



July 21, 2008

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER

SUBJECT: Management Advisory – Fiscal Year 2008 – Use of No-Fee  
Money Orders (Report Number FF-MA-08-001)

This report presents the results for our fiscal year (FY) 2008 review of the U.S. Postal Service's Use of No-Fee Money Orders (Project Number 08BD009FF002). This is a self-initiated report designed to advise you on financial risk. Click [here](#) to go to Appendix A for additional information about this review.

### **Conclusion**

Based on our analysis of prior U.S. Postal Service Office of Inspector General (OIG) audits and investigations, we are concerned that a significant risk exists related to the misuse of no-fee money orders for local purchases by individual post offices. Postal Service policy limits the use of no-fee money orders for purchases to a one-time local expense, not to exceed \$500.<sup>1</sup> The Postal Service established a hierarchy of payment methods for local purchases that is flexible and designed to meet the payment demands of all types of postal units. While we recognize a practical need for the Postal Service to use no-fee money orders for salary and travel advances, and to replace customers' money orders that are mutilated or damaged, our audits and investigations showed that local post offices continued to inappropriately use no-fee money orders as a convenient payment method for purchases when other payment methods were required. The Postal Service will continue to have an increased risk of financial loss until post offices adhere to prescribed purchasing requirements.

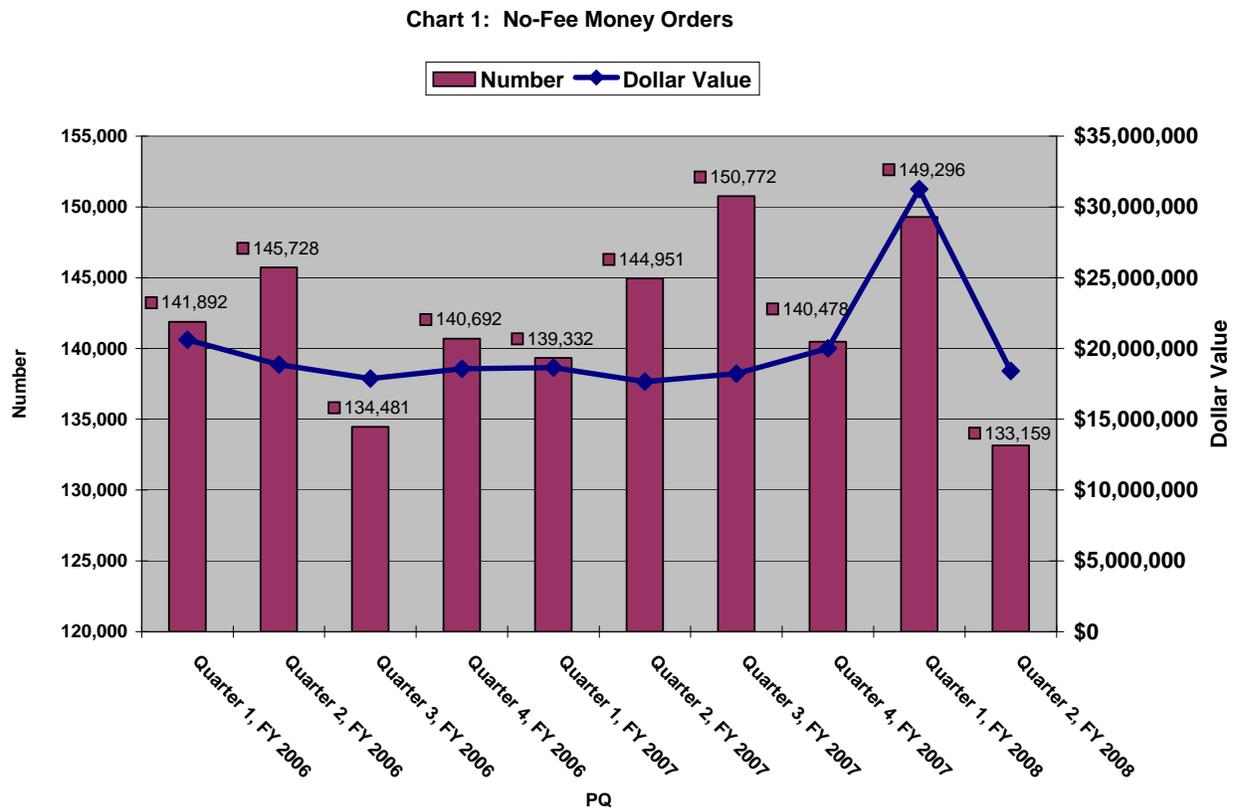
### **Use of No-Fee Money Orders**

To understand the extent to which no-fee money orders were used throughout the Postal Service, we obtained and analyzed data from the Enterprise Data Warehouse (EDW) for no-fee money orders used for all purposes.

---

<sup>1</sup> *Field Accounting Procedures (FAP)*, Section 2203, December 2007 (draft).

In Chart 1, the bar graph shows the number of no-fee money orders issued from FY 2006 through Postal Quarter 1, FY 2008, and the line graph shows the dollar value of these no-fee money orders.<sup>2</sup>



Looking at FY 2007 only, the Postal Service issued an estimated 575,533 no-fee money orders, totaling \$74.5 million. We attempted to isolate the amount of no-fee money orders used strictly for local purchases and refunds, and estimate that \$46 million were issued for these types of transactions.<sup>3</sup> (The \$46 million excluded no-fee money orders issued for salary and travel advances, and as replacements.)

In analyzing the data further, we found several areas of concern. First, we estimate that in FY 2007, the Postal Service issued more than 13,170 no-fee money orders in excess of \$500, with a total value of more than \$8 million. These money orders were not used for salary and travel advances or for replacements. Second, the continued use of no-fee money orders indicates they were for nonemergency situations.

<sup>2</sup> The increase in the value of no-fee money orders issued in Quarter 1, Fiscal Year 2008 was the result of an increase in salary advances issued.

<sup>3</sup> The Postal Service can issue refunds using no-fee money orders, cash, or checks paid through the Scanning and Imaging Center. However, Postal Service system data does not identify or segregate refunds made by cash, no-fee money order, or check. Therefore, an unidentifiable portion of the \$46 million was for refunds made by no-fee money orders.

Specifically, nationwide we identified:

- Five postal units that issued a total of more than 1,000 no-fee money orders in FY 2007 for purposes other than salary and travel advances.
- Twenty-three units that did not sell money orders to the public in FY 2007 but issued no-fee money orders totaling over \$200,000 (not including money orders issued for salary and travel advances).
- A bulk mail center that issued 195 no-fee money orders in FY 2007; our data showed that only 27 of these money orders were for salary and travel advances.

Our concerns regarding no-fee money orders date back to FY 2005 when we reported misuse of no-fee money orders in the Chicago District.<sup>4</sup> Recently, the OIG has conducted criminal investigations involving no-fee money orders; in one instance, a postmaster used no-fee money orders to pay his credit card bills by concealing these payments as expenses at his post office. Similarly, our analysis surfaced no-fee money order transactions in which a sales and service associate issued no-fee money orders to herself and used a no-fee money order as a down payment on a vehicle, recording these payments as local expenses for the post office. We have also seen a recent case of embezzlement of salary advances using no-fee money orders, indicating that the risks associated with no-fee money orders extend to the use of these money orders for salary and travel advances.

Based on our most recent analysis, investigations, and audits, we believe that the Postal Service should consider restricting and monitoring the use of no-fee money orders to mitigate further risk.

We recommend the Vice President, Controller:

1. Reinforce the payment hierarchy and proper use of no-fee money orders to pay for local purchases and increase monitoring of no-fee money orders use.

### **Management's Comments**

Management agreed with the finding and recommendation and stated the Vice President, Controller, in conjunction with the Vice President, Supply Management, will issue communication policies and procedures regarding the payment methods hierarchy no later than September 30, 2008. Management is also considering enhancements to the Point-of-Sale system that will include a drop down menu listing usage types for no-fee money orders. Management stated that due to system changes, resources priorities and budget restrictions, this action will not be completed until September 30, 2010. Management's comments, in their entirety, are included in [Appendix B](#).

---

<sup>4</sup> *IMPAC Card Purchases – Chicago District* (Report Number FF-AR-06-038, dated December 30, 2005).

We recommend the Vice President, Controller:

2. Evaluate the feasibility of restricting the use of no-fee money orders for local purchases in order to reduce the Postal Service's exposure to financial loss.

### Management's Comments

Management agreed with the finding and recommendation and stated the immediate restriction of no-fee money orders is not feasible at this time. However, management plans to establish a task force to review and evaluate no-fee money order usage and determine if restricting usage would be feasible in the future. Management stated the task force would submit its recommendations by January 31, 2009.

### Evaluation of Management's Comments

Management's comments are responsive to the recommendations and actions planned should correct the issues identified in the findings.

The OIG considers recommendation 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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.

E-Signed by Darrell E. Benjamin,   
VERIFY authenticity with ApproveIt

**for**

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

Attachment

cc: H. Glen Walker  
William P. Galligan  
Kathy Ainsworth  
Susan Brownell  
Stephen J. Nickerson  
Vincent H. DeVito, Jr.  
Steven Phelps  
Richard Rudez  
Susan Witt  
Katherine S. Banks

## 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>5</sup> and travel<sup>6</sup> advances, replacements,<sup>7</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 eBuy and does not accept the SmartPay purchase card.<sup>8</sup> The hierarchy of methods for local purchases follows a preferential order:<sup>9</sup>

- eBuy.
- SmartPay purchase card.
- Invoice payments – Postal Service (PS) Form 8230, Authorization for Payment, or PS Form 8232, Payment for Personal Services Contractors, submitted to the Scanning and Imaging Center and processed through the Accounts Payable System.
- Local Payments:
  - Cash for emergency one-time expenses, not to exceed \$25.
  - No-fee money order for emergency one-time local expenses, not to exceed \$500.<sup>10</sup>

### OBJECTIVE, SCOPE, METHODOLOGY

The objective of our review was to examine recent audit and investigative work on the Postal Service's use of no-fee money orders and analyze this issue to identify potential areas of risk. To accomplish our objective, we reviewed audit and investigative reports from FYs 2005 through 2007. We reviewed data from the EDW on money order issuance and post office expenses for FY 2006 through Postal Quarter 2, FY 2008.

---

<sup>5</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>6</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 Accounting Services. The employee may request an emergency travel advance not to exceed \$500.

<sup>7</sup> Postal Service policy allows the use of no-fee money orders to replace customers' money orders that are mutilated or damaged.

<sup>8</sup> No-fee money orders are to be used only on an infrequent, emergency basis.

<sup>9</sup> FAP, Section 2203.

<sup>10</sup> FAP, Section 2201.1.

We conducted this review from February through July 2008 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on May 28, 2008, and included their comments where appropriate. Although we relied on data obtained from the EDW, we did not test the validity of the data and controls over the system.

### **PRIOR AUDIT COVERAGE**

The OIG has not conducted audits specifically related to no-fee money orders in the past 5 years, but has reviewed payments made using no-fee money orders as part the annual financial installation audits of post offices, branches, and stations.<sup>11</sup> In addition, we reported the misuse of no-fee money orders in our audit of purchase card transactions in the Chicago District in FY 2005 (*IMPAC Card Purchases – Chicago District*, Report Number FF-AR-06-038, dated December 30, 2005).

---

<sup>11</sup> See audit report *Fiscal Year 2007 Financial Installation Audits – Post Offices, Stations, and Branches* (Report Number FF-AR-08-122, dated March 5, 2008).

**APPENDIX B. MANAGEMENT'S COMMENTS**

July 14, 2008

LUCINE WILLIS

SUBJECT: Use of No-Fee Money Orders (Report Number FF-MA-08-DRAFT)

The U.S. Postal Service agrees with the Office of Inspector General (OIG) findings and recommendations, and recognizes the risk of financial loss due to misuse of No-Fee Money Orders. Although the OIG report estimated a \$46 million potential risk, as stated, this amount included local purchases and refunds. Since no-fee money order use for local purchases are not easily identifiable for separation from refunds, we are unable to measure the magnitude of their usage for that purpose. However, we will initiate the following actions to the recommendations.

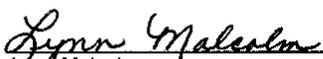
**Recommendation 1:** Reinforce the payment hierarchy and proper use of no-fee money orders to pay for local purchases, and increase monitoring of no-fee money orders use.

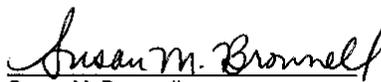
**Management Response:** The Vice President, Controller, in conjunction with the Vice President, Supply Management, will issue communications to reinforce the policies and procedures of the payment methods hierarchy, and proper use of no-fee money orders for local purchases. The target date for completion of these communications is not later than the end of fiscal year 2008.

Management is also considering an enhancement to the Point-of-Sale (POS) system that will include a drop-down menu listing the usage types for no-fee money orders (i.e., refund postage and fees, refund spoiled/unused postage meter, refund post office box keys, unused premium forwarding, salary advances, travel, local purchases, etc.). Those usage types will be determined after the evaluation is completed in recommendation 2. Although requirements can be completed this calendar year, this will be targeted for implementation within two years due to system changes, resources priorities, and budget constraints.

**Recommendation 2:** Evaluate the feasibility of restricting the use of no-fee money orders for local purchases in order to reduce the Postal Service's exposure to financial loss.

**Management Response:** The use of no-fee money orders is a necessary and viable payment method for the Postal Service and immediately restricting their use would not be feasible at this time. We believe that the communications planned in our response to recommendation 1 above, reinforcing the policies and procedures of no-fee money orders, will assist in controlling their usage. In addition, we plan to establish a task force group to review and evaluate no-fee money order usage, and determine if restricting their use would be feasible in the future. In order to capture and evaluate data for Postal Quarters 4 and 1, target date for completion of recommendations from the task force is end of January 2009.

  
Lynn Malcolm  
Vice President, Controller

  
Susan M. Brownell  
Vice President, Supply Management

- 2 -

cc: William P. Galligan  
Kathy Ainsworth  
H. Glen Walker  
Katherine S. Banks  
Vincent H. DeVito, Jr.  
Stephen J. Nickerson  
Richard Rudez  
Susan Witt