

U.S. Postal Service Money Order Trends and Cost Coverage

AUDIT REPORT

Report Number 22-057-R23 | October 20, 2022



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Highlights

Background

A U.S. Postal Service money order is a financial document similar to U.S. currency and is sold by Postal Service window clerks. Customers can purchase money orders for a fee in varying amounts and redeem them at any post office. Although the Postal Service categorizes money orders as market dominant products, they can be purchased from certain commercial banks and money transfer agencies such as Western Union and MoneyGram. The maximum amount for a single Postal Service, Western Union, or MoneyGram domestic money order is \$1,000.

What We Did

Our objective was to assess Postal Service money order trends and initiatives to increase future cost coverage. To achieve our objective, we interviewed Postal Service personnel and evaluated money order prices, cost coverage, and volume data trends.

What We Found

To comply with the Postal Accountability and Enhancement Act, the Postal Service has increased money order prices three times since fiscal year (FY) 2021 and Postal Service money order prices continued to exceed those of its main competitors. Price increases may have a negative impact on money order volume and, as a result, the Postal Service may struggle to remain competitive in the money order market if prices continue to increase. Further, money order costs continued to increase as volume decreased and revenue remained volatile.

While management stated that money orders will continue to be part of the Postal Service's product portfolio, they did not comprehensively monitor performance or implement initiatives to reduce window service costs and increase future cost coverage. This occurred primarily because management did not have formal documented procedures for monitoring money order product performance. In addition, other areas took precedence as demand for the product decreased. Since we announced this audit, management initiated a money order product review. When structured product monitoring is not conducted and costs are not contained, management may miss opportunities to develop and prioritize product initiatives that fully optimize money order performance.

Recommendations

We recommended management explore initiatives to reduce window service costs and document procedures for monitoring performance and conducting periodic product reviews for money orders.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 20, 2022

MEMORANDUM FOR: THOMAS J. FOTI
VICE PRESIDENT, PRODUCT SOLUTIONS

ELVIN MERCADO
VICE PRESIDENT, RETAIL & POST OFFICE OPERATIONS

SHARON D. OWENS
VICE PRESIDENT, PRICING AND COSTING

A handwritten signature in black ink, reading "Alan MacMullin", is positioned below the list of recipients.

FROM: Alan MacMullin
Deputy Assistant Inspector General
for Finance, Pricing, and Human Capital

SUBJECT: Audit Report – U.S. Postal Service Money Order Trends
and Cost Coverage (Report Number 22-057-R23)

This report presents the results of our audit of U.S. Postal Service Money Order Trends and Cost Coverage.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Steven Gorski, Director, Cost and Pricing, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Money Order Revenue and Cost Coverage (Project Number 22-057). Our objective was to assess Postal Service money order trends and initiatives to increase future cost coverage. See [Appendix A](#) for additional information about this audit.

Background

The Postal Service introduced money orders in 1864 as a safe way for soldiers and others to send payments long distances. A Postal Service money order is a financial document similar to U.S. currency and sold by Postal Service window clerks. Customers can purchase money orders and redeem them at any post office. Money orders are a stand-alone Special Service provided to customers for a fee.

Although the Postal Accountability and Enhancement Act (PAEA) requires the Postal Service to categorize money orders as a market dominant product, money orders can be purchased from Postal Service competitors. Certain commercial banks and money transfer agencies such as Western Union and MoneyGram sell money orders. The maximum amount for a single Postal Service, Western Union, and MoneyGram domestic money order is \$1,000.

In addition, PAEA requires each product to bear the direct and indirect postal costs attributable to each product. To meet cost coverage, revenue generated from a product must be equal to or exceed costs incurred.

Findings Summary

To comply with PAEA, the Postal Service continued to increase money order prices while its prices exceeded those of its main competitors. Price increases may have a negative impact on money order volume and, as a result, the Postal Service may struggle to remain competitive in the money order market. Further, money order costs continued

to increase as volume decreased and revenue remained volatile.

Management did not comprehensively monitor money order product performance or implement initiatives to reduce window service costs, primarily because management did not have procedures for monitoring money order product performance. When structured product monitoring is not conducted and costs are not contained, management may miss opportunities to develop and prioritize product initiatives that fully optimize money order performance.

Finding #1: Money Order Trends

Management continued to increase prices even though Postal Service money order prices exceeded those of its main competitors. Further, Postal Service money order costs exceeded revenue in three of the last five years with window service¹ and debit card² costs as the largest costs associated with money orders. Money order volume steadily decreased over the preceding five years and revenue remained volatile, increasing between fiscal years (FY) 2017 and 2018 and decreasing between FY 2019 and FY 2021 by about \$16 million, or about 10 percent.

Money Order Prices

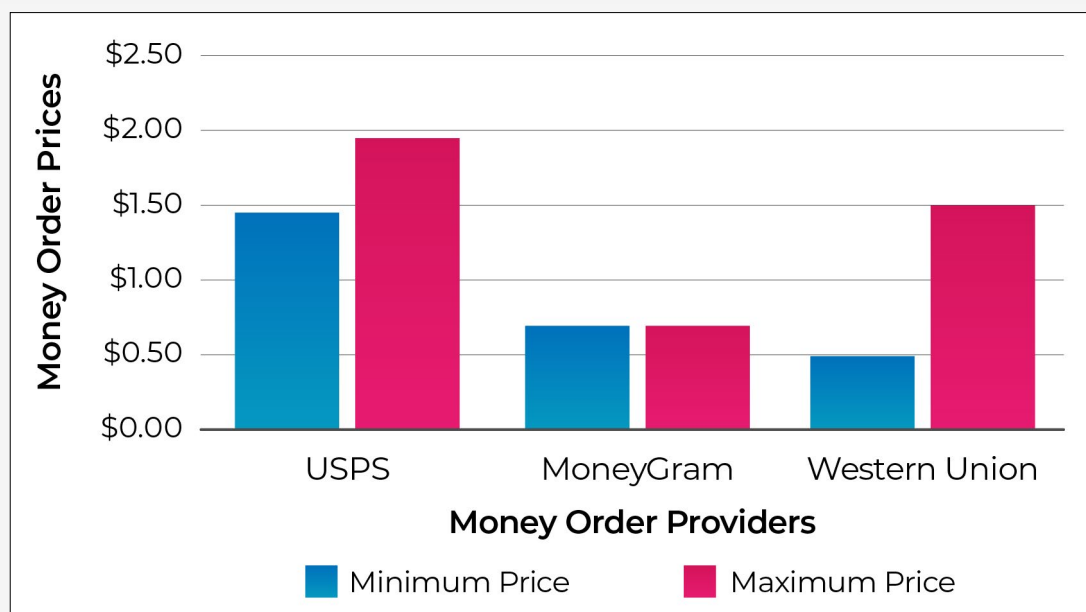
As required by the PAEA, to cover money order costs, the Postal Service increased prices by about 3 percent beginning in Quarter (Q) 2 of FY 2021 and about 12 percent beginning in Q4 of FY 2021. The price increases did not result in money orders revenue exceeding costs for FY 2021. Instead, cost coverage was at its lowest since FY 2017. Additionally, the Postal Service increased money order prices again in Q4 of FY 2022. According to management's June 2022 revenue and cost projections, these price increases are expected to cause revenue to exceed costs for FY 2022. However, the June 2022 projections show money order costs once again exceeding revenue in FY 2023. In September 2022, management provided a revised revenue and cost projection, to show money order revenue exceeding costs for FY 2023.

¹ Costs of employees engaged in window activities, including issuing money orders.

² Fees paid by the Postal Service for processing debit card transactions.

Figure 1. Money Order Prices by Provider

Source: Figure provided by the Postal Service.



Further, as shown in Figure 1, Postal Service money order minimum and maximum prices exceed those of its main competitors, MoneyGram and Western Union.

Price increases may have a negative impact on money order volume and management stated that customers' access to alternative payment methods and other money transfer providers also impacts money order volume. The Postal Service may struggle to remain competitive in the money order market if prices continue to increase.

Cost and Volume

Postal Service money order costs exceeded revenue in three of the past five fiscal years. As shown in Table 1, these costs surpassed revenue by about \$4 million in FY 2017 and FY 2020 and by about \$19

million in FY 2021. Money order cost coverage for those periods was about 97, 98, and 89 percent, respectively. Further, from FY 2017 to FY 2021, the Postal Service's money order volume decreased from nearly 87 million to about 72 million, or almost 18 percent.

Window service and debit card costs are the largest costs associated with money orders. From FY 2017 through FY 2021, these costs together averaged about 73 percent of total product costs. As shown in Table 2, during that period, window service costs increased from about \$75 million to nearly \$93 million, or about 24 percent. Conversely, as shown in Table 3, debit card costs decreased from about 27 percent to about 18 percent of total money order costs.

Table 1. Money Order Cost and Volume Trends

| FY | Revenue (Millions) | Cost (Millions) | Cost Contribution ³ (Millions) | Cost Coverage ⁴ | Volume (Millions) |
|------|--------------------|-----------------|---|----------------------------|-------------------|
| 2017 | \$152.40 | \$156.40 | \$(4.00) | 97.44% | 86.8 |
| 2018 | \$158.50 | \$146.70 | \$11.80 | 108.04% | 83.3 |
| 2019 | \$162.90 | \$154.50 | \$8.40 | 105.44% | 81.2 |
| 2020 | \$153.30 | \$156.90 | \$(3.60) | 97.71% | 77.0 |
| 2021 | \$147.30 | \$166.40 | \$(19.10) | 88.52% | 71.5 |

Source: FY 2017 through FY 2021 Postal Service Annual Compliance Reports (ACR) and Annual Compliance Determination (ACD) Reports.

³ Revenue minus cost. A negative number indicates cost exceeds revenue.

⁴ Revenue divided by cost.

Table 2. Money Order Window Service Cost Trends

| FY | Window Service Cost (Millions) | Total Cost (Millions) | Window Service Cost to Total Cost |
|------|--------------------------------|-----------------------|-----------------------------------|
| 2017 | \$74.92 | \$156.40 | 47.9% |
| 2018 | \$80.13 | \$146.70 | 54.6% |
| 2019 | \$84.28 | \$154.50 | 54.5% |
| 2020 | \$85.93 | \$156.90 | 54.7% |
| 2021 | \$92.81 | \$166.40 | 55.7% |

Source: FY 2017 through FY 2021 Cost Segment and Components, ACR and ACD Reports, and U.S. Postal Service Office of Inspector General (OIG) analysis.

Table 3. Money Order Debit Card Cost Trends

| FY | Debit Card Cost (Millions) | Total Cost (Millions) | Debit Card Cost to Total Cost |
|------|----------------------------|-----------------------|-------------------------------|
| 2017 | \$42.09 | \$156.40 | 26.9% |
| 2018 | \$25.73 | \$146.70 | 17.5% |
| 2019 | \$25.81 | \$154.50 | 16.7% |
| 2020 | \$28.30 | \$156.90 | 18.0% |
| 2021 | \$30.41 | \$166.40 | 18.2% |

Source: FY 2017 through FY 2021 Cost Segment and Components, ACR and ACD Reports, and OIG analysis.

Customers must purchase money orders in person from Postal Service window clerks as selling money order is primarily a manual process. In FY 2021, window service costs partially increased due to the 3 percent window clerk wage increase. Money order window service costs will continue to increase as wages rise.

Regarding debit card costs, management periodically negotiates debit card fees with processing vendors. To further control debit card costs, the Postal Service secured a new payment processor contract to ensure transactions are routed to the lowest cost processing network.

Recommendation #1

We recommend the **Vice President, Product Solutions**, explore initiatives to reduce window service costs.

Finding #2: Money Order Monitoring

While management stated that money orders will continue to be part of the Postal Service's product portfolio, they have not comprehensively monitored product performance or implemented initiatives to reduce window service costs and increase future cost coverage. This occurred primarily because management does not have formal documented procedures for monitoring money order product performance. In addition, other areas took precedence as demand for the product decreased.

Since we announced this audit, management hired a contractor to conduct a money order product review. Management stated that money order product review may include assessing product performance, documenting the product life cycle, conducting stakeholder interviews, and obtaining customer viewpoints. When structured product monitoring is not conducted and costs are not contained, management may miss opportunities to develop and prioritize product initiatives that fully optimize money order performance.

Recommendation #2

We recommend the **Vice President, Product Solutions**, document procedures for monitoring performance and conducting periodic product reviews for money orders.

Management's Comments

Management agreed with both recommendations and finding 1. Management disagreed with the OIG assertion, in finding 2, that the Postal Service did not comprehensively monitor money order product performance. Management stated that this assertion is not representative of the activity that occurs regularly as part of the product review and pricing process.

Regarding recommendation 1, management agreed to explore initiatives to reduce window service costs. Management stated they will identify potential opportunities to offer money order services more efficiently to their customers. The target implementation date is April 30, 2023.

Regarding recommendation 2, management agreed to document procedures for monitoring performance and conducting periodic product reviews for money orders. The target implementation date is March 30, 2023.

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 in the report and corrective actions should resolve the issues identified in the report.

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

Regarding the disagreement for finding 2, we understand the periodic analysis and reporting activities associated with the regulatory process for market dominant products. However, management was unable to provide results or dates of any money order product reviews or documented procedures for monitoring product performance. Therefore, we affirm that the Postal Service did not comprehensively monitor money order product performance during the scope of the audit.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit included Postal Service money order revenue, volume, and costs from FY 2017 through FY 2021.

To accomplish our objective, we:

- Interviewed Postal Service management to discuss price, the decline in money order cost coverage, the future of Postal Service money orders, recent increases in money order prices and revenue, and volume projections for the post-July 2022 price increase.
- Interviewed Postal Regulatory Commission management to identify regulations related to money orders.
- Obtained and reviewed governing criteria, reports, and other documentation (handbooks, policies, procedures, and guidelines) applicable to Postal Service money orders.
- Analyzed money order revenue, cost coverage, and volume data from the ACR, ACD, and Cost Segments and Components reports to identify trends or anomalies.

- Assessed Postal Service initiatives to increase cost coverage for money orders.

We conducted this performance audit from February through October 2022 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 September 12, 2022 and included their comments where appropriate.

We assessed the reliability of the money order cost and revenue data by performing logical tests of completeness and validity. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments



Date: October 06, 2022

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: U.S. Money Order Trends and Cost Coverage (22-057-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the finding and recommendations contained in the draft audit report U.S. Money Order Trends and Cost Coverage.

Management understands the intent of this audit and shares the OIG concern around the profitability of Money Orders. However, we do have concerns about the characterization of the Money Order Monitoring findings which do not adequately represent the oversight and activities that occur within the product management of Money Orders.

Findings and Recommendations:

Finding 1: Money Order Trends:

The Postal Service agrees with the Finding # 1.

Recommendation [1]:

We recommend the Vice President, Product Solutions, explore initiatives to reduce window service costs.

Management Response/Action Plan:

Management agrees with this recommendation and will continue to explore and identify potential opportunities to offer Money Order services more efficiently to our customers.

Target Implementation Date: April 30th, 2023

Responsible Official:

Vice President, Product Solutions

Finding 2: Money Order Monitoring

The Postal Service disagrees with the finding that "they have not comprehensively monitored product performance". This specific finding in the audit is not representative of the activity that occurs on a regular basis as part of the product review and pricing process. The Postal

Service does perform product and market reviews, price, and cost analysis, as well as provide regulatory product reporting (i.e., Annual Compliance Report, Annual Compliance Determination, yearly PRC reporting)

Recommendation [2]:

We recommend the Vice President, Product Solutions, document procedures for monitoring performance and conducting periodic product reviews for money orders.

Management Response/Action Plan:

Management agrees with the recommendation and will document procedures and continue to seek ways to enhance its products reviews

Target Implementation Date: March 30th, 2023

Responsible Official:

Vice President, Product Solutions

E-SIGNED by Thomas.J Foti
on 2022-10-06 10:15:25 CDT

Vice President, Product Solutions

cc:

Vice President, Pricing & Costing

Vice President, Retail & Post Office Operations

Manager, Corporate Audit Response Management

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