



## AUDIT REPORT

# Internal Controls Over Local Purchases and Payments – Norwalk, CT, Main Office

March 17, 2017



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Report Number FT-FM-17-012



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Payments – Norwalk, CT, Main Office**  
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***BACKGROUND:***

The U.S. Postal Service Office of Inspector General (OIG) uses data analytics, including predictive risk models and tripwires, to evaluate the U.S. Postal Service's financial information. The analytics seek to target financial anomalies that occur at a field unit.

The OIG's Field Financial Risk Model and the Office of Investigations' Local Payment Tripwire identified that the Norwalk Main Office made \$61,489 in local purchases and payments using no-fee money orders from October 1, 2015, to September 30, 2016.

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 no-fee money order 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.

The objective of this audit was to determine whether internal controls were in place and effective for making local purchases and payments at the Norwalk Main Office.

***WHAT THE OIG FOUND:***

Local payments were not always authorized, and internal controls needed improvement. We verified the unit made 74 local payments valued at \$58,925 for electrical services from October 1, 2015, to September 30, 2016, without an authorized contract. In addition, the unit exceeded the single payment limit for no-fee money orders and split payments for invoices over \$1,000.

The supervisor was aware of the preferred method of payment but stated the vendor wanted to be paid with money orders. Four months after the first payment, the postmaster contacted Postal Service Supply Management personnel to request lighting repairs and initiate the contract process. He did not receive a response and did not follow up on the request. In the meantime, the unit continued paying the vendor with no-fee money orders without an authorized contract.

Further, the unit did not report tax reportable no-fee money order payments as required. We referred this issue to the OIG's Office of Investigations for further review.

***WHAT THE OIG RECOMMENDED:***

We recommended management implement procedures to ensure the Norwalk Main Office uses the preferred payment methods and adheres to the no-fee money order single payment limit policy; follows up with applicable Postal

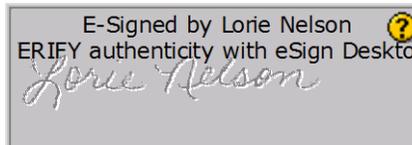
Service personnel to establish a contract for electrical services; and submits required tax documentation for payments made to the vendor.

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



March 17, 2017

**MEMORANDUM FOR:** DAVID MASTROIANNI  
MANAGER, CONNECTICUT VALLEY DISTRICT



**FROM:** Lorie Nelson  
Director, Finance

**SUBJECT:** Audit Report – Internal Controls Over Local Purchases and  
Payments – Norwalk, CT, Main Office  
(Report Number FT-FM-17-012)

This report presents the results of our audit of Internal Controls Over Local Purchases and Payments at the Norwalk, CT, Main Office (Project Number 17BFM006FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Asha Mede, deputy director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

**TABLE OF CONTENTS**

Introduction ..... 1

Local Payments..... 2

Tax Reportable Vendor Payments ..... 5

Recommendations ..... 6

## Introduction

This report presents the results of our self-initiated audit of the Internal Controls Over Local Purchases and Payments at the Norwalk, CT, Main Office (Project Number 17BFM006FT000). The Norwalk Main Office is in the Connecticut Valley District of the Northeast Area. This audit of local purchases and payments is designed to provide U.S. Postal Service management with timely information on potential financial control risks at postal 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 can be used for emergency one-time local expenses, not to exceed \$1,000.<sup>4</sup>

We reviewed accounting records for local purchases and payments at the Norwalk Main Office from October 1, 2015, to September 30, 2016, to determine whether the transactions were valid. We also evaluated the process for making local purchases and payments and interviewed the postmaster and other personnel responsible for overseeing the process. We relied on computer-generated data from the Enterprise Data Warehouse (EDW)<sup>5</sup> and the Time and Attendance Collection System.<sup>6</sup> We did not test the validity of controls over these systems; however, we verified the accuracy of the data by confirming our analysis and results with postal managers. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from January through March 2017, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective. We discussed our observations and conclusions with management on January 17, 2017, and included their comments where appropriate.

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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> A system used by all installations that automates the collection of employee time and attendance information.

## Local Payments

Our tripwire showed that the Norwalk Main Office made \$61,489 in local payments using cash and no-fee money orders from October 1, 2015, to September 30, 2016.

We reviewed the accounting records and verified the Post Office made 180 local payments valued at \$61,489.36 using cash and no-fee money orders instead of the Postal Service’s preferred payment methods, including its electronic purchasing system and the purchase card. Specifically,

- Eighty-seven payments valued at \$60,488.94 were made with no-fee money orders.
- Ninety-two payments valued at \$1,212.22 were made with cash.
- An accounting error of (\$211.80) was recorded incorrectly as a local payment.

We were unable to review nine local payments valued at \$967 because the unit could not provide the supporting documentation.

See Table 1 for local payments at the Norwalk Main Office.

**Table 1. Fiscal Year (FY) 2016 Local Payments**

Local Payment Transaction	Number of Payments	Amount	Percentage
Electrical Services	74	\$58,924.70	95.83
Gasoline <sup>7</sup>	10	107.77	0.18
Ice	57	680.94	1.11
Meetings	1	160.49	0.26
Customer Refund	3	80.20	0.13
Employee Reimbursement	1	37.21	0.06
Repairs	1	145.00	0.24
Services	2	102.50	0.17
General Supplies	21	495.39	0.81
No Supporting Documentation	9	966.96	1.57
Accounting Error	1	(211.80)	-0.34
<b>Total</b>	<b>180</b>	<b>\$61,489.36</b>	<b>100.02<sup>8</sup></b>

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

<sup>7</sup> Reimbursement for gasoline used for employee’s privately owned vehicles to conduct official Postal Service business.

<sup>8</sup> Total greater than 100 percent due to rounding.

The unit made 74 payments valued at \$58,924.70 (96 percent) to one vendor for electrical services using no-fee money orders.<sup>9</sup> However, the unit did not have an authorized contract to make these payments as required.<sup>10</sup> According to Postal Service policy, units must contact Postal Service Supply Management to establish a contract for building services exceeding \$2,000.<sup>11</sup>

Further, multiple money orders were used to pay some invoices because the invoices exceeded the single payment limit of \$1,000 for money orders. Specifically, the supervisor used multiple no-fee money orders to pay 18 invoices valued at \$57,697. Postal Service policy states no-fee money order payments must not exceed \$1,000 for a one-time expense.<sup>12</sup> See [Table 2](#) for invoices greater than \$1,000 and paid using no-fee money orders.

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<sup>9</sup> An additional \$29,607 has been paid to this vendor for FY 2017, Quarter 1.

<sup>10</sup> Management Instruction SP-G4-2006-2, *Unauthorized Contractual Commitments*, November 30, 2006.

<sup>11</sup> Handbook AS-709, *Local Buying and Purchase Card Policy and Procedures*, February 2015, Chapter 1-15.1.

<sup>12</sup> *No-Fee Money Order Quick Reference*, December 2015.

**Table 2. FY 2016 Invoices Paid With More Than One No-Fee Money Order**

	Invoice Date	Invoice Number	Number of Money Orders	Amount Paid
1	11/23/2015	1941	2	\$1,565.00
2	2/8/2016	2024	9	7,267.95
3	4/4/2016	2066	3	2,620.00
4	4/13/2016	2074	3	2,260.00
5	4/27/2016	2089	5	3,835.96
6	5/10/2016	2105	3	2,651.68
7	5/24/2016	2112	3	2,197.20
8	6/1/2016	2118	3	2,125.34
9	6/2/2016	2124	3	2,197.20
10	6/11/2016	2132	3	1,811.94
11	6/27/2016	2147	6	5,113.00
12	6/28/2016	2160	3	2,007.20
13	7/8/2016	2169	3	2,800.00
14	7/11/2016	2174	7	5,223.66 <sup>13</sup>
15	7/25/2016	2180	5	4,946.36
16	8/15/2016	2199	4	3,919.40
17	8/17/2016	2208	2	1,193.60
18	9/7/2016	2228	4	3,961.30
	<b>TOTAL</b>		<b>71</b>	<b>\$57,696.79</b>

Source: EDW and OIG analysis.

The unit supervisor stated the vendor preferred to be paid with money orders because he did not want to incur credit card processing fees. Although the supervisor was aware of the Postal Service’s preferred methods of payment and no fee money order limit requirements, she stated she wanted to expedite payments to get the electrical work done.

<sup>13</sup> On July 11, 2016, Invoice 2174 was submitted for \$3,725.66, but the Postal Service paid \$5,223.66, a difference of \$1,498.00. We referred this information to the OIG’s Office of Investigations for further review.

After 4 months of paying the vendor with no-fee money orders, on March 22, 2016, the postmaster submitted a request to the facilities service office (FSO)<sup>14</sup> to initiate the contract process for lighting repairs. He did not receive a response from the FSO and did not follow up after he submitted the request. In the meantime, the supervisor continued to pay for the lighting repairs with no fee money orders.

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>15</sup>
- Cash for emergency one-time expenses, not to exceed \$25, or no-fee money orders for emergency one-time local expenses, not to exceed \$1,000.<sup>16</sup>

If proper payment methods are not used for local purchases and payments, there is an increased risk unauthorized transactions could occur. We considered the local payments to one vendor valued at \$58,925 for electrical services as questioned costs<sup>17</sup> because the payments should have been made under an authorized contract.

As a result of this audit, on January 12, 2017, the unit stopped all local payments to the vendor and the supervisor submitted a second request to the FSO to begin the process of establishing an authorized building services contract.

### **Tax Reportable Vendor Payments**

Unit management did not complete the required tax documentation for 74 no-fee money order payments valued at \$58,925 for electrical services in FY 2016. Management stated they were unaware of the requirement.

Postal Service policy 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 requires the Postal Service to report services paid locally with cash or money orders.<sup>18</sup>

If tax reportable payments to vendors are not reported as required, the Postal Service is at risk of violating federal law.

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<sup>14</sup> Facility Service Office refers to the Facilities Construction Contract Management Center responsible for all contract requirements for new building construction projects, repair and alteration work and national building equipment contracts supporting the Facilities, Network Operations, OIG, U.S. Postal Inspection Service, and Retail organizations.

<sup>15</sup> Submitted to the Scanning and Imaging Center and processed through the Accounts Payable System.

<sup>16</sup> Handbook F-101, Section 19-1.1 and *No-Fee Money Order Quick Reference*.

<sup>17</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>18</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.

## Recommendations

We recommend the manager, Connecticut Valley District, instruct management, Norwalk, CT, Main Office to:

1. Implement procedures to ensure it uses the preferred payment methods and adheres to the no-fee money order single payment limit policy.
2. Follow up with Supply Management, Facilities Construction Category Management Center, personnel to establish a contract for electrical services.
3. Submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, for no-fee money orders paid to the vendor for services.

## Management's Comments

Management agreed with recommendations 2 and 3, but disagreed with recommendation 1 and the monetary impact classification.

Regarding recommendation 1, management stated they will not implement procedures as policy is already in place. However, the postmaster provided verbal instruction and written policy, to the supervisor, for the issuing of no-fee money orders. Further, the postmaster instructed the supervisor and lead sales and services associate to present money orders and all documentation to him or his delegate for review before being issued. Finally, the postmaster and the supervisor have completed the Purchase Card Program Training.

Regarding recommendation 2, the postmaster contacted Facilities Repair & Alteration (East) to complete the electrical work at the Norwalk Main Office. The Facilities Engineer assigned to the project has assigned a contractor to evaluate the work that needs to be completed.

Regarding recommendation 3, management submitted Postal Service Form 8231, Vendor Payment 1099 Reporting Form for FY 2016 invoices paid with no-fee money orders totaling \$57,696.79.

Regarding monetary impact, management agreed that procedures were not followed but disagreed that the costs were unrecoverable since they were not validated.

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, we acknowledge that Postal Service policy is in place; however, it was not being followed at this facility. Although management disagreed with the recommendation, they implemented a procedure to have the postmaster or his delegate review no-fee money orders and supporting documents prior to issuance. We believe the newly implemented procedure fulfills the intent of the recommendation and will help to ensure policy is followed.

Regarding the monetary impact, we continue to believe the costs are unrecoverable because the monies were already paid to the contractor for work performed.

We consider the recommendations closed with the issuance of this report.

## APPENDIX A. MANAGEMENT'S COMMENTS



March 16, 2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Internal Controls over Local Purchases and  
Payments – Norwalk CT, Main Office Report Number FT-FM-17-DRAFT

Thank you for the opportunity to respond to the Office of Inspector General's audit of Internal Controls over Local Purchases and Payments – Norwalk CT, Main Office. Although, Connecticut Valley District does not agree with all of the recommendations made during the audit, Connecticut Valley Districts agrees that the required procedures for local purchases and payments are important to ensure unauthorized transactions do not occur.

**Recommendation #1**

Implement procedures to ensure it uses the preferred payment methods and adheres to the no-fee money order single payment limit policy.

**Management Response/Action Plan:**

Connecticut Valley District disagrees with this recommendation to implement procedures as policy is already in place in the Handbook F-101, Chapter 19. The Postmaster has provided both verbal instruction and the written policy for issuing No-Fee Money Orders to the Supervisor. The Postmaster also instructed the Supervisor and the Lead Sales and Service Associate (LSSA) that any no-fee money order issued must first be reviewed by the Postmaster and/or his delegate before being issued and all copies of documentation must be presented to the Postmaster's Office. Both the Postmaster and the Supervisor have completed the Purchase Card Program Training LMS Course number 10022331.

**Target Implementation Date:**

Completed

**Responsible Official:**

Postmaster Norwalk, CT

- 2 -

**Recommendation #2:**

Follow up with Supply Management, Facilities Construction Category Management Center, personnel to establish a contract for electrical services.

**Management Response/Action Plan:**

Connecticut Valley District agrees with this recommendation. The Postmaster has contacted Facilities Repair & Alteration (East) to complete the electrical work at the Norwalk Post Office (Case #2611410). The Facilities Engineer assigned to this project has scheduled an Electrical Contractor to evaluate the work that needs to be completed.

**Target Implementation Date:**

Completed

**Responsible Official:**

Postmaster Norwalk, CT

**Recommendation #3:**

Submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form, for no-fee money orders paid to the vendor for services.

**Management Response/Action Plan:**

Connecticut Valley District agrees with this recommendation. PS Forms 8231, Vendor Payment 1099 Reporting Form have been submitted for FY 2016 Invoices paid with No-Fee Money Orders totaling \$57,696.79.

**Target Implementation Date:**

Completed

**Responsible Official:**

Postmaster Norwalk, CT

**Monetary Impact:**

Regarding the Monetary Impact cited during this audit in the amount of \$58,924.70 for 74 unauthorized payments to one vendor using no-fee money orders for electrical services, Connecticut Valley District agrees that the correct purchasing procedures were not followed; however, Connecticut Valley District disagrees that the costs are unrecoverable as they were not validated.

  
David D. Mastroianni Jr.  
District Manager, Connecticut Valley

- 3 -

cc: VP Controller  
VP Retail & Customer Service  
VP Area Operations (Northeast)  
Controller (Northeast)  
Manager, Finance (Connecticut Valley)  
Manager, Corporate Audit Response Management