



AUDIT REPORT

Internal Controls Over Money Orders - Kendall Green Station Contract Postal Unit, Washington, D.C.

May 8, 2017



Report Number FT-FM-17-018



May 8, 2017

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Kendall Green Station Contract Postal Unit,
Washington, D.C.**
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BACKGROUND:

The U.S. Postal Service Office of Inspector General (OIG) uses tripwires to identify financial anomalies. Tripwires are analytic tools that look at specific behaviors and patterns that are strong indicators of improper activity.

From October 1, 2015, to December 31, 2016, our tripwire identified the Kendall Green Station Contract Postal Unit (CPU), Washington, D.C., reported 262 money orders, valued at \$71,512, as cashed prior to being reported as sold.

A CPU is a retail unit located inside a private business under contract with the Postal Service. It provides postal services to the public and is operated by non-postal employees. The Kendall Green Station CPU only provided money order services.

CPUs provide daily financial activity to the host post office at the close of business on the same business day. The host post office is responsible for verifying and transmitting the CPUs' daily financial activities. This ensures all accounting transactions for the CPUs, including money order transactions, are included in the Postal Service's financial systems.

The objective of this audit was to evaluate whether internal controls over money orders sold at the Kendall Green Station CPU were in place and effective.

WHAT THE OIG FOUND:

Internal controls for money orders sold at the Kendall Green Station CPU needed improvement. We reviewed the accounting records from October 1, 2015, to December 31, 2016, and verified 262 money orders, valued at \$71,512, were cashed prior to the host post office reporting them as sold. These money orders represented 53 percent of the 499 total money orders sold during the same period. The CPU manager did not deposit funds and submit the daily financial reports to the host post office on the day they were sold.

On March 7, 2017, we conducted an independent count of cash and money orders and identified a shortage of \$5,305 for 21 money orders sold during February and March 2017. On the day of the count, the manager was not at work, so the CPU supervisor searched his safe, but the funds were not there. The manager provided the funds on the next business day and stated his supervisor overlooked them in the safe.

Also, the manager kept his personal money in the same safe with Postal Service funds. Further, the manager did not destroy 7,975 obsolete money orders, some dating back to 1998.

In addition, student employees overcharged customers for money order fees and entered incorrect purchase dates on the money orders.

The CPU manager stated he was aware of the proper procedures but did not follow them. The host post office supervisor stated she was not formally trained and adopted the practices of her predecessors who did not require the CPU manager to submit financial reports daily.

If controls over money orders are not followed, there is an increased risk of theft and inaccurate financial reporting.

We referred these issues to the OIG's Office of Investigations for further review.

WHAT THE OIG RECOMMENDED:

We recommended district management instruct the host post office to monitor money order sales and the financial reporting process at the Kendall Green Station CPU, provide CPU training to the host post office supervisor, and verify student employees are properly trained.

[Link to review the entire report](#)



May 8, 2017

MEMORANDUM FOR: SALVATORE VACCA
MANAGER, CAPITAL DISTRICT

E-Signed by Lorie Nelson 
VERIFY authenticity with eSign Desktop
Lorie Nelson

FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Money Orders –
Kendall Green Station Contract Postal Unit, Washington,
D.C. (Report Number FT-FM-17-018)

This report presents the results of our audit of the Internal Controls Over Money Orders at the Kendall Green Station Contract Postal Unit (Project Number 17BFM012FT000).

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

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Introduction

This report presents the results of our self-initiated audit of Internal Controls Over Money Orders at Kendall Green Station Contract Postal Unit (CPU), Washington, D.C. (Project Number 17BFM012FT000). The Kendall Green Station CPU¹ is in the Capital District of the Capital Metro Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

We reviewed accounting records at the Kendall Green Station CPU from October 1, 2015, to December 31, 2016. To determine whether internal controls were in place and effective for money orders sold, we reviewed money orders, financial reports, and performed a walkthrough of the CPU's money order procedures and conducted interviews of CPU personnel and Postal Service management.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW)² and Daily Financial Reporting System (e1412).³ We did not test the validity of controls over these systems; however, we verified the accuracy of the data by tracing selected information to supporting source records and confirming our analysis and results with postal service managers. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from March through May 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. 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 March 20, 2017, and included their comments where appropriate.

¹ A CPU is a supplier-owned or supplier-leased site operated by the supplier who is under contract with the Postal Service to provide postal services to the public.

² A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes from the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

³ A web-based system developed to aid in the processing of the daily financial report, account identifier codes entries, and money order vouchers.

Money Orders

Internal controls over money orders sold at the Kendall Green Station CPU needed improvement. We reviewed accounting records from October 1, 2015, to December 31, 2016, and verified 262 money orders, valued at \$71,511.62, were cashed prior to the host post office⁴ reporting them on the e1412 as sold. These money orders represent 53 percent of the 499 total money orders sold during the same period. The CPU manager did not deposit funds and submit the daily financial reports to the host post office on the day they were sold. In addition, the manager commingled his personal funds with Postal Service funds and did not return obsolete money orders for destruction. Finally, student employees overcharged customers for money order fees and entered incorrect dates on money orders sold.

If controls over money orders are not followed, there is an increased risk of theft and inaccurate financial reporting. We considered the money orders valued at \$71,511.62 at risk⁵ because procedures were not followed, and they were cashed before being reported and before the funds were deposited in the bank.

Bank Deposits

On March 7, 2017, we conducted an independent count of cash and money orders and identified a shortage of \$5,305. The shortage was due to 21 money orders that were sold from February 17, 2017, to March 2, 2017, but the CPU did not deposit the funds. On the day of the count, the CPU manager responsible for making bank deposits was not present, so the CPU supervisor searched his safe but could not locate the funds. On March 8, 2017, the manager presented the cash and vouchers to the audit team and stated his supervisor overlooked them in the safe.

After the manager provided the funds, we recounted all cash and money orders. We identified 30 money orders valued at \$7,153.02 sold from February 17, 2017, to March 7, 2017, where the funds were not deposited timely (see [Table 1](#)).

⁴ Responsible for providing support and oversight necessary to ensure CPUs are fulfilling their obligations as outlined in their contract with the Postal Service.

⁵ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

Table 1. Cash Not Deposited Timely From February through March 2017⁶

Money Order Serial Number	Date Sold	Date Deposited into Bank	Value
5076205934	2/17/2017	3/9/2017	\$239.84
5076205935	2/17/2017	3/9/2017	106.20
5076205936	2/17/2017	3/9/2017	\$161.20
5076205937	2/21/2017	3/9/2017	83.20
5076205938	2/21/2017	3/9/2017	46.35
5076205939	2/22/2017	3/9/2017	111.20
5076205940	2/24/2017	3/9/2017	16.20
5076205941	2/27/2017	3/9/2017	501.20
5076205942	2/27/2017	3/9/2017	501.20
5076205943	2/27/2017	3/9/2017	68.20
5076205944	2/28/2017	3/9/2017	401.20
5076205945	2/28/2017	3/9/2017	666.60
5076205946	2/28/2017	3/9/2017	451.20
5076205947	3/1/2017	3/9/2017	101.20
5076205948	3/1/2017	3/9/2017	301.20
5076205949	3/1/2017	3/9/2017	119.20
5076205950	3/1/2017	3/9/2017	887.60
5076205951	3/1/2017	3/9/2017	26.20
5076205952	3/2/2017	3/9/2017	3.20
5076205953	3/2/2017	3/9/2017	411.20
5076205954	3/2/2017	3/9/2017	101.20
5076205955	3/3/2017	3/9/2017	651.60
5076205956	3/6/2017	3/9/2017	161.20
5076205957	3/6/2017	3/9/2017	55.20
5076205958	3/6/3017	3/9/2017	125.23
5076205959	3/7/2017	3/9/2017	15.20
5076205960	3/7/2017	3/9/2017	51.20
5076205961	3/7/2017	3/9/2017	401.20
5076205962	3/7/2017	3/9/2017	336.20
5076205963	3/7/2017	3/9/2017	51.20
Total			\$7,153.02

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

⁶ The first 21 money orders listed represent the cash shortage valued at \$5,305 identified on March 7, 2017. Funds for those sold on March 3 and 6, 2017 were available for our count and did not contribute to the shortage. We performed the count prior to money orders sold on March 7, 2017.

We considered the money orders valued at \$7,153.02 at risk because procedures were not followed, and they were not deposited timely.

In addition, from October 1, 2015, to December 31, 2016, the manager did not make timely deposits for 130 of 165, or 79 percent, of the required bank deposits for money orders sold. He waited an average of 15 days after the money orders were sold and combined multiple bank deposits. For example, in July 2016, he kept cash from the sale of five money orders valued at \$768 for 32 days. Then, he combined the cash with multiple bank deposits to make one deposit on August 19, 2016. All five money orders were cashed by customers prior to the associated funds being deposited into the bank (see Table 2).

Table 2. Cash Held For 32 Days Before Deposit

Money Order Serial Number	Date Sold	Date Cashed	Date Deposited	Days From Purchase to Deposit	Amount
5076205690	7/18/2016	7/26/2016	8/19/2016	32	\$124.59
5076205691	7/18/2016	7/25/2016	8/19/2016	32	36.20
5076205692	7/18/2016	7/26/2016	8/19/2016	32	124.59
5076205693	7/18/2016	7/26/2016	8/19/2016	32	231.20
5076205694	7/18/2016	7/26/2016	8/19/2016	32	251.20
Total					\$767.78

Source: OIG analysis.

The CPU manager stated he was aware of the requirements for money orders, but he did not follow them. Also, the post office supervisor responsible for overseeing the CPU stated she was not formally trained and adopted the practice of her predecessors who did not require the CPU manager to make deposits on a daily basis.

According to Postal Service policy, CPUs must prepare and send postal funds for bank deposit, daily. Bank deposits that cannot be sent on the same business day due to extended business hours or early pickup schedules must be reported and registered to the unit's safe or vault as a completed bank deposit and remitted to the bank on the next business day's earliest post.⁷

On March 9, 2017, Postal Service management collected the \$7,153.02 from the CPU and dispatched the funds for deposit.

⁷ Handbook F-101, *Field Accounting Procedures*, June 2016, Section 9-1.2.

Daily Financial Reporting

The CPU manager did not record financial transactions on the daily financial report and submit the report to the host post office, daily, as required. Instead, he combined financial transactions from multiple days on one daily financial report. On average, he submitted daily financial reports every 13 days. The host post office supervisor responsible for overseeing the CPU stated she was not formally trained and adopted the practice of her predecessors who did not require the CPU manager to submit his financial reports daily.

According to Postal Service policy, CPUs must prepare and submit daily financial transactions to the host post office, and CPUs cannot combine sales from different days on one daily financial report.⁸

Commingling of Postal Funds

The CPU manager kept personal money in the safe with the funds from money orders sold. He maintained the funds in a stack of unmarked envelopes. The CPU manager stated he was aware of the requirements for money orders, including commingling of postal funds, but he did not follow them. According to Postal Service policy, CPUs must keep postal funds separate from personal funds.⁹

On March 8, 2017, postal management instructed the manager to remove personal funds from the safe.

Obsolete Money Orders

The CPU manager had 7,975 obsolete money orders for destruction. The CPU manager stated he was aware of the requirements for money orders, but he did not follow them. According to Postal Service policy, CPU's must send all money orders, which cannot be sold, to the MDC for destruction.¹⁰

On March 8, 2017, Postal Service management transported the obsolete money orders to the host post office for destruction.

⁸ Handbook F-101, Section 9-1.2.

⁹ Publication 116, *Contract Postal Unit Operations Guide*, August 2002, Module 6.

¹⁰ Handbook F-101, Section 11-6.11.

Student Employees

We reviewed the CPU's money order log, which tracked money orders sold, and found student employees overcharged customers for money order fees¹¹ and entered incorrect purchase dates on the money orders. The CPU supervisor and manager stated the students were not trained. The manager stated he was aware the students needed to be trained but did not train them because they were temporary employees.

According to Postal Service policy, the CPU is responsible for training its employees, and the training record must be kept on file in the host post office and the CPU coordinator's file.¹²

Recommendations

We recommend, the manager, Capital District, instruct the host Post Office postmaster to:

1. Monitor money order sales and the financial reporting process at the Kendall Green Station Contract Postal Unit.
2. Provide Contract Postal Unit training to the host post office supervisor and verify student employees are properly trained.

Management's Comments

Management agreed with the findings and recommendations. In response to recommendation 1, management will remind and train all applicable host post office employees of standard work procedures, including proper monitoring of money order sales and verification of the daily financial reporting. The training will include validation that PS Form 1412 and supporting documentation are supplied to the host administrative post office timely and that the data is verified.

In response to recommendation 2, Postal Service management will remind Kendall Green Station CPU management of standard work procedures and provide training to all CPU employees involved. In addition, Postal Service management will require the CPU business owner to certify that current CPU employees have been properly trained.

Management plans to implement these actions by May 31, 2017.

In addition, management did not agree that the \$72,000 in money orders was at risk. They stated the CPU is accountable for the funds and the Postal Service could recover

¹¹ Students charged \$1.25 instead of the current fee of \$1.20.

¹² Publication 156, *Guide to Contract Postal Units for Postal Service Employees*, January 2014, Section 9-5.4.

shortages either through direct payment from the CPU or through a claim against the CPU's bond.

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 the money orders at risk, we acknowledge the CPU owner was accountable for the funds and, if necessary, the Postal Service could file a claim against the CPU's bond. However, while the Postal Service could file a claim against the CPU's bond for funds not deposited by the CPU owner, the value of the bond was \$30,000, which was significantly less than the amount at risk. Accordingly, we continue to believe the funds are at risk.

All recommendations require 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.

Appendix A: Management's Comments



May 2, 2017

Lori Lau Dillard
Director Audit Operations
Office of Inspector General
United States Postal Service

Subject: Response to Draft Audit Report – Internal Controls Over Money Orders – Kendall Green Station Contract Postal Unit, Washington, D.C. (Report Number FT-FM-17-DRAFT)

Thank you for the opportunity to respond to the OIG Audit of internal controls over money orders at the Kendall Green CPU. Capital District management agrees with the findings as noted in the audit and also agrees with the recommendations made based on these findings.

Regarding the money orders valued at \$71,511.62 listed as at risk, Capital District does not agree these funds were at risk and would potentially become a shortage attributable to the postal service. As the CPU owner remains accountable for the funds whether he should lose them and have to pay out of pocket or the postal service would need to file a claim against the CPU's bond, the postal service would not be out of these funds.

Recommendation #1

We recommend, the manager, Capital District instruct the host Post Office postmaster to monitor money order sales and the financial reporting process at the Kendall Green Station Contract Postal Unit.

Management Response/ Action Plan

Capital District management agrees with this recommendation and will implement by reminders of standard work procedures that includes proper monitoring of money order sales and verification of daily financial documentation. This training will include the requirement to validate a PS Form 1412 and supporting documentation is supplied to the host administrative post office in a timely manner and data is verified. Training will be provided to all employees involved and documented in LMS.

Target Implementation Date

5/31/2017

Responsible Official

Supervisor, Customer Service- Washington, DC

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Recommendation #2

We recommend, the manager, Capital District instruct the host Post Office postmaster to provide Contract Postal Unit training to the host post office supervisor and verify student employees are properly trained.

Management Response/ Action Plan

Capital District management agrees with this recommendation and will implement reminders of standard work procedures to all members of management at Kendall Green. Additionally, the CPU business owner will be required to certify that current employees working in the CPU have been properly trained. Postal training will be provided to all employees involved.

Target Implementation Date

5/31/2017

Responsible Official

Supervisor, Customer Service- Washington, DC



Sal Vacca
Capital District Manager