



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Postal Inspection Service Consumer Fraud Fund

Audit Report

Report Number
HR-AR-17-006

May 4, 2017

CONSUMER PROTECTION





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Background

In 1997, the U.S. Postal Inspection Service, in coordination with the Department of Justice, established the Consumer Fraud Fund (CFF) to receive proceeds recovered in fraudulent cases when it is not feasible to return proceeds to the victims. The purpose of the CFF is to supplement Postal Inspection Service consumer education initiatives and consumer fraud investigations. In fiscal year (FY) 2016, the CFF's balance was \$44 million.

The Postal Inspection Service is subject to U.S. Postal Service procurement and purchasing guidelines for all expenditures charged to the CFF. In addition, the Postal Inspection Service has an internal guide that provides instructions on requesting funds for consumer fraud or asset forfeiture funded projects.

Our objective was to determine whether the Postal Inspection Service complied with applicable policies and procedures for CFF deposits and expenditures and, specifically, determine whether CFF funds were properly received and accounted for and whether expenditures were appropriate for FYs 2014 through 2016.

What the OIG Found

The Postal Inspection Service generally complied with applicable policies and procedures in managing CFF deposits and expenditures for FYs 2014 to 2016. In addition, all six

deposits were accurately recorded and supported by court decrees, fines, settlement agreements or judgements. Of the \$38 million in expenditures reviewed, all expenditures met the criteria for using the CFF and were accurately recorded and supported by invoices and source documents; however, all CFF funding requests did not always include the six required elements to support the request.

Additionally, opportunities exist to improve CFF processes and procedures. Specifically, goods and services funded by the CFF did not always have measurable performance goals to evaluate effectiveness. For example, five suppliers who were paid \$7.4 million did not have performance goals or a measure for performance progress. In addition, the Postal Inspection Service did not develop written procedures to track, monitor, and reconcile expenditures.

These conditions occurred because there is no requirement to evaluate the effectiveness of CFF expenditures using measurable performance goals; and the internal guide was not comprehensive to include processes for requesting CFF funding or for tracking, monitoring, and reconciling expenditures.

Formal written procedures for management of the CFF would help ensure consistency and accountability in how the Postal Service documents and approves CFF requests. Further, without written procedures, there is a risk that expenditures and adjustments will not be reported correctly. An effective control



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system consisting of well-defined processes and procedures is critical to ensuring consistent process application, retaining institutional knowledge, and protecting the Postal Service brand.

What the OIG Recommended

We recommended management develop a requirement to evaluate the effectiveness of CFF expenditures using measurable performance goals; and develop formal written procedures for managing CFF requests and for tracking, monitoring, and reconciling expenditures.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 4, 2017

MEMORANDUM FOR: GUY J. COTTRELL
CHIEF POSTAL INSPECTOR

E-Signed by Charles Turley
VERIFY authenticity with eSign Desktop

FROM: Charles L. Turley
Deputy Assistant Inspector General
for Supply Management and Human Resources

SUBJECT: Audit Report – Postal Inspection Service
Consumer Fraud Fund (Report Number HR-AR-17-006)

This report presents the results of our audit of the Postal Inspection Service Consumer Fraud Fund (Project Number 17SMG007HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, Director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit and Response Management

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Findings

At the end of FY 2016, the CFF balance was \$44 million.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Inspection Service Consumer Fraud Fund (CFF) (Project Number 17SMG007HR000). The objective was to determine whether the Postal Inspection Service complied with applicable policies and procedures for CFF deposits and expenditures and specifically, whether CFF funds were properly received and accounted for and whether fund expenditures were appropriate during fiscal years (FY) 2014 through 2016. See [Appendix A](#) for additional information about this audit.

In 1997, the Postal Inspection Service, in coordination with the Department of Justice, established the CFF to receive proceeds recovered in fraudulent cases when it is not feasible to return proceeds to victims. At the end of FY 2016, the CFF balance was \$44 million.

The purpose of the CFF is to:

- Supplement Postal Inspection Service consumer education initiatives and fraud investigations.
- Supplement investigative support by contracting for professional and technical expertise for major domestic and international fraud investigations.
- Train postal inspectors and others in the area of consumer fraud.
- Support interagency law enforcement fraud initiatives.
- Support fraud prevention campaigns.

Summary

The Postal Inspection Service generally complied with procedures for the \$7 million¹ in deposits and \$38 million in expenditures² from FYs 2014 to 2016. All six deposits were accurately recorded and supported by court decrees, fines, settlement agreements, or judgements. Two of the six deposits were court decrees, two deposits were fines, one deposit was a settlement agreement, and the remaining deposit was a judgement. We reviewed 10 suppliers that represented 90 percent (\$38 million) in expenditures. All expenditures met the criteria for using the CFF and were accurately recorded and supported by invoices and source documents; however, all CFF funding requests did not always include the six required elements to support the request (see [Appendix B](#)).

Additionally, opportunities exist to enhance CFF processes and procedures. Specifically, management did not always have measurable performance goals to evaluate the effectiveness of the goods and services that supported CFF. Specifically, of the 10 suppliers that represented \$38 million in expenditures, five that represented 81 percent of expenditures (\$31.1 million) had performance goals sufficient to define the level of performance to be achieved by the goods or services. Five that represented 19 percent of expenditures (\$7.4 million) did not have any measurable performance goals. Also, the Postal Inspection Service did not develop written procedures to track, monitor, and reconcile expenditures.

¹ This amount does not include about \$2.9 million in interest that the Postal Inspection Service earned.

² This amount represents about 90 percent of expenditures for FYs 2014 through 2016.
















































Of the 10 suppliers that represented \$38 million in expenditures, management evaluated the effectiveness of goods and services for five suppliers that represented 81 percent of expenditures (\$31.1 million).

These conditions occurred because management did not have a requirement to evaluate the effectiveness of CFF expenditures using measurable performance goals and the internal guide was not comprehensive to include procedures for requesting CFF funding; or for tracking, monitoring, and reconciling expenditures.

Performance Goals

Establishing performance goals helps managers define the level of performance a program activity is supposed to achieve; however, the Postal Inspection Service did not always have measurable performance goals to evaluate the effectiveness of the goods and services that supported CFF. Of the 10 suppliers that represented \$38 million in expenditures, management evaluated the effectiveness of goods and services for five suppliers that represented 81 percent of expenditures (\$31.1 million); however, for the remaining five that represented 19 percent of expenditures (\$7.4 million of \$38 million), management did not have measureable performance goals to evaluate the effectiveness of the goods and services (see Table 1).

Table 1. Summary of Performance Goals

 SUPPLIER	TOTAL 	GRAND TOTAL 	MEASURABLE GOALS 
 	\$26,427,297 	 \$31,055,244	
 	\$3,671,051 		
 	\$509,259 		
 	\$225,940 		
 	\$221,697 		
 	\$5,400,000 	 \$7,429,100	
 	\$1,755,119 		
 	\$173,541 		
 	\$75,715 		
 	\$24,725 		
 TOTAL	\$38,484,344	\$38,484,344	

For example, although [REDACTED] provided performance goals, the goals were not measurable to evaluate the effectiveness of the production of *The Inspectors*³ TV show. The request for funding and statement of work (SOW) identified the following goals:

- Raise awareness of consumer fraud and educate the target audience about current frauds and scams.
- Increase public confidence in the U.S. mail by ensuring the Postal Inspection Service is recognized as a leader in providing consumer protection and education messaging.

Postal Inspection Service management stated they evaluated *The Inspectors* TV show using Nielsen ratings and other viewership data provided by [REDACTED] however, there were no goals for the Nielsen ratings and viewership data.

[REDACTED] contracts had measurable performance goals used to evaluate the effectiveness of services.

The [REDACTED] contract provides nationwide investigative and analytical support resources for any of the Postal Inspection Service's field offices and domiciles and includes the following performance goals:

- Supplier will be periodically measured on their ability to meet task and project milestones.
- Supplier will respond to and resolve complaints within 30 days of notification by COR.

The [REDACTED] contract provides scanning services for Postal Inspection Service investigative evidence. The contract includes the following performance goals:

- Supplier shall accept or reject services request forms, shipping, planning, and coding plans, and digitized data within 10 business days upon receipt.
- Supplier shall monitor production and usage reporting activities to ensure required tasks are conducted.

The [REDACTED] contract provides translation and maintenance services for the Postal Service. The contract includes the following performance goals:

- Supplier shall provide translation documentation, such as a glossary of terms, in the beginning of the contract to ensure quality of translation in terms of meaning, tone etc.
- Supplier shall work to provide a workaround or fix within seven business days if a major application or system is seriously affected or its implementation is stopped.

The five suppliers did not have measurable performance goals because the Postal Inspection Service does not have a requirement to evaluate the effectiveness of CFF expenditures using measurable performance goals. According to the 1993 Government Performance and Results Act (the Act), federal agencies are required to establish standards for measuring performance and effectiveness. The Act requires federal agencies to describe their overall goals and objectives in quantifiable

³ *The Inspectors* TV show is intended to educate viewers about consumer scams, identity theft, mail fraud, cyber-crime, etc. and offer crime prevention tips through storylines inspired by real Postal Inspection Service cases.

measures to determine whether the program or activities meet performance goals and objectives. If management determines it was not feasible to express performance goals in a quantifiable form, they should require a statement that describes, at a minimum, the acceptable level of performance to be achieved. Although the Postal Service is not subject to the Act, having measurable performance goals for activities is a best practice to ensure contractors perform at an acceptable level.

Additionally, the Postal Service's *Supplying Principles & Practices* suggest that using performance measures allows measurement of the quality of the service. The performance metrics selected must offer clear and demonstrable evidence of success, such as quality and timeliness.

The *United States Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* states that management is responsible for defining objectives in measurable terms to allow assessment of the performance toward achieving those objectives. The GAO further states that measurable objectives should be specified in a quantitative or qualitative form that permits reasonably consistent measurement.

Implementing best practices for evaluating program effectiveness can assist management in determining whether to continue funding a project using CFF and ensuring value.

Consumer Fraud Funding Process

Approved CFF funding requests did not always include the six required elements to support the request. Based on our review of CFF request forms for nine of the ten suppliers reviewed,⁴ we found the following:

- Four of nine requests did not provide a detailed breakdown of the project cost.
- None of the nine requests explained the impact if the project was not approved.

According to the Postal Inspection Service guide for requesting CFF funding,⁵ the requestor must complete a request form⁶ that includes the following six elements:

- A complete description of the project.
- Description of the benefit to the Postal Service.
- A detailed breakdown of cost.
- Explanation of the impact if the project is not approved.
- Some analysis such as current usage of the software or equipment.
- A SOW or other comprehensive justification.

⁴ The initial funding request for [REDACTED] was made in FY 2013; therefore, we did not include the request in our review of the CFF funding process because it is outside the scope of our audit. However, [REDACTED] incurred expenses in FY 2014; therefore, we included them in our other analysis.

⁵ *A Guide on How to Request Asset Forfeiture or Consumer Fraud Funding for Projects.*

⁶ *Asset Forfeiture Fund/Consumer Fraud Fund Project/Initiative Request Form.*

Opportunities exist to enhance internal controls for tracking, monitoring, and reconciling of expenditures.

According to the director, Business Operations, depending on the circumstances of the request, the elements are not always applicable, but are there to provide guidance on how to request CFF funding and is not official policy. Although the guide requires a detailed breakdown of costs, management stated that the detailed cost breakdown is not always available at the time of the funding request and may not be necessary because historical costs are available. However, management stated they can obtain cost estimates from the supplier or historical program cost.

The guide also requires an explanation of the impact if the project is not approved. Management stated that, depending on the justification, the impact of a project not being approved is sometimes already clear. However, clearly identifying the impact if a project is not approved would show its significance.

According to management, they would not deny a funding request based on missing information alone, even though the guide requires specific information, and would request additional information as necessary. However, there was no evidence attached to the request that management requested additional information or the requestor provided additional information.

Because of the lack of formal written procedures, requests for funding documentation did not always include the required information. Depending on the circumstances of the request, there were different documentation requirements. Written procedures clarifying requirements for requesting CFF funding would help ensure consistency in how requests are documented and approved.

Tracking, Monitoring, and Reconciling Consumer Fraud Fund Expenditures

Although there were no exceptions identified in the management of the CFF, opportunities exist to enhance internal controls for tracking, monitoring, and reconciling of expenditures. Currently, the practices are not formally documented as procedures and the Postal Inspection Service is relying on the experience and background of personnel to ensure these activities occur. The current internal guide is not formal or comprehensive to include these processes.

The Postal Inspection Service's Asset Forfeiture Unit (AFU) is responsible for tracking, monitoring, and reconciling expenditures on a monthly basis using the Postal Service's EDW, which is a single repository for managing all of the Postal Service's data assets.⁷ CFF expenditures are reconciled monthly by verifying general ledger amounts to invoices and other supporting documentation and then uploaded to the Postal Inspection Service's internal access database⁸ and assigned a unique identification number.⁹ Various reports can be generated from the internal access database to show approved amounts for each project, the expenditures incurred, and project balances.

AFU personnel monitor project balances to ensure charges are appropriate and do not exceed the approved funding amounts. When errors are identified, AFU personnel prepare a journal voucher adjustment form¹⁰ to document corrections and adjustments to the EDW general ledger. The journal voucher adjustments in EDW are uploaded to the internal access database to reflect those adjustments to CFF expenditures. Postal Inspection Service provides the vice president, controller, a monthly summary report of CFF expenditures and balances.

Without written procedures, there is a risk that expenses and adjustments will not be reported correctly which would impact the accuracy of financial reports to management. Furthermore, there is a risk that institutional knowledge will not be retained in the event of personnel turnover and there would be a negative impact on the continuity of business. Lastly, an effective control system consisting of well-defined processes and procedures is critical to protecting the Postal Service's brand.

⁷ Provides financial reporting information for accounts payable and general ledger/financial performance.

⁸ The internal database is used to track actual charges and adjustments made to each expenditure by unique identification number.

⁹ The unique identification number is used to track expenditures for each CFF-funded project.

¹⁰ PS Form 824, Detail Supporting Journal Voucher and Error Correction.

Recommendations

We recommend management develop a requirement to evaluate the effectiveness of CFF expenditures using measurable performance goals; and develop formal written procedures for management of CFF requests and for tracking, monitoring, and reconciling expenditures.

We recommend the chief postal inspector:

1. Develop a requirement to evaluate the effectiveness of Consumer Fraud Fund expenditures using measurable performance goals.
2. Develop formal written procedures for management of Consumer Fraud Fund requests and for tracking, monitoring, and reconciling expenditures.

Management's Comments

Management partially agreed with recommendation 1 and agreed with recommendation 2. See [Appendix C](#) for management's comments in their entirety.

In response to recommendation 1, management stated they currently review the effectiveness of expenditures on a case-by-case basis using measurable performance goals. However, beginning in FY 2018, management will evaluate the effectiveness of expenditures using measurable performance goals when feasible or incorporate a statement that describes, at a minimum, the acceptable level of performance.

In response to recommendation 2, management stated they will develop process flow documents by October 1, 2017, to request, track, monitor, and reconcile CFF expenditures.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1 and 2 and their corrective actions should resolve the issues in the report.

Regarding recommendation 1, management provided alternative corrective actions to evaluate the effectiveness of expenditures using measurable performance goals. This action satisfies the intent of recommendation 1.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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.

Appendices

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Appendix A: Additional Information

Background

The Postal Inspection Service is authorized to receive the proceeds of criminal fines and penalties arising out of cases presented to the U.S. attorneys for prosecution. The proceeds of criminal fines, penalties, and court-ordered restitution received by the Inspection Service are deposited into the Postal Service Fund. In June of each year, the Postal Inspection Service solicits CFF funds request from postal inspectors and their teams. When it is determined that a request meets the criteria for use of CFF, the requestor must complete an Asset Forfeiture Fund/Consumer Fraud Fund Project/Initiative Request form.¹¹

The Asset Forfeiture Fund/Consumer Fraud Fund Project/Initiative Request form is submitted to the appropriate inspector-in-charge (INC) for approval. If the INC approves the request, they must submit the request to the AF/CF Request Mailbox with a copy to their deputy chief inspector. Dispositions on funding requests are generally completed by September.

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Inspection Service complied with applicable policies and procedures for CFF deposits and expenditures. Specifically, we determined whether CFF funds were properly received and accounted for and whether expenditures were appropriate. The scope of this audit was a review of deposits and expenditures for the top 10 CFF funded contracts which represented 90 percent of total expenditures for FYs 2014 through 2016.

To accomplish our objective, we:

- Identified and reviewed applicable federal, Postal Service, and Postal Inspection Service regulations related to the CFF.
- Interviewed Postal Service and Postal Inspection Headquarters and field managers, postal inspector team leaders, and officials to understand their roles and responsibilities regarding the CFF.
- Interviewed Postal Inspection Service AFU personnel involved in managing the fund to understand their roles and responsibilities regarding transaction and approval process, to include:
 - Receiving and depositing funds into the CFF account.
 - Procuring goods and services using the CFF.
 - Monitoring, tracking, and reconciling CFF deposits and expenditures.
- Reviewed deposits made to the fund and expenditures charged to the fund for the top 10 CFF funded contracts totaling about \$38 million (90 percent spent from FYs 2014 to 2016).
 - Determined whether deposits and expenditures charged to the contracts were appropriate, properly approved and supported, and in compliance with applicable criteria.
 - Obtained applicable supporting documentation, including invoices, journal entries, contracts, SOW, and Postal Inspection Service's requirements under the contracts.

¹¹ Official Postal Inspection Service form for requesting CF funding.

- Compared supporting documents to the transaction that posted and verified transactions to ensure it is accurate and appropriate.
- Determined if the justifications for using the CFF and expenditures incurred are appropriate.
- Determined if the Postal Inspection Service has developed written goals and measurable objectives for the CFF to assess the effectiveness of good and goods and services funded with CFF.
- Reviewed policies and procedures for justifying CFF funding and determined if requestors of CFF funds met those requirements.

We conducted this performance audit from November 2016 through May 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 audit objective.

We discussed our observations with management on April 6, 2017, and included their comments where appropriate.

We assessed the reliability of CFF data by reviewing existing information about the CFF and the system¹² that produced them, interviewed agency officials knowledgeable about the data, and compared system data to source documents. We concluded that the data were sufficiently reliable for the purposes of this review.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) did not identify any prior audits or reviews related to the objective of this audit.

¹² EDW.

Appendix B: Fiscal Years 2014 – 2016 Top 10 Consumer Fraud Funded Projects

CFF Category	Supplier	Supplier Description	Total	Grand Total
Consumer Fraud Investigations		Investigative contract analysts	\$26,427,297	\$30,497,829
		Document scanning service for fraud investigations	3,671,051	
		Software to isolate zip codes to detect fraudulent mail	173,541	
		Spanish and Chinese translation services	225,940	
Consumer Awareness Initiatives		<i>The Inspectors</i> TV show	5,400,000	7,179,844
		Media products for fraud and crime prevention programs	1,755,119	
		Chicago-based <i>Don't Fall For It</i> radio program.	24,725	
Investigative Support for Major Domestic and International Consumer Fraud Investigations		Fraud investigations involving Canada and U.S.	509,259	730,956
		Fraud investigations involving Canada and U.S.	221,697	
Consumer Education Programs		Fraud awareness for elderly	75,715	75,715
Total			\$38,484,344	\$38,484,344

Source: OIG analysis and the EDW.

Appendix C: Management's Comments



GUY J. COTTRELL
CHIEF POSTAL INSPECTOR

UNITED STATES POSTAL INSPECTION SERVICE

April 27, 2017

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Postal Inspection Service Consumer Fraud Fund Report Number HR-AR-17-DRAFT

Management agrees with the general findings of the Draft Audit Report. However, it is important to clarify statements made in the report.

In the Highlights and on pages one and five of the Report it is stated "... CFF funding requests did not always include the six required elements to support the request." Management reviewed all requests and, while all requests did not include the six elements, as this is not always feasible, management ensured all pertinent information was provided prior to approval.

Recommendation 1:

Develop a requirement to evaluate the effectiveness of Consumer Fraud Fund expenditures using measurable performance goals.

Management Response/Action Plan

Management agrees in part with this recommendation.

Management currently reviews the effectiveness of expenditures on a case-by-case basis.

Beginning fiscal year 2018, management will evaluate the effectiveness of expenditures using measurable performance goals when feasible. If measurable performance goals are not feasible, management will incorporate a statement that describes, at a minimum, the acceptable level of performance.

Target Implementation Date: October 1, 2017

Responsible Party: Director, Business Operations

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Recommendation 2:

Develop formal written procedures for management of Consumer Fraud Fund requests and for tracking, monitoring, and reconciling expenditures.

Management Response/Action Plan

Management agrees with this recommendation.

In addition to the procedural written guidelines that currently exist to request Consumer Fraud Funds, Management will develop process flow documents to request, track, monitor, and reconcile CFF expenditures.

Target Implementation Date: October 1, 2017

Responsible Party: Director, Business Operations


Guy J. Cottrell

cc: *Manager, Corporate Audit Response Management*



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