Based on the information provided separately to support recommendation 3, we consider recommendation 3 closed with the issuance of this report.

Appendix A: Management's Comments



August 17, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Local Purchases and Payments – Marietta, OH Post Office
Report Number FCS-FM-18-DRAFT

Local management agrees with the general findings of the audit. All payments made were supported with documentation and no payments made were determined to be illicit in nature. The auditors commended local management for the prompt delivery of the requested information, and for its organization and tidiness.

Local management disagrees with some portions of the monetary impact findings. Under number 1 in the Impact category there are a total of \$12,372.00 in "Unsupported Questioned Costs", yet in the second paragraph the findings state "Although local purchases and payments reviewed were supported, the unit did not follow the Postal Service's preferred payment method." So, if the report goes on to state all the payments were supported, why are the majority of the payments listed as "Unsupported Questioned Costs"? Additionally, the report states that local management was in violation because they didn't use the preferred method of payment." If the payment method is preferred and not required, then it is local management's opinion that you can't be in violation of something that is preferred or suggested, but not required. The monetary impact findings also states "the three local payments made to the two HCR suppliers valued at \$909 should have been processed through the SCR system." Due to the implementation of DRO, these payments could not be made in SCR. While the postmaster was out on detail from June 24", 2017 through December 16", 2017 the OIC did nothing with the invoices from the HCR suppliers. When the postmaster returned the invoices were discovered and it was determined that due to ORO the postmaster could not enter these payments into SCR. Part of the findings show that payments were made 10 to 365 days late and this was the cause for that.

OIG Recommendation #1:

We recommend the Manager, Ohio Valley 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 will review the policy for using the Postal Service's preferred methods of payment.

Target Implementation Date:

August 2018

Responsible Official:

Manager, Post Office Operations

OIG Recommendation #2:

We recommend the Manager, Ohio Valley District, instruct employees to process late slip authorization forms timely

Management Response/Action Plan:

Management agrees with the recommendation and will ensure that all employees are instructed to process late slip authorizations forms timely. We are now under DRO and the 5500 are now processed electronically making it easy for management to track. All management employees have already been instructed to follow this process. Will go over it again this week.

Target Implementation Date:

August 2018

Responsible Official:

Manager, Post Office Operations

OIG Recommendation #3:

We recommend, the Manager, Ohio Valley District, instructs the postmaster to complete and submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, to Accounting Services to report the \$13,102 vendor service payments.

Management Response/Action Plan:

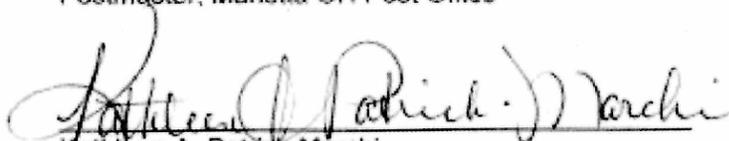
Management agrees with the recommendation. This has already been done and confirmation has already been sent to the OIG. In addition, the postmaster re-took the training for the local Purchase card since the training hadn't been completed since 2013.

Target Implementation Date:

August 2018

Responsible Official:

Postmaster, Marietta OH Post Office


Kathleen A. Patrick-Marchi
MPOD Area 4

cc: Sally Haring Manager, Corporate Audit Response Management