



December 4, 2009

VINCENT H. DEVITO, JR.  
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Use of No-Fee Money Orders Follow-Up Audit  
(Report Number FF-AR-10-033)

This report presents the results of our fiscal year (FY) 2009 follow-up audit of the U.S. Postal Service's use of no-fee money orders (Project Number 09BO017FF000). The objective of our audit was to determine whether significant risk related to the misuse of no-fee money orders for local purchases by individual post offices continues to exist. The report is self-initiated and addresses financial risk. See [Appendix A](#) for additional information about this audit.

## **Conclusion**

Our audit disclosed continued misuse of no-fee money orders by individual post offices nationally. Generally, we noted that no-fee money order values in the Enterprise Data Warehouse (EDW) were accurate and supported by documentation in the units, and units posted transactions to the correct account identifier code (AIC). Similar to the issues identified in our prior report,<sup>1</sup> this audit disclosed that personnel used no-fee money orders for convenience when other payment methods were prescribed and, in isolated instances, to commit fraud. In addition, employees did not maintain adequate documentation to support the use of no-fee money orders and input incorrect reason codes when processing transactions. Nationwide, we determined that units have misused over \$4.86 million in no-fee money orders over the last 24 months. See [Appendix C](#) for a break out of the monetary impact.

## **No-Fee Money Orders Were Misused**

Unit employees incorrectly used no-fee money orders when other payment methods were prescribed by policy, used no-fee money orders for convenience, and, at times, used them to commit fraud. This occurred because employees disregarded no-fee money order guidelines and supervisors did not adhere to daily closeout procedures which would have detected misuse. In addition, there are no automated controls in the Point-of-Service (POS) system to help ensure that employees properly enter the reason code, ensure compliance with the policy, and reduce fraud risk.

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<sup>1</sup> *Use of No-Fee Money Orders* (Report Number FF-MA-08-001, dated July 21, 2008).

While we noted a decrease in non-compliance with Postal Service policies for use of no-fee money orders since our prior audit, we continue to have concerns with the overall level of non-compliance that remains on a national basis. Until management takes sufficient action, improper use of no-fee money orders increases the risk of impropriety and decreases the transparency of unit disbursements. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, controller, in coordination with the vice president, Delivery and Post Office Operations:

1. Instruct area and district management to provide training to retail associates and local unit management on the use of reason codes, payment processes, and closeout procedures.
2. Reinforce procedures regarding the proper use of no-fee money orders in readily accessible messaging to sales and service associates.
3. Create a change in Point-of-Service to require supervisory approval in order for a no-fee money order to be issued or develop other controls that would enhance supervisory oversight of the issuance of no-fee money orders.

### **Management's Comments**

Management agreed with our findings and recommendations and stated in their response that employees need further training in the proper use of no-fee money orders. Management will develop a special training module and disseminate it to the field. The plan is to implement this training no later than July 31, 2010. In addition, *Retail Digest* will publish an article reinforcing proper use of no-fee money orders. To address the change in the POS System, management agreed an additional control was needed and stated it would submit a cost estimate to Retail Equipment for implementation of a supervisory approval. However, implementation is subject to funding approval. In supplemental correspondence, management clarified they will implement these latter two actions by January 31, 2010. See [Appendix D](#) for management's comments, in their entirety.

### **Transactions Were Not Properly Supported or Documented**

Of the 35 statistically selected units we reviewed, 18 were processing local payments and refund disbursement without sufficient supporting documentation. Based on our testing, we noted that no-fee money order values matched the values in the EDW and units posted transactions to the correct AICs. However, management did not always verify that documentation supported transactions or follow daily closeout procedures, as required. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, controller, in coordination with the vice president, Delivery and Post Office Operations:

4. Instruct local units to maintain supporting documentation for no-fee money order transactions for the required retention period.

### **Management's Comments**

Management agreed with our finding and recommendation and stated their response to recommendations 1 and 2 will address this item. Corrective action will be completed July 31, 2010.

### **Use of No-Fee Money Orders is Unique to the Postal Service**

We received comments from two large nationwide private companies and two government organizations with offices throughout the country (including rural areas) and noted they do not use money orders to make any type of internal purchase or employee payment. Rather, local and emergency purchases are processed through pre-established purchase orders or company credit cards. Salary and travel advances are prohibited and payroll discrepancies are processed through direct deposit. Thus, the use of money orders for these circumstances is unique to the Postal Service. Due to the increased risk resulting from misuse and non-compliance related to no-fee money orders, and given the availability of more preferred and convenient payment methods (including SmartPay 2 purchase cards and direct deposit), additional restrictions governing the use of no-fee money orders are warranted.

We recommend the vice president, controller:

5. Revise Postal Service policy to severely restrict the use of no-fee money orders.

### **Management's Comments**

Management agreed with our finding and recommendation and stated they will evaluate a change to the current \$500 threshold after assessing the impact of the change on the scanning and imaging and accounts payable process. Management will complete the evaluation by no later than December 31, 2009. In addition, a new Narrowcaster report will be developed no later than July 31, 2009, and sent to retail office, district, and area managers for all no-fee money orders that exceed \$500, with the exception of salary advances and damaged money order replacement.

### **Evaluation of Management's Comments**

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report. The OIG considers recommendations 1, 2, 3, and 4 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations 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.

## Analysis of No-Fee Money Order Usage from August 2007 to July 2009

Based on our analysis of data from August 2007 to July 2009, we have not seen considerable changes in the number of no-fee money orders issued; however, we did note operational improvement in the reduction of no-fee money orders used for disbursements that exceeded the \$500 threshold prescribed by policy during that same time period. While we have seen progress, non-compliance with Postal Service policies remains a concern nationally, with units having issued over \$4.66 million<sup>2</sup> in no-fee money orders over the last 24 months in violation of Postal Service policies. See [Appendix B](#) for our detailed analysis of this topic.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John Wiethop, director, Field Financial – Central, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

### Attachments

cc: Joseph Corbett  
Dean J. Granholm  
Jack L. Meyer  
Stephen J. Nickerson  
Richard W. Rudez  
Bill Harris

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<sup>2</sup> This amount excludes non-compliance transactions from March 1 through May 31, 2009, that we discovered during our audit of the 35 sampled sites.

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service, unlike other federal agencies, issues no-fee money orders to pay for certain nonrecurring items, including salary<sup>3</sup> and travel<sup>4</sup> advances, replacement money orders,<sup>5</sup> and local purchases. The Postal Service has established a preferred method of paying recurring expenses, with the no-fee money order being the least preferred method. As stated in Postal Service policy, no-fee money orders are not to exceed \$500 and are to be used for one-time, emergency payments to a vendor who is not listed in the eBuy system and does not accept the SmartPay 2 purchase card. The hierarchy of methods for local purchases follows this preferential order.<sup>6</sup>

- Payments via the eBuy system
- Payments via the SmartPay 2® purchase card
- Invoice payments – Postal Service (PS) Form 8230, Authorization for Payment, or PS Form 8232, Payment for Personal Services Contractors, and processed through the Accounts Payable System
- Local payments – Cash for emergency one-time expenses, not to exceed \$25, and no-fee money orders for emergency one-time local expenses, not to exceed \$500

### OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether significant risk related to the misuse of no-fee money orders for local purchases by individual post offices continues to exist. Specifically, we determined whether:

- Transactions were processed using the correct payment method and reason code description.
- Transactions were valid and supported with the proper documentation.
- The unit no-fee money order value matched the value on the EDW report.

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<sup>3</sup> Postal Service policy allows the use of no-fee money orders for a salary advance when an employee receives a payroll check that is less than the amount due, or when the payroll register does not show that a check was issued to the employee.

<sup>4</sup> Postal Service policy allows the use of no-fee money orders for last-minute official travel (less than 2 weeks in advance) when there is not enough time for an employee to receive a check from the St. Louis Information Technology/Accounting Service Center. The employee may request an emergency travel advance not to exceed \$500.

<sup>5</sup> Postal Service policy allows the use of no-fee money orders to replace customer money orders that are mutilated or damaged.

<sup>6</sup> Handbook F-101, *Field Accounting Procedures (FAP)*, Section 19-1.1, January 2009.

- Units posted transactions to the correct AIC.

To accomplish our objective, we compared 893 no-fee money order disbursements from the EDW to supporting documentation located at the unit for disbursements issued from March 1 through May 31, 2009. We extracted data for 74,669 no-fee money orders issued in excess of \$500 and the related PS Form 1412, Daily Financial Report, data from the EDW. We analyzed the disbursement activity to determine whether the no-fee money order violated Postal Service policy. We also evaluated the money order value, reason code (description), and AIC charged and the method used to refund or pay the transaction. We interviewed employees and reviewed documents to determine whether there was a potential for fraud.

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying computer records to source documents. Although we could not rely on the reason code information due to input errors, the data for amount and AIC was reliable. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We also evaluated whether the internal control structure over financial reporting and safeguarding of assets was implemented and functioning as designed. We interviewed Postal Service management and employees at the 35 statistically selected sites.

We contacted five private and three governmental organizations to gain an understanding of how other entities process local and emergency purchases and salary and travel advances. We contacted these organizations because they have a nationwide presence, including small towns and rural areas, and they sell money orders as part of their business. We received comments from two private and two government organizations and have included the responses in our report.

We conducted this audit from June through December 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe 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 officials on October 20, 2009, and included their comments where appropriate.

**PRIOR AUDIT COVERAGE**

We conducted three audits that disclosed issues related to no-fee money orders in the past 3 years. Management agreed with our findings and recommendations and implemented corrective action.

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Monetary Impact</b>	<b>Report Results</b>
<i>Fiscal Year 2009 Financial Installation Audit – ██████████ ██████████ ██████</i>	FF-AR-09-213	August 20, 2009	\$6,410	The unit made three payments with no-fee money orders for cleaning services during May 2009 totaling \$1,950.
<i>Fiscal Year 2009 – Phoenix Financial Risk Audit</i>	FF-AR-09-200	July 23, 2009	\$166,094	The ██████████ could not provide supporting documents for 27 no-fee money order transactions totaling \$22,152. The ██████████ could not provide documentation to support five no-fee money order transactions totaling \$2,716.
<i>Fiscal Year 2008 – Use of No-Fee Money Orders</i>	FF-MA-08-001	July 21, 2008	N/A	Local post offices continued to inappropriately use no-fee money orders as a convenient payment method for purchases when other payment methods were required.

## APPENDIX B: DETAILED ANALYSIS

### **No-Fee Money Orders Were Misused**

Unit employees misused no-fee money orders for convenience and, at times, to commit fraud, when other payment methods were prescribed.

### No-Fee Money Orders Used When Other Payment Methods Were Prescribed

Unit employees incorrectly used no-fee money orders when other payment methods were prescribed by policy. For example, employees used no-fee money orders to pay for recurring services, injury compensation payments, and automated postal center (APC) refunds, which were not emergency purchases and exceeded the \$500 limit established by Postal Service policy.<sup>7</sup> Unit management was aware of the requirement that recurring services on a contract be paid through Accounting Services.<sup>8</sup> However, they had not submitted the documentation to begin the process or the documentation was returned because of improper submission. In addition, one area manager was aware that all but one unit incorrectly processed injury compensation payments; however, the manager never asked the units to stop the practice. As a result of our detailed testing, we identified \$68,681 in unrecoverable supported questioned costs. Further, the Postal Service has an increased risk of inaccurately reporting payments for contract wages on Internal Revenue Service Form 1099, Miscellaneous Income, as no-fee money orders are not tracked as payments for tax reporting purposes.

### No-Fee Money Orders Were Used For Convenience

We determined district and unit management authorized the use of no-fee money orders as a convenient method of payment. In one instance, a local unit manager authorized the use of no-fee money orders to distribute revenue to other units in the district that provided employees to assist at a passport event. The hosting unit records the revenue at the end of the day and later allocates a portion of the total revenue collected to the other units that assisted. Management informed us that issuing no-fee money orders is more convenient than processing journal voucher entries. In another instance, the district manager authorized the use of no-fee money orders to purchase tickets for an annual luncheon sponsored by the Department of Labor. Overall, these occurrences were the result of employees not following Postal Service policy governing no-fee money order usage. As a result of our detailed testing, we will report \$74,969 as unrecoverable supported questioned costs.

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<sup>7</sup> FAP, Section 19-1.1, January 2009.

<sup>8</sup> The San Mateo, CA, Contract Cleaner Unit/Contractual Payables Branch Accounting Services issues payments directly to the contract cleaner for recurring services on local agreements that cover 1 year or longer.

### No-Fee Money Orders Were Used for Fraudulent Activity

We identified one employee who used \$26,246 in no-fee money orders to steal Postal Service funds. Specifically, one employee

[REDACTED]

### Transactions Were Not Properly Supported or Documented

We determined local payments and refunds were processed at 18 units without sufficient supporting documentation. Specifically, we noted that 64 of 893 transactions we reviewed did not contain supporting documentation. This occurred because clerks issuing no-fee money orders were not always following policy, and unit management was not detecting the noncompliance and requesting the missing support since they did not conduct daily closeout procedures. The transactions were for money order replacements, copy machine reimbursements, salary and payroll adjustments, indemnity claims, Express Mail, spoiled unused customer meter strips, office supplies, local travel, extra service fees, non-postal revenue, and retail and packaging products. Although these transactions are valid uses of no-fee money orders, we could not verify they were for the purpose noted since there was no supporting documentation. Because we were unable to verify whether the transactions were valid, we consider \$25,895 as unsupported questioned costs.

The following table represents the results of our individual testing conducted through letters of inquiry and site visits. We have summarized the issues by Postal Service area.

Non-Compliance With No-Fee Money Order Usage

Description <sup>9</sup>	redacted	Criteria									
<b>Transactions Were Processed Using the Incorrect Payment Method</b>											
Employees at one unit incorrectly used no-fee money orders to pay injury compensation totaling \$13,591.							X				FAP, Section 20-8
Seven units incorrectly processed 22 withdrawals totaling \$14,351 from permit, postage due, and business reply mail trust accounts using no-fee money orders.	X	X	X		X				X	X	FAP, Section 11-6.8
Unit personnel at two units incorrectly processed five APC refunds totaling \$714 using no-fee money orders.	X								X		FAP, Section 21-5
Personnel at four units incorrectly processed 38 payments to contract cleaners totaling \$21,350 using no-fee money orders.	X										FAP, Section 20-9.2
The Postal Inspection Service deposited cash in the amount of \$15,242 at a retail unit and requested the unit provide 16 no-fee money orders in that same amount. The transaction was completed without providing documentation to the unit and violated Postal Service operation policy.	X										FAP, Section 9-1-10

<sup>9</sup> An "X" in the column indicates the area where we identified the deficiency.

Non-compliances With No-Fee Money Order Usage

Description	redacted	Criteria									
<b>Transactions Were Processed Using the Incorrect Payment Method</b>											
Personnel at one unit incorrectly issued a no-fee money order (totaling \$150) to correct a customer's error.	X										FAP, Section 21-1
One unit paid an invoice for water service in the amount of \$270.	X										<i>Material Logistics Bulletin</i> , MLB-CO-07-009
One unit incorrectly refunded a customer for a Click-N-Ship® transaction totaling \$30.						X					<a href="http://www.usps.com/clicknship">www.usps.com/clicknship</a> and click on the <i>MyAccount</i> link
Personnel at three units processed three debit/credit overcharges totaling \$210 for customer purchases and three post office box errors caused by an associate.			X				X				FAP, Section 9-2.3
<b>No-Fee Money Orders Were Used For Convenience</b>											
At the district manager's direction, one unit issued 32 no-fee money orders totaling \$20,790 for the purchase of employee awards luncheon tickets sponsored by the Department of Labor.			X								FAP, Section 19-1.4
One unit in [REDACTED] issued 56 no-fee money orders as a way to allocate \$54,179 in passport revenue to other units that provided staff to assist with the acceptance of passport processing.						X					FAP, Section 19-1.5
<b>No-Fee Money Orders Were Used For Fraudulent Activities</b>											
[REDACTED] [REDACTED] [REDACTED] [REDACTED] We will report \$26,246 as recoverable questioned costs.	X										FAP, Sections 16.5-5 and 17-5

Non-compliances With No-Fee Money Order Usage

Description	Redacted	Criteria									
<b>Transactions were Unsupported</b>											
Unit personnel did not always properly document, support, or process 64 no-fee money orders totaling \$25,895.	X	X	X	X	X	X	X	X	X	X	FAP, Sections 6-7.3, 10-3.2, 19-1.5 , 20-1, 21-3, and 23-3; <i>Domestic Mail Manual</i> , Sections 503, 604.9.3.2, and 604.9.5, updated August 3, 2009; Handbook F-15, <i>Travel and Relocation</i> , Section 7-1.1.1.3b, February 2004, updated with <i>Postal Bulletin</i> revisions, through December 20, 2007

## Analysis of No-Fee Money Order Use from August 2007 to July 2009

In a previous report,<sup>10</sup> we noted that local post offices inappropriately used no-fee money orders as a convenient payment method for purchases when other payment methods were required. As a result, the Postal Service reinforced policy related to the use of no-fee money orders and implemented reason codes in the POS to track the reason no-fee money orders were issued.

When analyzing data from August 2007 to July 2009, we have not seen considerable changes in the number of no-fee money orders issued (see Chart 1); however, we did note operational improvement in the reduction of no-fee money orders used for disbursements that exceeded the \$500 threshold prescribed by policy during that same period (see Chart 2). We believe we can attribute this reduction to the recent system change in POS which forces the retail associate to enter a specific reason code into POS before issuing no-fee money orders in excess of \$25.<sup>11</sup>

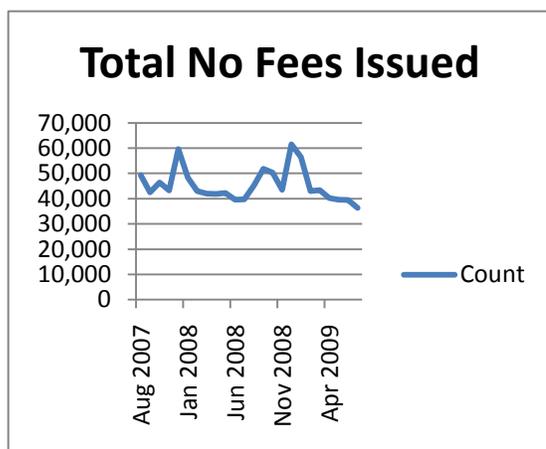


Chart 1

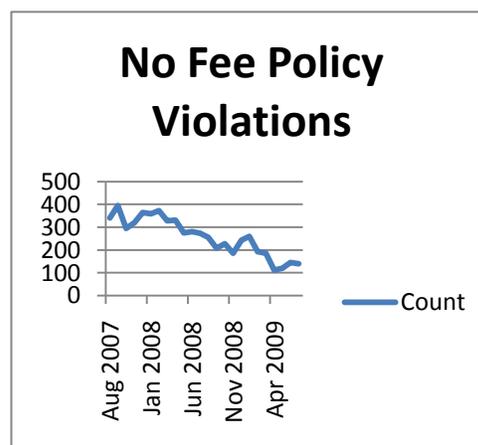


Chart 2

While we have seen progress, non-compliance with Postal Service policies remains a concern nationally, with units having issued nearly 75,000 no-fee money orders totaling \$4.66 million<sup>12</sup> over the last 24 months in violation of Postal Service policies.

<sup>10</sup> *Fiscal Year 2008 – Use of No-Fee Money Orders* (Report Number FF-MA-08-001, dated July 21, 2008).

<sup>11</sup> As noted in our report, the reason codes were not always correctly entered into the POS.

<sup>12</sup> This amount excludes non-compliance transactions from March 1 through May 31, 2009, that we discovered during our audit of the 35 sampled sites.

**APPENDIX C: MONETARY IMPACT**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
Transactions were processed using the incorrect payment method.	Unrecoverable Supported Questioned Costs <sup>13</sup>	\$68,681
No-fee money orders were used for convenience.	Unrecoverable Supported Questioned Costs	74,969
No-fee money orders were used to perpetrate fraud. <sup>14</sup>	Recoverable Supported Questioned Costs <sup>15</sup>	26,246
Transactions were unsupported.	Unrecoverable Unsupported Questioned Costs <sup>16</sup>	25,895
Analysis of no-fee violations issued August 2007 through July 2009. <sup>17</sup>	Unrecoverable Unsupported Questioned Costs	4,660,041
	<b>TOTAL</b>	<b>\$4,855,832</b>

<sup>13</sup> Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation.

<sup>14</sup> Total value includes 31 fraudulent cash transactions.

<sup>15</sup> Recoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations.

<sup>16</sup> Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

<sup>17</sup> This amount excludes non-compliance transactions from March 1 through May 31, 2009, that we discovered during our audit of the 35 sampled sites.

**APPENDIX D: MANAGEMENT'S COMMENTS**



November 23, 2009

LUCINE WILLIS, DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – Use of No-Fee Money Orders Follow-Up Audit  
(Report Number FF-AR-10-DRAFT)

Attached please find our management response to each of the recommendations sited in the above subject audit issued on November 5. Management agrees with each of the recommendations.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

If you have any questions, please call Jack Meyer at (202) 268-5227.

Handwritten signature of Vincent H. Devito in black ink.

Vincent H. Devito  
Vice President, Controller

Handwritten signature of Dean J. Granholm in black ink, with "FOR" written below the signature.

Dean J. Granholm  
Vice President, Delivery and Post Office Operations

Attachment

cc: Stephen J. Nickerson  
Alice M. VanGorder  
Jack L. Meyer  
Richard W. Rudez  
Bill Harris

**Recommendation 1:**

We recommend the Vice President, Controller, in coordination with the Vice President, Delivery and Post Office Operations:

Instruct area and district management to provide training to retail associates and local unit management on use of reason codes, payment processes, and closeout procedures.

**Response:**

Management agrees that a further training in the proper use of no-fee money order is needed. A special training module will be developed as part of the Field Financial Training to be disseminated to the field. This will be implemented by NLT July 2010.

**Recommendation 2:**

We recommend the Vice President, Controller, in coordination with the Vice President, Delivery and Post Office Operations:

Reinforce procedures regarding the proper use of no-fee money orders in readily accessible messaging to sales and service associates.

**Response:**

Management agrees that a follow up communication is necessary. A Retail Digest article will be published to reinforce the proper use of no-fee money orders. This will be implemented by NLT January 2009.

**Recommendation 3:**

We recommend the Vice President, Controller, in coordination with the Vice President, Delivery and Post Office Operations:

Create a change in Point-of-Service to require supervisory approval in order for a no-fee money order to be issued, or develop other controls that would enhance supervisory oversight of the issuance of no-fee money orders.

**Response:**

Management agrees that an additional control at the issuing office is needed. A POS CR to implement a supervisory approval will be submitted to the Retail Equipment. The CR will be submitted for a cost estimate NLT January 2009. CR implementation is subject to funding approval.

**Recommendation 4:**

We recommend the Vice President, controller, in coordination with the Vice President, Delivery and Post Office Operations:

Instruct local units to maintain supporting documentation for no-fee money order transactions for the required retention period.

**Response:**

Management agrees that a follow up instruction is necessary. The response provided for the recommendation #1 and # 2 will address this item.

**Recommendation 5:**

We recommend the vice president:

Revise Postal Service policy to severely restrict the use of no-fee money orders.

**Response:**

Management agrees that a policy change is needed to reduce the usage of no-fee money orders. The current threshold of \$500 to submit the payment to the SIC will be evaluated. A lower threshold will be implemented once the impact assessment to SIC and Accounts Payable process is completed. The evaluation will be completed by NLT December 2009. Additionally, a new Narrowcast report will be developed to send a report to the retail office, district and area for all no-fee money orders that exceed \$500, with the exception of salary advance and damaged money order replacement. The report will be developed by NLT July 2010.