



OFFICE OF **INSPECTOR GENERAL**

UNITED STATES POSTAL SERVICE

Bank Secrecy Act Compliance for Fiscal Year 2015

Audit Report

Report Number
FT-AR-15-007

June 10, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Our objective was to determine why there are large discrepancies in suspicious activity reporting among post offices located in the same high risk districts.

Background

The Bank Secrecy Act (BSA) was enacted to combat money laundering in the U.S. It requires money services businesses to deter, track, and report certain transactions to the U.S. Department of the Treasury. The U.S. Postal Service must comply with all BSA requirements.

The Postal Service must report suspicious activity involving money order transactions or patterns of transactions. When sales and service associates (SSAs) identify a suspicious transaction, they must complete a *Suspicious Transaction Report*. Postal Service management established a reporting target for suspicious activity of at least [REDACTED] of the total value of cleared money orders deemed suspicious. This target is [REDACTED].

Our objective was to determine why there are large discrepancies in suspicious activity reporting among post offices located in the same high risk districts.

What The OIG Found

We visited 25 post offices in 6 districts based on suspicious activity reporting data from the Postal Service's BSA database and our BSA Risk Model. Suspicious activity reporting ranged

from 0 to 96 percent. Thirteen of the 25 facilities we visited, in 6 districts, reported less than 6 percent of cleared money orders deemed suspicious by the BSA Compliance Office because:

- SSAs sometimes relied only on familiarity with the customers purchasing money orders. They did not consider that the transaction might be related to a high risk industry or geographic area, such as [REDACTED] [REDACTED] respectively.
- SSAs did not always consider suspicious activity reporting a priority. Instead, they focused on keeping customer wait-time-in-line to a minimum.
- Management awareness practices were inconsistent among facilities. For example, high reporting facilities conducted brief stand up talks to reinforce BSA requirements.

Additionally, we identified opportunities to improve the BSA program. Specifically:

- The BSA Compliance Office has suspicious activity reports that field management could use to help achieve the suspicious activity reporting target.
- The BSA Compliance Office could revise its awareness reviews to focus on unique local circumstances.



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SSA reports of suspicious transactions enhance the data the Department of the Treasury provides to law enforcement and regulatory agencies to support investigations and examinations. When suspicious reporting expectations are not met, the Department of the Treasury could impose civil and criminal penalties on the Postal Service, potentially tarnishing its reputation and brand.

What The OIG Recommended

We recommended BSA management coordinate with retail and customer service management to educate SSAs on high risk industries and geographic areas designated high risk for money

laundering, the importance of reporting suspicious activity, and the minimum information required for such reporting.

Also, we recommended BSA management direct facility management to conduct stand up talks and observe SSAs to reinforce BSA requirements, and encourage facility management to attend BSA awareness reviews.

Finally, we recommended BSA management provide suspicious activity reporting data to field management to use to help achieve suspicious activity reporting targets, and revise the reviews to focus on local information and unique circumstances.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 10, 2015

MEMORANDUM FOR: KELLY M. SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER
SERVICE OPERATIONS

ELIZABETH M. SCHAFER
TREASURER

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". There is a small black dot in the upper right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Audit Report –Bank Secrecy Act Compliance for
Fiscal Year 2015 (Report Number FT-AR-15-007)

This report presents the results of our audit of the U.S. Postal Service's Bank Secrecy Act Compliance for fiscal year 2015 (Project Number 15BD002FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

We identified discrepancies in suspicious activity reporting among post offices located in the same high risk districts.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's compliance with the Bank Secrecy Act (BSA) (Project Number 15BD002FT000). We conducted this audit as part of our ongoing BSA compliance work. As part of our overall objective to evaluate the Postal Service's compliance with the BSA, we determined why large discrepancies in suspicious activity reporting exist among post offices located in the same high risk districts. See [Appendix A](#) for additional information about this audit.

To combat money laundering in the U.S., Congress enacted a series of laws, collectively referred to as BSA,¹ that require banks and other financial service businesses to deter, track, and report certain cash transactions to the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). Because the Postal Service sells money orders, it must comply with all BSA requirements.

The Postal Service must report suspicious activity involving money order transactions or patterns of transactions. Suspicious activity may include customers who:

- Routinely request just less than \$3,000.
- Request lesser dollar amounts after being asked to complete Postal Service (PS) Form 8105-A, *Funds Transaction Report* (Form A).²
- Work together to make purchases over \$3,000.

When a sales and service associate (SSA) is suspicious of a money order transaction, the SSA must complete a PS Form 8105-B, *Suspicious Transaction Report* (Form B). Form B is instrumental in enabling law enforcement to initiate or supplement major investigations of money laundering, terrorist financing, and other criminal cases. The BSA Compliance Office has procedures to detect suspicious activity at both the point of sale and where money orders clear the banking system. For point of sale transactions, management developed an expected suspicious activity reporting target of at least [REDACTED] of the total value of cleared money orders deemed suspicious. They based this [REDACTED]

Conclusion

Discrepancies in suspicious activity reporting among post offices located in the same high risk districts existed because:

- SSAs sometimes relied only on familiarity with customers purchasing money orders. Therefore, they did not consider that the transaction might be related to a high risk industry or geographic area, such as [REDACTED], respectively.
- SSAs did not always consider suspicious activity reporting a priority. Instead, they focused on keeping customer wait-time-in-line (WTIL) to a minimum.
- Differences in management awareness practices impacted suspicious activity reporting levels. For example, high reporting facilities conducted brief stand up talks to reinforce BSA requirements.

¹ The Currency and Foreign Transactions Reporting Act, 31 U.S.C. §§ 5311-5330 and 12 U.S.C. §§1829 (b), 1951-1959, is also known as the BSA. Its implementing regulation is 31 CFR 103.

² PS Form 8105-A, *Funds Transactions Report*, must be completed for all sales of money orders totaling \$3,000 or more to the same customer in the same day.

We identified high risk areas by using suspicious activity data from the Postal Service's BSA database and the U.S. Postal Service Office of Inspector General's (OIG) BSA Risk Model, and visited 25 facilities in 6 districts with suspicious activity reporting ranging from 0 to 96 percent, as shown in Figure 1. Thirteen of the 25 facilities we visited, in 6 districts, reported less than 6 percent of cleared money orders deemed suspicious by the BSA Compliance Office.



■ The Postal Service implemented the Web BSA application to comply with the federal laws and regulations stemming from the BSA. The application has various components to support data entry, analysis, queries, and reporting of data relating to possible violations of BSA.

Additionally, we identified opportunities to improve the BSA program regarding information sharing with field management and remedial reviews.⁴ Specifically:

- The BSA Compliance Office has suspicious activity reporting data that could be used to achieve the [REDACTED] suspicious activity reporting target.
- The BSA Compliance Office could revise remedial reviews to improve suspicious activity reporting.

Field personnel's reports of suspicious transactions enhance the ability of FinCEN to support law enforcement and regulatory agencies' investigations and examinations. On the other hand, when suspicious reporting expectations are not met, FinCEN could impose civil and criminal penalties on the Postal Service, potentially tarnishing its reputation and brand.

High Risk Transactions

SSAs sometimes relied only on familiarity with the customers purchasing money orders. Therefore, they did not consider the transaction might be related to a high risk industry or geographic area. The Department of the Treasury's Office of the Comptroller of the Currency published a list of high risk industries, including travel agencies and auctions. These industries are recognized throughout the BSA and anti-money laundering field as high risk industries for money laundering.

For example, auto auctions are high risk because customers purchase cars to use in trade-based money laundering activity.⁵ Auto auctions may be involved in an under-valuation scheme where an importer receives merchandise that is worth more than declared in the invoice. When the importer sells the under-valued merchandise, he or she receives more than the value reflected in the official documentation. If the transferred value represents illicit proceeds, the result is money laundering.

Additionally, the High Intensity Financial Crime Area program, administered by FinCEN, designates high intensity money laundering geographic areas, [REDACTED]. For example, customers in these areas may convert cash to a money order to disguise the true source of funds.

Facility management⁶ and SSAs at facilities with low suspicious reporting stated they did not report suspicious activity because:

- Customers were well known or repeat customers, and SSAs did not consider these transactions suspicious. For example:
 - Customers regularly purchased money orders to pay for vehicles from a [REDACTED].⁷
 - Customers presented an auto auction invoice and purchased the money order for the same amount.
 - Couriers frequently purchased money orders on behalf of travel agencies and consulates, and completed Form A when required.

⁴ The BSA Compliance Office launched the Remedial Review Program on September 28, 2012, to increase awareness and enhance understanding of suspicious transaction reporting. The BSA Compliance Office selects review locations based on high dollar volumes of suspicious activity and low numbers of filed Forms B. The Compliance Office will monitor suspicious transaction filing at these offices following the reviews.

⁵ Trade-based money laundering is an alternative remittance system that allows illegal organizations the opportunity to earn, move, and store proceeds disguised as legitimate trade.

⁶ Facility management includes postmasters and supervisors, Customer Service.

⁷ [REDACTED] for cash transactions.

In addition to understanding the normal and expected transactions typically conducted by customers, SSAs should also consider high risk industries and geographic areas when deciding whether to report suspicious transactions.

- SSAs assumed customers near the [REDACTED] purchased money orders for less than \$3,000 because they did not have the identification required for completing Form A.

In addition to understanding the normal and expected transactions typically conducted by customers, SSAs should also consider high risk industries and geographic areas when deciding whether to report suspicious transactions.

Work Priority

SSAs did not always consider suspicious activity reporting a priority. Instead, they focused on keeping customer WTIL to a minimum. SSAs at facilities with low suspicious reporting stated:

- Postal Service management pressured them to keep the line moving.
- Filling out Form B can slow them down and lead to a longer WTIL. For example, answering all the questions on the form is time consuming, and the SSAs may not be able to obtain the license number of the customer's car.

Conversely, SSAs in facilities with high suspicious reporting stated:

- They make reporting suspicious activity a part of their everyday routine and do not worry about the long lines.
- The Form B was easy to complete in Point-of-Service (POS) One⁸ and took less than a minute to complete.
- If the customer line is long, SSAs only fill in the reason the transaction is suspicious and submit the form.

Suspicious activity reporting is subjective and the Form B is not required. *Service in Five Minutes or Less* is an initiative created to provide a level of service that keeps customer WTIL to a minimum while providing quality customer service. It is also a factor for performance measurement. While we recognize that customer service is and should be a priority, BSA Compliance Office guidelines state the SSA may submit the form with only the reason the activity is suspicious, thereby reducing the time it takes to complete Form B. SSAs have the option to submit a hardcopy Form B with additional information at a later time.⁹

⁸ The primary hardware and software system used to conduct retail sales transactions in post offices. POS One automates and simplifies retail transactions and captures transactional data related to products and services sold.

⁹ If the SSA wants to add more information to the form, like a description of the customer or information on the customer's vehicle, they simply select reason 6, Comments Sent on Paper Form, before they hit submit.

We identified opportunities to improve the BSA program regarding information sharing to field management and remedial reviews.

Awareness Practices

Differences in management awareness practices impacted suspicious activity reporting levels. Management practices at facilities with high suspicious activity reporting included:

- Presenting brief stand up talks to reinforce BSA requirements.
- Observing SSAs completing suspicious activity reports.

We did not observe any of these positive awareness practices at facilities with low suspicious activity reporting. In fact, we found some facility employees were unaware of suspicious activity reporting. For example, an employee witnessed two customers overtly circumventing program controls and did not consider the activity suspicious.

Program Improvements

We identified opportunities to improve the BSA program regarding information sharing to field management and remedial reviews.

Information Sharing

The BSA Compliance Office has suspicious activity reporting data that would be useful to field management. The *Facility Summary Report*¹⁰ provides data for suspicious activity reported by SSAs at the point of sale, and money orders cleared through the Federal Reserve Bank and deemed suspicious by BSA analysts. It also identifies facilities with low and high suspicious activity reporting. Currently, field management does not receive this data and is unaware of suspicious activity reporting levels at their facilities. Field management could use this data to help achieve the [REDACTED] suspicious activity reporting target.

Remedial Reviews

The BSA Compliance Office could revise remedial (BSA awareness) reviews to improve suspicious activity reporting. BSA Compliance Office contractors performed these reviews at 17 of the 25 facilities we visited. We found 10 of the 17 facilities remained below the targeted reporting levels, even after remedial reviews.

We observed one remedial review and noted BSA Compliance Office contractors provided high level information rather than focusing on specific circumstances for improving suspicious activity reporting. For example, the review included a summary report for all Postal Service areas. We also obtained attendance records¹¹ that disclosed facility management did not always attend these reviews.

Remedial reviews should focus on the unique local circumstances, including high risk industries and geographic areas. Further, facility management should attend remedial reviews to enhance the importance of BSA compliance and to better assist SSAs in reporting suspicious activity.

¹⁰ The *Facility Summary Report* is generated from the Web BSA application and can be run for any time period specified.

¹¹ *Person Reviewed Hours Summary by Auditor* report.

Recommendations

We recommend the treasurer and Bank Secrecy Act compliance officer, in coordination with the vice president, Retail and Customer Service Operations:

1. Educate sales and service associates on the industries and geographic areas designated high risk for money laundering, the importance of reporting suspicious activity, and the minimum information required to complete Postal Service Form 8105-B, *Suspicious Transaction Report*.
2. Direct facility management to conduct brief stand up talks and observe sales and service associates to reinforce Bank Secrecy Act requirements.
3. Encourage facility management to attend remedial reviews.

We recommend the treasurer direct the Bank Secrecy Act compliance officer to:

4. Provide field management with suspicious activity reporting data on a regular basis.
5. Revise the remedial review presentation to focus on local information and unique circumstances.

Management's Comments

Management agreed with the findings and recommendations. They stated they will update remedial reviews to include information on high risk industries, geographical areas, local information, and unique circumstances beginning [REDACTED]. This information will also be included in the FY 2016 BSA mandatory training, available [REDACTED], and completed by [REDACTED]. Management will also issue a policy letter, by [REDACTED], directing facility management to attend remedial reviews.

Further, management will develop and implement stand up talks and ensure field management becomes actively involved. Stand up talks will begin October 30, 2015, and will continue on a quarterly basis. Finally, management is developing an automated suspicious activity data report that they will provide to field management monthly beginning [REDACTED].

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

Appendices

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Appendix A: Additional Information

Background

Money laundering is the process of concealing the existence, source, or application of income derived from criminal activity, and the subsequent disguising of the source of that income to make it appear legitimate. In order to combat money laundering in the U.S., Congress enacted a series of laws requiring money services businesses and banks to deter, track, and report certain cash transactions to the Department of the Treasury. The laws are referred to as the BSA.

In 2001, the USA PATRIOT Act amended the BSA to strengthen measures to prevent, detect, and prosecute international money laundering and the financing of terrorism. In addition, it enhanced and clarified many BSA requirements and stated each financial institution must establish anti-money laundering programs.

The Postal Service, as a money services business and seller of money orders, must comply with all of the requirements of the BSA. As such, the Postal Service is required to deter money laundering, detect potential money laundering activities, report these activities to FinCEN, monitor compliance with these statutes, perform independent audits of its internal compliance, and provide ongoing training to employees. The OIG acts as the independent audit agency and periodically performs audits to evaluate Postal Service compliance.

The Postal Service reports suspicious transactions using Form B. Transactions can be considered suspicious for many reasons. Some common examples are:¹²

- Frequent and large purchases of money orders, wire transfers, or stored value cards.
- Always requesting just less than \$3,000.
- Requesting smaller dollar amounts after being asked to fill out a Form A or to provide picture identification.
- Two or more people working together to make purchases over \$3,000.
- Using a large amount of small bills.
- Requesting information on the location of [REDACTED].
- Cashing very large amounts of money orders.
- Large cash transactions involving other securities or products (e.g. trust funds or stamps).
- Going to [REDACTED] in amounts just under \$3,000.

The report should be completed immediately after the suspicious transaction has ended. Federal law prohibits notifying the customer that a suspicious report is being completed; therefore, Form B is completed [REDACTED]. POS One offices complete these forms online. Non-POS One offices complete and submit the forms manually. The Postal Service BSA Compliance Office receives about 3,100 Forms B per month.

¹² Postal Service *Bank Secrecy Act Reference Manual*.

Objective, Scope, and Methodology

As part of our overall objective to evaluate the Postal Service's compliance with the BSA, we determined why large discrepancies in suspicious activity reporting exist among post offices located in the same high risk districts.

To accomplish our objective, we:

- Extracted and analyzed BSA data from the Web BSA System to identify area and district suspicious activity reporting for the period June 1, 2014, to November 30, 2014.
- Reviewed Quarters 3 and 4, FY 2014 OIG BSA Risk Model data to determine high risk districts.
- Visited facilities with high and low suspicious activity reporting, based on data from the BSA Compliance database and the OIG BSA Risk Model, in the [REDACTED] districts to determine personnel's knowledge of reporting suspicious activity.
- Met with BSA Compliance Office personnel to update our understanding and ensure we had complete documentation of Postal Service policies, procedures, and processes for reporting suspicious activity.
- Discussed the project with district management in [REDACTED].
- Reviewed BSA laws and regulations.

We conducted this performance audit from January 2015 through June 2015 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 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 May 14, 2015, and included their comments where appropriate.

We relied on computer-generated data from the Web BSA application. We assessed the reliability of the data through interviews with BSA Compliance Office personnel knowledgeable about the data and facility employees reporting suspicious money order activity. Also, we recalculated key information and tested the data for obvious errors. We determined the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date
<i>Bank Secrecy Act Compliance for Fiscal Year 2012</i>	FT-AR-13-002	11/09/12

Report Results: Facility employees did not always meet Postal Service expectations for reporting suspicious purchases and redemptions of money orders because communication methods were not always effective, BSA Compliance Office personnel did not always adequately monitor suspicious transaction reporting, and facility employees did not always report suspicious transactions. Management agreed with our recommendation to clarify the intent of the POS One prompt to ensure employees report suspicious activity and change the wording of the existing automated prompt to provide additional information to retail associates. In addition, BSA communications to local post offices, postmasters, and supervisors will include information on the purpose of the prompt and information on Form B reporting.

Appendix B: Management's Comments



June 3, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Audit Report –Bank Secrecy Act Compliance for Fiscal Year 2015
(Report Number FT-AR-15-DRAFT)

We appreciate the engagement of the Office of the Inspector General with us and also the opportunity to respond to this report. Management agrees the recommendations in this report would enhance the compliance program and be of benefit to the United States Postal Service Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Compliance.

Recommendation 1

Educate Sales and Services Associates on the industries and geographic areas designated high risk for money laundering, the importance of reporting suspicious activity, and the minimum information required to complete Postal Service Form 8105-B, *Suspicious Transaction Report*.

Management Response/Action Plan:

Management agrees that including information on high risk industries and geographic areas would be a beneficial enhancement to the ongoing Sales and Services Associates' training. The BSA/AML remedial reviews will be updated to include this information during FY2015. This information will also be included in the mandatory BSA/AML compliance training beginning in FY2016.

Target Implementation Date:

The BSA/AML remedial reviews are currently being updated. These changes will be implemented beginning [REDACTED] and from this date all BSA/AML remedial reviews will include the information outlined in this recommendation.

The 2016 BSA/AML mandatory training will be rolled out to all Sales and Services Associates who sell Postal Service financial instruments and those who manage them on [REDACTED]. The completion deadline for this training is [REDACTED].

Responsible Official:

Title: BSA/AML Compliance Officer

Recommendation 2

Direct facility management to conduct brief stand up talks and observe Sales and Services Associates to reinforce Bank Secrecy Act requirements.

Management agrees that providing BSA/AML information to Sales and Services Associates throughout the year—with field management actively involved in both the delivery of the information and ongoing involvement with the associates' BSA/AML compliance activities—is a best practice with benefits for the Postal Service. Retail and Customer Service Operations and Corporate Treasury will be working closely together to develop and implement the stand-up talks and also to ensure field management becomes actively involved.

Target Implementation Date:

Quarterly stand-up talks will be rolled out beginning October 30, 2015, and will continue on a quarterly basis.

Responsible Official:

Title: Vice President, Retail and Customer Service Operations

Title: Treasurer

Recommendation 3

Encourage facility management to attend remedial reviews.

Management Response/Action Plan:

Management agrees that facility managements' involvement in BSA/AML remedial reviews is a best practice and has a positive impact on the office's BSA/AML compliance. Retail and Customer Service Operations will send out a policy letter directing facility management to attend BSA/AML remedial reviews.

Target Implementation Date:

July 15, 2015

Responsible Official:

Title: Vice President, Retail and Customer Service Operations

Recommendation 4

Provide field management with suspicious activity reporting data on a regular basis.

Management Response/Action Plan:

Management agrees that providing field management with this information would be beneficial. The BSA/AML Compliance Office is developing an automated report that will be pushed to field management on a monthly basis.

Target Implementation Date:

Automated reports will be pushed to the field starting [REDACTED] and will continue from this date.

Responsible Official:

Title: BSA/AML Compliance Officer

Recommendation 5

Revise the remedial review presentation to focus on local information and unique circumstances.

Management Response/Action Plan:

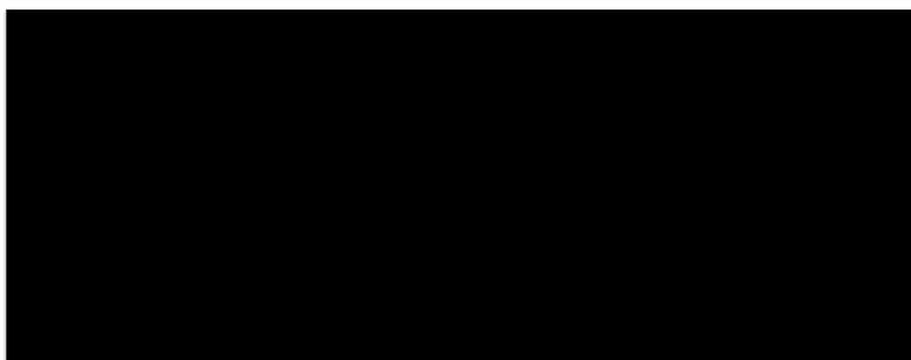
The BSA/AML remedial reviews are currently being updated. These changes will be implemented beginning [REDACTED] and from this date all BSA/AML remedial reviews will include the information outlined in this recommendation.

Target Implementation Date:

The BSA/AML remedial reviews are being updated. All BSA/AML remedial reviews will include this information beginning [REDACTED] and will be part of the remedial review process.

Responsible Official:

Title: BSA/AML Compliance Officer



Handwritten signature of Kelly M. Sigmon in cursive.

Kelly M. Sigmon
Vice President, Retail and Customer Service Operations

for *(Mark Berthold)*
Elizabeth M. Schafer
Treasurer

cc: John E. Cihota
Sally Haring
Mark S. Berthold
Laura Graven
Deborah L. Hitzeroth
Walter C. Alesevich



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1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100