



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Controls to Detect
Money Order Fraud**

Audit Report

February 7, 2013

Report Number DP-AR-13-002



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

February 7, 2013

Controls to Detect Money Order Fraud

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BACKGROUND:

The U.S. Postal Service sells domestic and international money orders for a fee in values of up to \$1,000. Money orders are sequentially numbered financial instruments that must be safeguarded due to their potential use in embezzlement and money laundering schemes. Customers purchase money orders using cash, debit cards, or travelers checks as a convenient and safe method to transfer cash or make payments. In fiscal year (FY) 2012, fees from money order sales generated \$129 million in revenue.

The Postal Service performs a monthly reconciliation of the cashed amount and the face value of the sold money order. During FYs 2010 through 2012, reconciliation differences averaged \$2.1 million annually. During that same period, the U.S. Postal Service Office of Inspector General's (OIG) Office of Investigations completed 136 money order embezzlement cases resulting in the removal, arrest, and/or prosecution of Postal Service employees.

Our objective was to determine whether money order controls are sufficient to detect fraud in a timely manner.

WHAT THE OIG FOUND:

Postal Service money order controls are not sufficient to detect fraud in a timely

manner. Specifically, the Postal Service does not sufficiently monitor money order transactions at retail units and make investigative referrals of potential fraud. Further, Postal Service personnel do not provide information to district management to identify questionable activity, such as potential misuse of Postal Service funds. The OIG has detected a substantial number of embezzlement cases since FY 2010, not detected by Postal Service controls. Without adequate monitoring of money order transactions by management, abuses, errors, and misappropriation of Postal Service assets may go undetected.

The Postal Service is designing a program to analyze money order activity to improve the reconciliation process, detect fraud and communicate results to district and area management and the OIG.

WHAT THE OIG RECOMMENDED:

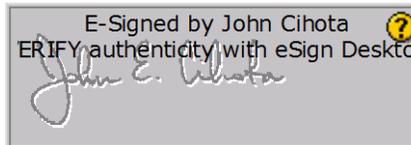
We recommended management monitor money order reconciliation transactions and develop a program to analyze and communicate questionable money order activity to district management and the OIG, as appropriate, for review and corrective action.

[Link to review the entire report](#)



February 7, 2013

MEMORANDUM FOR: TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER



FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial and Systems Accountability

SUBJECT: Audit Report – Controls to Detect Money Order Fraud
(Report Number DP-AR-13-002)

This report presents the results of our audit of Controls to Detect Money Order Fraud (Project Number 12BG024FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Analysis and Performance, or me at 703-248-2100.

Attachments

cc: Joseph Corbett
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction 1

Conclusion 2

Timely Detection of and Response to Fraud Indicators 2

 Communication Between the Accounting Service Center and Area and District
 Management 4

 Responsibility for Monitoring for Fraud 5

Recommendations 6

Management’s Comments 6

Evaluation of Management’s Comments 6

Appendix A: Additional Information 7

 Background 7

 Objective, Scope, and Methodology 8

 Prior Audit Coverage 9

Appendix B: Management's Comments 10

Introduction

This report presents the results of our audit of controls to detect money order fraud (Project Number 12BG024FF000). Our objective was to determine whether money order controls are sufficient to detect fraud in a timely manner. This self-initiated audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service sells domestic and international postal money orders as a safe and convenient method for customers to make payments or to transfer cash. They are controlled by serial numbers and contain other security design features¹ which make them among the most secure financial instruments in the world. Available for purchase at postal retail units, they are sold for a fee in values of up to \$1,000;² however, customers must use cash, debit cards, or travelers checks to purchase a money order. Our audit focused on money orders used as an instrument for fraud schemes and embezzlements. The U.S. Postal Service Office of Inspector General (OIG) also audits the Postal Service's compliance with the Bank Secrecy Act to combat money laundering since money orders can be used as an instrument for money laundering.

During fiscal years (FY) 2010 through 2012, sales generated, on average, \$135 million of revenue in fees for postal money orders, with a cash face value of about \$22.4 billion. The St. Louis, MO Accounting Service Center (ASC) maintains and reconciles the database of all postal money order transactions with the Federal Reserve Bank's (FRB) record of cashed money orders every month. The ASC researches errors such as system unmatched items, counterfeits, and raised values³ and takes appropriate action. This includes charging the commercial bank or FRB for the difference between the cashed amount and the stated value on the money order or creating an expense back to the postal retail unit where the postal money order was sold. In the past 3 years, this money order reconciliation process has resulted in an average annual expense to the Postal Service of \$2.1 million. These expenses may also occur due to data transmission problems or clerical errors and may not be the result of fraudulent employee activity. However, it is incumbent on the local unit to research and resolve these expenses. During the same period, money order fraud investigations conducted by the OIG have resulted in 136 employee removals, arrests, or prosecutions.⁴

¹ These include a repeating watermark of Benjamin Franklin and a vertical, multi-colored thread with alternating horizontal dark and light bars and the letters 'USPS' repeating backward and forward throughout the thread.

² Domestic postal money orders are sold in values of up to \$1,000, and international postal money orders are sold in values of up to \$700.

³ Postal money orders purchased for a small amount but altered and cashed for a significantly higher value.

⁴ Our audit did not include investigations conducted by the U.S. Postal Inspection Service on fraudulent money order activity committed externally to the Postal Service.

Conclusion

Postal Service money order controls are not sufficient to detect fraud in a timely manner. Specifically, the Postal Service does not use available data to sufficiently monitor postal retail unit money order transactions for potential fraudulent employee activity and make investigative referrals of potential fraud. Further, the ASC provides notification to postal retail units of expenses that result from unreconciled money order differences, yet district management gets no further analysis or communication to evaluate these differences for potentially fraudulent money order activity. Although internal controls are a management activity, Postal Service personnel believed that monitoring for fraud was primarily the responsibility of the OIG. We also noted 25 districts containing one or more offices with recently completed or ongoing money order investigations. Additionally, we made two new referrals for investigation initiated by our office. Without adequate monitoring of money order transactions, abuses, errors, and misappropriation of Postal Service assets may go undetected.

During our audit, the Postal Service recognized that increased analysis of money order activity would improve the reconciliation process and potentially detect fraudulent activity for referral to the OIG. The Postal Service is designing a program to analyze money order activity, detect fraud, and communicate results to district and area management to identify and correct problems with money order sales and reporting.

Timely Detection of and Response to Fraud Indicators

The Postal Service does not use available data to sufficiently monitor postal retail unit money order transactions for potential fraudulent employee activity and make investigative referrals of potential fraud. Although the Postal Service identifies counterfeit and fraudulently cashed money orders and money orders with a raised value during the reconciliation of account balances to detailed data reports, it could do more to detect employee misconduct. Our analysis of money order activity shows that risk indicators exist in available data that deserve further examination by management.

We found the Postal Service could enhance its processes by performing additional analysis. We evaluated Accounting Data Mart (ADM)⁵ data for FYs 2010 through 2012 to identify potential money order problems and found risk indicators of potential fraudulent activity in the existing financial data, including:

- Recurring months of money order expenses at 582 units per year.
- Unresolved financial differences⁶ of \$1,000 or greater at 1,364 units per year.

⁵ This is the repository for all accounting and financial data for the Postal Service.

⁶ Financial differences occur during the process of reconciling amounts reported by units to amounts reported by banks to the Postal Service for money orders, bank deposits, and credit and debit card activity.

- Cumulative retail unit shortages⁷ of \$1,000 or greater at 2,250 units per year.
- High numbers of sequentially omitted money orders at 315 units per year.

A high number of sequentially omitted money orders may also indicate activity other than the occasional clerical error. These indicators suggest a pattern of questionable activity or inadequate oversight at the unit level and may warrant further attention by the Postal Service.⁸ For example, we found that employee money order embezzlement cases occur over the course of many months. Additionally, the Postal Service may find other risk factors worth considering, including employee disciplinary actions, employee turnover, and customer complaints. Evaluation of these in connection with the financial risk indicators identified above may help further pinpoint patterns of potentially fraudulent activity.

We analyzed about 78,000 money order expenses for FYs 2010 through 2012 occurring at over 11,000 units to identify data trends requiring additional analysis by the Postal Service and possible referral to the OIG. Units must research and resolve expenses timely; therefore, we found units with 3 or more months of expenses was a strong indicator of questionable activity and inadequate oversight. We identified 815 units⁹ with 3 or more months of expenses and a net financial shortage of \$1,000 or greater. Based on our analysis, we noted 25 districts containing one or more offices with recently completed or ongoing investigations. Additionally, we made two new investigative referrals based on missing supporting documentation, high instances of money orders issued out of sequence, voided money orders that were later cashed, and inadequate oversight of financial differences.

In addition to the data we used in developing these risk indicators, the ASC maintains information on money orders that are cashed before the sales date. The ASC takes no action if the cashed value of a money order matches the value for which the Postal Service sold it. However, this data may indicate a kiting scheme where an employee takes Postal Service funds for their personal use and may replace those funds in the future. The Postal Service should refer indicators of potential kiting for investigation because many of the 136 OIG investigations conducted over the past 3 years are the result of kiting schemes, where a Postal Service employee does not report a money order sale until after the item is cashed.

⁷ Variances outside of Postal Service-established tolerance levels for required quarterly and annual counts of stamp stock and cash accountabilities.

⁸ The existence of one or more red flags does not necessarily mean fraud exists, only that an area may deserve further attention.

⁹ There were a total of 35,756 Postal Service units, representing post offices, stations, branches, contract postal units, and community post offices as of September 30, 2011.

Recent examples include:

- An embezzlement in which 231 money orders, totaling over \$51,000, were recorded as being sold on a date that occurred after the date they were cashed.
- An embezzlement in which an employee reported a money order(s) as being sold 1 to 2 weeks after their original issuance date or issuing a money order(s) without receiving payment.
- An embezzlement in which 105 money orders, totaling over \$14,000, were cashed without being reported in the accounting system as being sold.

The Postal Service may timely identify these and other undetected money order schemes by analyzing available data for potential fraudulent employee activity and, as appropriate, make investigative referrals of potential fraud.

Communication Between the Accounting Service Center and Area and District Management

The ASC provides monthly notification to postal retail units through Enterprise Data Warehouse (EDW)¹⁰ reports of money order expenses. These reports disclose unreconciled money order differences from the cashed value to the recorded sales amount. However, the ASC does not communicate these results to area or district management. Additionally, the ASC could communicate analyses to area and district management regarding the unreconciled money order differences. As discussed previously, this may include potentially fraudulent money order activity, such as recurring expenses or money orders cashed before they are reported as being sold.

Most district finance managers stated that organizational staffing changes over the past few years have left them without the resources to complete any type of in-depth financial analysis of retail units. As a result, they rely on area field financial specialists to remediate expenses as part of their reviews of outstanding financial differences. District finance managers suggested that increased communication from the ASC would be beneficial in identifying potential problems. For example, many smaller postal retail units record financial transactions manually and report the results at the close of business through the use of the electronic Money Order Voucher Entry System (eMOVES).¹¹ Nationally, the Postal Service has 16,520 of these offices, which are traditionally staffed by one employee. Our analysis of 136 OIG money order investigations shows that 102, or 75 percent, occurred at eMOVES offices over the last 3 fiscal

¹⁰ This is an organization-wide data storage and reporting system.

¹¹ A web-based system for transmitting financial data to the accounting systems.

years. We discussed with one district their recently completed Lean Six Sigma¹² project to standardize financial reporting at eMOVES offices. The Lean Six Sigma project identified the risk of loss associated with money orders and embezzlement of funds at eMOVES offices within the district.¹³ Subsequently, the district is now performing financial audits at all eMOVES offices twice each fiscal year to improve financial performance and reduce the risk of loss of Postal Service assets.

Responsibility for Monitoring for Fraud

Postal Service personnel at the ASC stated that it was their understanding that monitoring for fraud was the OIG's responsibility. However, Postal Service guidance states that field and headquarters unit managers are expected to maintain a strong internal control posture within the Postal Service. This includes continual monitoring of transactions to ensure compliance with policies and procedures and safeguarding Postal Service assets from loss.¹⁴ In addition, Postal Service standards of conduct require allegations of violations of postal laws by postal employees be reported immediately to the OIG.¹⁵ As a result of not monitoring money order activity, the Postal Service did not detect employee misconduct resulting in 136 OIG investigations of money order embezzlements and misappropriation of funds.¹⁶ In one instance, a recently retired ASC employee discussed questionable money order activity at retail units with the OIG, but there have been no referrals from the ASC to the OIG.

During our audit, the ASC recognized that increased analysis of money order activity and communication with district management would improve the reconciliation process and potentially detect fraudulent activity. The ASC is currently in the process of designing the program elements, including collaborating with the St. Louis, MO ASC's General Accounting Branch and Field Sales Branch¹⁷ and communicating with district and area management to identify and correct problems with money order sales and reporting. As a result, in October 2012, the ASC provided area accounting managers with a list of offices with potential money order problems based on their reconciliation process.

¹² A business methodology to improve process efficiencies and quality improvements by focusing on continuous improvements in an effort to reduce costs and waste.

¹³ The Sacramento District completed a project titled *Financial Transparency at Non-POS Units*. The project's stated problem was that there was no transparency at eMOVES offices for compliance with financial reporting requirements, resulting in untimely reporting, inaccurate documentation, and creative financial accountability.

¹⁴ Handbook F-1, *Accounting and Reporting Policy*, dated March 2011.

¹⁵ *Employee Labor and Relations Manual* (ELM-32), Section 665.14, dated August 2012.

¹⁶ OIG criminal investigators initiated and developed these cases based on their analysis of money order data, including money orders cashed before being reported as sold.

¹⁷ The General Accounting Branch handles the money order reconciliation process and the Field Sales Branch collects and processes financial sales data from postal retail units.

Recommendations

We recommend the vice president, controller:

1. Direct the St. Louis, MO Accounting Service Center to monitor money order reconciliation transactions.
2. Develop a program to analyze questionable money order activity and communicate the results to district management for review and corrective action.
3. Where appropriate, refer questionable or potentially fraudulent activity to the Office of Inspector General's Office of Investigations.

Management's Comments

Management agrees with the findings and recommendations and will complete corrective action by May 1, 2013. They will continue to monitor all money order transactions and are automating the money order system to include a more formal review of unreported and unreconciled money orders. Additionally, management initiated a Lean Six Sigma project in January 2013 to review the money order process for mitigating fraud and to analyze questionable activity for better communication with district management. Finally, management will continue to notify the OIG of any potential fraud. Management met with an OIG representative on December 19, 2012, to establish a closer working relationship. 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 taken and planned should resolve the issues identified in the report.

Appendix A: Additional Information

Background

Customers can purchase postal money orders from any Post Office™ location in the U.S. Postal money orders are accountable paper that must be safeguarded at all times to prevent unauthorized use and to protect the integrity of the money order system. They are issued in blocks of 100 and are sequentially numbered. Retail associates are trained to issue money orders in ascending order. There are two types of postal money orders: domestic, which are sold for any amount up to \$1,000; and international, which are sold for any amount up to \$700. Both are sold for a fee ranging from \$1.15 to \$4.45, depending on the type and face value.

In FY 2012, the Postal Service recorded revenue of \$129 million in fees from domestic and international money order sales of \$21.9 billion and \$47.3 million, respectively. In FY 2011, the domestic and international money order sales totaled \$22.4 billion and \$54.9 million, respectively, and accounted for \$133 million of Postal Service revenue.

Postal money orders hold no value until they are sold, and a liability is created when the Postal Service accepts funds from customers, which must be recognized until the money order has been cashed. The St. Louis ASC General Accounting Branch is responsible for reconciling domestic and international money order records. During the monthly reconciliation process, the General Accounting Branch compares and reconciles the outstanding money order liability account in the ADM system that holds the sales information with the cashing activity records sent by the FRB in the Money Order Database.¹⁸

The General Accounting Branch identifies counterfeit, fraudulently cashed, and raised money orders from the Money Order Database. Any differences between the cashed value and the sold value are expensed to the commercial bank that cashed the money order or FRB and included in a monthly summary report to the U.S. Postal Inspection Service. Additionally, the Postal Service reviews all transactions in the Money Order Database for compliance with the Bank Secrecy Act.¹⁹

Money order expense adjustments to the postal retail unit are a result of the money order reconciliation process.²⁰ Expense adjustment reports are provided to postal retail units on a monthly basis as a part of the consolidated EDW Narrowcast money order expense report. Each postal retail unit is responsible for

¹⁸ The system used to record all information on money orders sold, cashed, or spoiled.

¹⁹ A set of laws to deter, detect, and report activity related to money laundering and terrorist activities.

²⁰ The General Accounting Branch makes entries in the accounting records by crediting overage amounts using Account Identifier Code (AIC) 247 and debiting shortages in AIC 647.

researching and clearing their money order expenses. This includes submitting a request to the ASC within 30 days of the date of notification to offset the expense.²¹

Objective, Scope, and Methodology

Our objective was to determine whether money order controls are sufficient to detect fraud in a timely manner. To accomplish our objective, we:

- Discussed money order controls, the reconciliation process, and procedures for identifying potential fraud with personnel at the St. Louis ASC. We inquired about the extent of communicating with field offices about reconciliation results as well as fraud referrals to the OIG's Office of Investigations (OI).
- Reviewed Postal Service policies, procedures, and instructions for monitoring and reconciling money order expenses.
- Obtained financial data from the Postal Service's EDW, ADM, and web Bank Secrecy Act application.²²
- Judgmentally selected five postal retail units in the Greater Boston, Cincinnati, and Philadelphia Metropolitan districts. We used risk factors such as recurring money order expenses, unresolved financial differences, and stock and/or cash shortages when selecting these five units. We traced money order expenses to supporting documentation and discussed controls at these local units.
- Reviewed OI listings of FY 2010 through 2012 money order investigations and interviewed investigators with experience in crimes involving money orders about case initiation, fraud referrals, current monitoring procedures, and additional measures that could enhance detection of questionable or potentially fraudulent activity.
- Discussed with area accounting personnel and 44 of 67 district finance managers money order controls and risks, including differences in reporting technologies, financial risk analysis, and communication with the ASC.

We conducted this performance audit from May 2012 through February 2013 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

²¹ Units submit a Postal Service Form 800-B, Money Order Expense Adjustment Request, to the ASC.

²² This system is designed to aid in compliance with federal laws and regulations related to the detection and reporting of suspicious money order activity.

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 December 13, 2012, and included their comments where appropriate.

We assessed the reliability of money order expense data by testing a sample of transactions to supporting documentation and determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG report titled *Controls Over Money Orders* (Report Number [FT-AR-10-009](#), dated February 22, 2010) found that money order replacement checks were issued without proper documentation and outstanding money order liabilities were overstated because money orders were not escheated²³ after 2 years of issuance as required. Management agreed with the findings and recommendations, including a monetary impact of \$367,550.

²³ This process recognizes revenue and removes the Postal Service liability for money orders not cashed after 2 years from the date of issuance and after meeting certain other criteria.

Appendix B: Management's Comments

TIMOTHY F. O'REILLY
Vice President, Controller



January 29, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Controls to Detect Money Order Fraud
(Report Number DP-AR-13-DRAFT)

This provides Postal Service management's response to the subject draft audit report issued January 15, 2013. Management agrees with the findings in the report. We appreciate the opportunity to review and provide comments.

OIG Recommendations:

The report contains the following three recommendations to the Vice President, Controller:

1. Direct the St. Louis, MO, Accounting Service Center to monitor money order reconciliation transactions.
2. Develop a program to analyze questionable money order activity and communicate the results to district management for review and corrective action.
3. Where appropriate, refer questionable or potentially fraudulent activity to the Office of Inspector General's Office of Investigations.

Management Response/Action Plan:

Although the St. Louis, MO, Accounting Service Center has processes in place which address the three recommendations, management agrees with improving our processes. The General Accounting Branch (GAB) money order reconciliation section currently monitors all money order transactions including unreported money orders and unreconciled money orders. These activities are monitored through the Edit Code and Paid Without Issue processes on a daily basis. The Federal Reserve Bank is updating to a new platform called IBM Payment Director (IPD). To accommodate this change we are automating the money order system which provides for a more formal and structured process including a more formal review of the results. These changes are expected to be implemented in March 2013.

Additionally, the St. Louis, MO, Accounting Service Center kicked off a Lean Six Sigma (LSS) Project on January 15, 2013 to review our money order processes on mitigating fraud and kiting and to identify any other issue. The Center is looking for efficiencies to manage these money order differences within a 24-48 hour window. The team will also be looking at a new model for analyzing activity down to a unit level for better communication with district management.

The St. Louis, MO, Accounting Service Center has and will continue to notify the OIG of any potential fraud. Our new point of contact is Agent Greg Burwell. St. Louis, MO, Accounting Service Center management met with Mr. Burwell on December 19, 2012 to review the process.

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- 2 -

Target Implementation Dates:

Recommendation 1: May 1, 2013

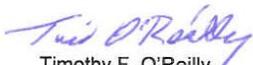
Recommendation 2: May 1, 2013

Recommendation 3: Completed December 19, 2012

Responsible Official:

Robin M. Stewart, Manager, St. Louis, MO, Accounting Service Center.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.



Timothy F. O'Reilly
Vice President, Controller

cc: Joseph Corbett
Corporate Audit Response Management