



## AUDIT REPORT

# Local Purchases and Payments – Franklin, PA, Post Office

September 20, 2018



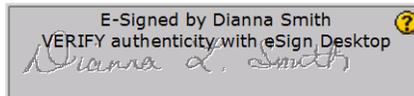
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Report Number FCS-FM-18-029



September 20, 2018

**MEMORANDUM FOR:** DAVID WEBSTER  
(ACTING) MANAGER, WESTERN PENNSYLVANIA  
DISTRICT



**FROM:** *for*  
Michelle Lindquist  
Director, Financial Controls

**SUBJECT:** Audit Report – Local Purchases and Payments - Franklin,  
PA, Post Office (Report Number FCS-FM-18-029)

This report presents the results of our audit of the Local Purchases and Payments - Franklin, PA, Post Office (Project Number 18BFM026FCS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact please contact Dianna PruDe, Operational Manager, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit and Response Management

## Background

This report presents the results of our self-initiated audit of Local Purchases and Payments – Franklin, PA, Post Office (Project Number 18BFM026FCS000). The Franklin Post Office is located in the Western Pennsylvania District of the Eastern Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

The Postal Service prefers to use eBuy2<sup>1</sup> to pay for goods and services. If a purchase cannot be satisfied through eBuy2, authorized postal employees may use the SmartPay2<sup>2</sup> card. Cash can be used for emergency one-time expenses, not to exceed \$25 and no-fee money orders (money orders) can be used for emergency one-time local expenses, not to exceed \$1,000. In addition, local payments exceeding \$600 made with cash or money orders must be reported for tax purposes.

Account identifier code (AIC)<sup>3</sup> 587, Miscellaneous Services, is used to record purchases or expenses associated with payment for non-custodial, custodial and all miscellaneous services only. The U.S. Postal Service Office of Inspector General's (OIG) data analysis identified the Franklin, PA, Post Office had \$15,915 in local purchases from October 1, 2017, to June 30, 2018, compared to \$650 for the entire fiscal year (FY) 2017. It is unusual for one office to have such a high percentage of local purchases in less than one fiscal year.

## Objective, Scope and Methodology

The objective was to determine whether local purchases and payments made at the Franklin, PA, Post Office were valid and properly supported.

We interviewed unit personnel and Postal Service management. We also analyzed purchase and payment data and examined money order receipts and other payment supporting documentation for miscellaneous expense transactions that occurred from October 1, 2017, through June 30, 2018.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).<sup>4</sup> We did not test the validity of controls over this system; however, we verified the accuracy of the data by reviewing related documentation, tracing selected information to supporting source records, and interviewing knowledgeable Postal Service personnel. We determined the data were sufficiently reliable for the purposes of this report.

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<sup>1</sup> An electronic commerce portal that provides employees with electronic requisitioning, approval, and certification capability.

<sup>2</sup> The purchase card may be used only by the designated cardholder and only for official Postal Service business.

<sup>3</sup> The AIC consists of three digits. It is used to classify financial transactions to the proper general ledger account.

<sup>4</sup> A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

We conducted this audit from July through September 2018, 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 objective. We discussed our observations and conclusions with management on August 29, 2018, and included their comments where appropriate.

### Finding #1: Local Purchases and Payments

Local purchases and payments reviewed were valid and supported; however, the unit did not follow Postal Service’s preferred method of payment. Unit personnel made 18 payments totaling \$15,915 for cleaning services using 19 money orders instead of the electronic funds transfer (EFT) method as required. Additionally, unit personnel split one of the payments for an amount over \$1,000 using two money orders, totaling \$1,680 (see [Table 1](#)).

**Table 1. Payments for Cleaning**

Payment Number	Payment Date	Number of Money Orders	Amount Paid
1	11/8/2017	2	\$1,680
2	11/20/2017	1	840
3	12/4/2017	1	840
4	12/19/2017	1	840
5	12/28/2017	1	840
6	1/12/2018	1	840
7	1/26/2018	1	840
8	2/9/2018	1	840
9	2/23/2018	1	840
10	3/9/2018	1	840
11	3/23/2018	1	840
12	4/6/2018	1	840
13	4/20/2018	1	795
14	5/4/2018	1	840
15	5/18/2018	1	840
16	6/1/2018	1	840
17	6/15/2018	1	840
18	6/29/2018	1	840
<b>TOTAL</b>		<b>19</b>	<b>\$15,915</b>

Source: Postal Service EDW, unit records, and OIG analysis.

Postal Service policy<sup>5</sup> states that the office must use the purchase card for local buying when needs cannot be satisfied through eBuy2 or through other priority sources. The Postal Service's preferred payment methods for local purchases, in order of priority, are:

- eBuy2 (EFT).
- National/area contracts.
- SmartPay2 credit card.
- Cash for emergency one-time expenses, not to exceed \$25, or money orders for emergency one-time local expenses, not to exceed \$1,000.<sup>6</sup>

In September 2017, the postmaster properly submitted a contract request through eBuy2 for cleaning services. District management approved the request and sent it to the Facility Services Category Management Center (FSCMC)<sup>7</sup> for approval. The FSCMC has been working with the contractor of the area-wide cleaning contract to find a sub-contractor for the Franklin Post Office. However, as of August 7, 2018, a contractor cleaner has not been assigned. In the interim, the postmaster paid for cleaning services with money orders to keep the post office clean. The postmaster said he was not aware of the policy regarding the payment methods for local purchases because at his previous office, a full-time custodian cleaned the building.

As a result of our audit, the unit has started using an online payment method to pay the custodian with the SmartPay2 credit card until a contract cleaner is assigned to the unit. When preferred payment methods are not used, the Postal Service has an increased risk of unauthorized services transactions. We consider the local payments as questioned costs<sup>8</sup> because the payments should have been made using eBuy2 instead of money orders.

**Recommendation #1: We recommend the Manager, Western Pennsylvania District, reiterate to all unit management the policy for using the Postal Service's preferred methods of payment.**

<sup>5</sup> Handbook AS-709, *Purchase Card Local Buying Policies and Procedures*, June 2018, Section 2-3.1.

<sup>6</sup> Handbook F-101, *Field Accounting Procedures*, May 2017 DRAFT, Section 19-1.1.

<sup>7</sup> Responsible for maintenance service contracts associated with keeping sites clean, comfortable and in good condition.

<sup>8</sup> Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events.

## Finding #2: Tax Reportable Vendor Payments

The postmaster did not complete the required tax documentation for 19 money order payments valued at \$15,915 for cleaning services from October 1, 2017, through June 30, 2018. Postal Service policy<sup>9</sup> states that Postal Service (PS) Form 8231, *Vendor Payment 1099 Reporting Form*, must be completed to report services paid locally with cash or money orders. More importantly, federal law<sup>10</sup> requires the Postal Service to report services paid locally with cash or money orders. The postmaster did not prepare the tax forms because he thought it was the responsibility of the custodian to report the payments to the IRS, and he did not know how to complete the form.

As a result of our audit, on August 14, 2018, the postmaster submitted PS Form 8231 for payments made in calendar year 2018, through the Enterprise Imaging Workflow System Online Forms application.<sup>11</sup> Further, on August 28, 2018, the postmaster submitted PS Form 8231 for the payments made in calendar year 2017. When tax reportable payments to vendors are not reported as required, the Postal Service has an increased risk of violating federal law.

<p><b>Recommendation #2: We recommend the Manager, Western Pennsylvania District,</b> reiterate the requirement to the postmaster to submit Postal Service Form 8231, Vendor Payment 1099 Reporting Form information to Accounting Services when applicable.</p>
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## Management's Comments

Management agreed with the findings and recommendations but disagreed with the monetary impact.

Regarding recommendation 1, management stated they sent an email on September 4, 2018, to the Western PA field offices reiterating the policy for using the Postal Service's preferred methods of payment.

Management responded to recommendations 2 and 3, however the draft report only had two recommendations. Regarding recommendation 2, management stated the Franklin Postmaster previously submitted the forms to Accounting Services via Enterprise Imaging Workflow System.

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<sup>9</sup> Handbook F-101, Section 19-6, and Handbook AS-709, Section 4-1.2.2. This includes services paid locally with cash or money order to individuals, proprietorships or corporations.

<sup>10</sup> The IRS requires each person to whom an entity has paid at least \$600 during the year for services performed in the course of that entity's business, but is not their employee, to file Form 1099-MISC, Miscellaneous Income.

<sup>11</sup> An online application that provides users the ability to view, complete, print, and submit Postal Forms processed by Accounting Services.

Regarding the monetary impact, management stated although they used the incorrect payment method for facility cleaning services, the unit had to be cleaned and the monetary impact for using the incorrect payment method was minimal.

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

### **Evaluation of Management's Comments**

The OIG considers management's comments responsive to the findings and recommendations in the report. Regarding monetary impact, because the unit did follow Postal Service's preferred method of payment, we consider that a violation of Postal Service regulation and, therefore, a questioned cost.

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.

## Appendix A: Management's Comments

DISTRICT MANAGER  
WESTERN PA DISTRICT



UNITED STATES  
POSTAL SERVICE

September 5, 2018

MEMORANDUM FOR Monique Colter  
Director, Audit Operations

SUBJECT: Local Purchases and Payments –  
Franklin, Pa Post Office  
(Report Number FCS-FM-18)

I agree with the findings and recommendations of the audit report on local purchases and payments of the Franklin, PA Post Office. Recommendation #1, reiterate to all unit management the policy for using the Postal Service's preferred methods of payment, was sent to the Western PA Field offices via email September 4, 2018. Recommendation #2 and #3 dealt with submission of Postal Form 8231, Vendor Payment 1099 Reporting Form, and were previously submitted to Accounting Services via eIWS by the Postmaster of Franklin, Wade Altman.

Regarding the monetary impact of the report – while the Franklin Post Office used the incorrect method of payment for facility cleaning services, using no-fee money orders instead of the electronic funds transfer (EFT) method as required – the monetary impact is minimal, because the cleaning had to be done at the facility, and the cleaner had to be paid. The monetary impact would be the difference between processing a money order and an EFT, but, according to the Public Cost and Revenue Analysis for Fiscal Year 2017, the attributable cost of issuing a money order is \$1.80. The total cost (including clerk time) is \$34.20 for the 19 transactions. Even if the cost of issuing a vendor EFT was zero – the maximum impact could not exceed \$34.20.

Please contact Tom Zolkiewicz in Western PA Finance if you need additional information regarding this matter.

  
David Webster  
A/District Manager  
Western PA District

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