OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Controls Over the Check Acceptance Process

Management Advisory

September 6, 2012

Report Number FI-MA-12-016

BACKGROUND:

U.S. Postal Service retail associates may accept a variety of checks for customer transactions when presented with valid photo identification. While paying by check is convenient for some customers, businesses that accept them take a risk of not receiving payment for goods and services. Occasionally, the account on which the check is drawn has nonsufficient funds available, resulting in a delay or loss of funds transferred to Postal Service accounts. In addition, some customers attempt to defraud the Postal Service by making purchases with fraudulent checks and counterfeit bank account numbers.

Our objective was to determine the effectiveness of controls over the check acceptance process. We reviewed the check acceptance process, returned check management procedures, and check fraud analyses and initiatives. We conducted this audit as a follow up to our prior audit on the effectiveness of Postal Service policies and procedures for collecting and preventing bad checks (*Bad Check Prevention and Collection* Report Number FI-AR-12-002, dated January 10, 2012).

WHAT THE OIG FOUND:

The Postal Service has opportunities to reduce bad check acceptance and deter attempts at defrauding the Postal Service. Although the Postal Service has implemented (or is in the process of implementing) measures such as establishing an electronic bad check list (with names of check writers), reviewing check acceptances from the previous day's activity, and investigating frequent bad check customers, we found the two primary systems for tracking checks could be enhanced to prevent or detect bad checks. In addition, Postal Service personnel provided little oversight to unit supervisors' override of system-identified bad checks. Further, contract postal units (CPU) do not receive Postal Service-developed bad check lists. As a result, over $760,000 in bad checks accepted at CPUs nationwide identified in calendar years 2010 and 2011 remain uncollected. By implementing additional controls, the Postal Service could more effectively detect and reduce bad checks.

WHAT THE OIG RECOMMENDED:

We recommended modifying the Point-of-Sale (POS) and Returned Check Management systems and Postal Service Form 1412, Daily Financial Report, to detect bad check customers. Additionally, we recommended directing district management to instruct unit management to provide clear guidance to retail associates on the POS entry and check acceptance process, and requiring host post offices to provide the most recent bad check lists to CPUs.

Link to review the entire report

September 6, 2012

MEMORANDUM FOR: KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS

DEAN J. GRANHOLM
VICE PRESIDENT, DELIVERY AND
POST OFFICE OPERATIONS

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

SUBJECT: Management Advisory – Controls Over the Check
Acceptance Process (Report Number FI-MA-12-016)

This report presents the results of our audit of controls over the check acceptance
process (Project Number 12BG021FI000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Denice M. Millett, director,
Policy Formulation and Financial Controls, or me at 703-248-2100.

Attachments

cc: Megan J. Brennan
Deborah Giannoni-Jackson
Joseph Corbett
Nagisa M. Manabe
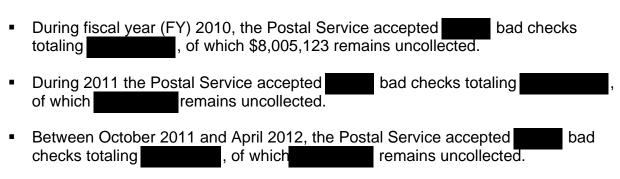Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the check acceptance process (Project Number 12BG021FI000). Our objective was to determine the effectiveness of controls over the check acceptance process. This self-initiated audit addresses financial risk and is a follow up to our prior audit on the effectiveness of U.S. Postal Service policies and procedures for collecting and preventing bad checks.[1] See Appendix A for additional information about this audit.

Postal Service retail associates may accept many forms of non-cash payments, such as credit/debit cards and checks for customer transactions when presented with the proper photo identification. While paying by check is convenient for some customers, businesses that accept checks risk not receiving payment. For example:

- During fiscal year (FY) 2010, the Postal Service accepted ▮▮▮▮ bad checks totaling ▮▮▮▮▮▮▮, of which $8,005,123 remains uncollected.

- During 2011 the Postal Service accepted ▮▮▮▮ bad checks totaling ▮▮▮▮▮▮, of which ▮▮▮▮▮▮ remains uncollected.

- Between October 2011 and April 2012, the Postal Service accepted ▮▮▮▮ bad checks totaling ▮▮▮▮▮▮, of which ▮▮▮▮▮▮ remains uncollected.

Occasionally, the account on which the customer's check is drawn has nonsufficient funds available, resulting in a delay or loss of funds transferred to Postal Service accounts. In addition, some customers attempt to defraud the Postal Service by making purchases with fraudulent checks and counterfeit bank account numbers.

Both the Account Reconciliation Branch at the Eagan, MN Accounting Service Center (ASC) and the U.S. Postal Inspection Service have executed measures to help detect and reduce bad check activity. Accounting Services established a bad check list in the Point-of-Sale (POS) system,[2] which is an electronic version of the paper bad check list.[3] The Inspection Service performs a manual velocity checking process,[4] which analyzes the previous day's POS activity for multiple occurrences of the same bank routing number and purchases of First-Class Mail® stamps at three or more postal retail units (PRU).[5] In addition, the Inspection Service initiated investigations of frequent bad check customers using information from the Eagan ASC. The Postal Service's engineering group is developing a process that will focus on implementing an automated velocity

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[1] *Bad Check Prevention and Collection* (Report Number FI-AR-12-002, dated January 10, 2012).
[2] POS automates retail transactions, enhances customers' experience, and captures transactional data related to products and services sold.
[3] Accounting Services personnel manage accounting processes and procedures in three locations (Eagan, MN; St. Louis, MO; and San Mateo, CA), to include generating a national bad check list, which contains information such as customer name, for checks returned unpaid from Postal Service bank accounts.
[4] A count or limit applied to a particular activity in a given time period.
[5] A PRU is any post office, main office, station, branch, or finance unit that electronically transmits daily financial data.

checking capability into the POS system. These measures combined have been effective in detecting and reducing the number of bad checks, as evidenced by an average 12 percent decline between FYs 2011 and 2012.

Conclusion

Overall, we determined that controls over the check acceptance process were effective. However, we identified opportunities to reduce bad check acceptance and deter attempts at defrauding the Postal Service. Although both the Eagan ASC and the Inspection Service have implemented, or are in the process of implementing, measures to help detect and reduce bad check activity, we found the POS system and Returned Check Management System (RCMS)[6] could be improved to prevent or detect bad checks. In addition, Postal Service personnel provided little oversight to unit supervisors' override of system-identified bad checks. Further, contract postal units (CPUs) do not receive Postal Service-developed bad check lists. By strengthening these controls, Postal Service personnel could more effectively detect and reduce bad checks at PRUs.

Controls Over the Check Acceptance Process

The Postal Service has ongoing and planned initiatives to address issues related to the check acceptance process. Although efforts have been successful in the continuing decline of bad checks, we identified areas related to the POS system and RCMS, the POS bad check override report and RCMS data process, and the bad check lists at CPUs where controls could be improved. By implementing additional controls, management could significantly reduce the number of bad checks it accepts and the expense associated with the checks.

See Appendix C, Table 4, for more detailed information on the number and amount of bad checks accepted by each district between FY 2010 and Quarter (Q) 2, FY 2012.

Postal Service Actions

Management is receptive to reducing bad check acceptance and the time it takes a check to be placed on the bad check list. For example, the Revenue Fraud Analytics group of the Inspection Service has a Lean Six Sigma[7] initiative in place to improve detection and reduction of bad checks. ███████████████████████████████████ ███

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[6] The RCMS is a web-based system designed to control the lifecycle of returned checks and the distribution of associated collections letters and reports.
[7] Lean management is focused on reducing waste and improving process flows, while Six Sigma methodologies concentrate on reducing variation or defects and improving quality.

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███████████████████████ This process decreases from about 4 weeks to 3 days the time it takes for a check to be placed on the bad check list. According to the Inspection Service's Lean Six Sigma group's black belt member,[9] this initiative started in October 2011 and a pilot was successfully deployed on June 1, 2012.

The Postal Service's engineering group also has a Lean Six Sigma initiative in process, focusing on implementing an automated velocity checking capability process into the POS system. The system will automatically detect multiple checks being passed from the same account per day at different PRUs. The detection will flag the account and prompt the retail associate not to accept future checks from any customer attempting to use the same account. As of the date of this report, no implementation date had been determined.

Reduce Fraudulent Checks Using the Point-of-Service System

Improvements to the POS system would provide additional controls to prevent or detect bad checks. For example:

▪ Retail associates sometimes accept bad checks by not manually e████████ [10] ████ ██████████████████████████████ into the POS system. During a test of bad check data, we observed a lead retail associate enter a nine-digit checking account number instead of the entire 10 digits from a customer's check that we judgmentally selected from the RCMS data. The POS system accepted the number and allowed the retail associate to continue the transaction. According to an Eagan ASC senior systems accountant, check numbers need to be entered into the POS system using the full 10-digit account number, including leading zeroes, to be recognized as a bad check. This is the method the Eagan ASC account specialists use to enter account numbers into the RCMS for inclusion on the POS bad check list. We believe the Postal Service should implement a POS enhancement to halt check acceptance until the retail associate enters a 10-digit account number so that all account numbers entered into the POS system correspond with RCMS data. This would enable the Postal Service to detect more fraudulent checks. Additionally, by reiterating the Postal Service's check acceptance policy and training retail associates on the new 10-digit POS enhancement, retail associates would potentially allow fewer bad checks to bypass the POS system.

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[8] RDM is used to retrieve data from the Enterprise Data Warehouse (EDW), which provides a single source of accurate data across organizations to a wide variety of users. The vision of the EDW is to provide a single repository for managing all of the Postal Service's data assets. A data warehouse is a collection of data from many sources, which is stored in a single place for reporting and analysis.
[9] A black belt is a person who has been thoroughly trained in Lean Six Sigma methodology and advanced statistical tools.
[10] The POS system prompts the retail associate to place the check face down into the printer to scan and obtain the account and routing number from the check's magnetic ink character recognition line. As an alternative, the retail associate may manually enter the account, routing, and check numbers into the system.

- Retail associates did not have the capability of entering the first and last name of a customer or the payer's name printed on the check. According to Postal Service policy, the only information the POS system requires for check acceptance is the account number and bank routing number.[11] ███ By including a POS enhancement to allow name information to be entered, coupled with the established procedures of entering the account number and bank routing number, retail associates would potentially detect additional fraudulent checks.

- PRU supervisors did not have the capability of reviewing Postal Service (PS) Form 1412, Daily Financial Report,[12] for bad check activity during their end-of-day closeout process. The POS system does not currently generate an end-of-day report showing bad check information. All PRUs, regardless of size or revenue, must report their financial activity to Accounting Services electronically at the close of each business day.[13] By adding a report to the unit PS Form 1412 containing the number of bad checks attempted to be cashed for that day along with their respective account numbers, bank routing numbers and customer names, the reviewing supervisor would receive an up-to-date view of potentially fraudulent names associated with bad check information.

Reduce Fraudulent Checks Using Returned Check Management System

Improvements to the RCMS would provide additional controls to prevent or detect bad checks. For example, ███

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During our observation of the daily data entry process on April 11, 2012, we saw an account specialist enter the routing and account numbers for a known bad check customer and the system returned eight previous entries matching that information. When we prompted the account specialist to search for entries on that customer's

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[11] *NCR POS One Procedures Guide*, Section 2.2, page 12, January 2012.

[12] PS Form 1412 provides supervisors with an opportunity and uniform method to review and report financial transactions.

[13] Handbook F-101, *Field Accounting Procedures*, Section 5-1, page 31, May 2012.

name, the system returned an additional nine entries. After searching on the name, not only did the entries with the same routing and account numbers appear, but the search also retrieved entries containing different routing and account numbers for the same customer. The supervisor stated that the manual process of searching for a customer's name is the only option for obtaining historical activity.

In addition, ██
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██ there would be an increased chance of accessing additional bad check history to better detect and analyze potential fraudulent activity. In addition, ████████████████████████████
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Comparison of the Point-of Service Bad Check Override Report to Returned Check Management System Data

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████████████████████████████████████ The override report lists all the check transactions that a PRU supervisor has overridden to accept a check, and the RCMS data represents bad checks from retail locations.

We compared the POS override data with RCMS transaction data for the period October 2009 through April 24, 2012, and identified 57 overridden checks (that ultimately became bad checks) totaling $100,654. During this time, there were a total of 3,085 check override transactions totaling $9 million. This comparison also allowed the

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[14] We referred this information to the U.S. Postal Service Office of Inspector General (OIG) Office of Investigations.
[15] Handbook F-101, Section 2-1.2.1b, page 5, May 2012.
[16] Supervisors have the option to override the POS system to accept a check if a bank account and routing number is listed in the POS bad check electronic file.

OIG to identify the district, unit, and supervisor with the highest number of bad check override transactions.

For example:

▪ Of the 67 districts analyzed, ████████████████████████████████
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▪ Of 1,037 units analyzed, ██████████████████████████████████
████████████████████████████████ .

▪ Of 1,242 supervisors analyzed, ████████████████████████████
███ .

See Appendix C, Table 5, for more detailed information on override transactions by district and number of units and supervisors.

Accounting Services is responsible for significant coordination and communication with the field units.[17] The senior systems accountant stated the comparison process was not something the Account Reconciliation Branch was required to perform; however, she did find value in the process and it would be something they would consider. By comparing the supervisor overrides to RCMS data, the account specialists could identify a correlation between a particular district, unit, or supervisor and a high number or dollar amount of bad check transactions being overridden, which may indicate a need for training or possible fraud. During our audit, the senior systems accountant took corrective action by developing procedures on how to best use the bad check override report and establishing training for the account specialists. We will make no recommendation at this time.

Bad Check Lists at Contract Postal Units

The host post offices[18] for CPUs did not distribute the bad check list to their respective CPUs. Specifically, we reviewed 20 CPUs in five districts and found only one using the most recent bad check list, dated May 2012. We also found 19 of the 20 CPUs either did not have a list or had a list dated as far back as 10 fiscal years, to March 2002 (see Table 1). Of the 20 CPUs reviewed, 13 accepted 33 checks that ultimately became bad checks totaling $7,159 during the FY 2010 through March 2012 time period. In calendar years (CY) 2010 and 2011, we determined that CPUs nationwide accepted a total of 3,415 bad checks totaling $,1,161,315, $760,764 of which has not been collected.[19] This uncollected amount represents 2,214 bad checks. See Appendix B for details on monetary impact.

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[17] Handbook F-101, Section 2-1.2.1b, page 5, May 2012.
[18] Post offices responsible for overseeing CPUs.
[19] This amount includes the $25 returned check fee, added to the value of each check, by either the Eagan ASC or the collection agency when pursuing collection efforts.

Table 1: Age of Bad Check Lists at CPUs Reviewed

Age by Fiscal Year	Number of CPUs
No list	6
10	1
3	3
2	2
1	1
Less than 1	7

Source: Interviews conducted May 23-24, 2012.

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███████████████████   See Table 2 for the complete list of CPUs reviewed and the dates of the most recent bad check lists.

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[20] Handbook F-101, Section 9-3.5.3, page 121, May 2012.

Table 2: Bad Check Lists Reviewed at CPUs

District	CPU	Current Bad Check List (May 2012)	Date or Year of Most Recent Bad Check List
███████	███████████	█	███
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█████████	████████	█	███
█████████	████████	█	███
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Source: Interviews conducted May 23-24, 2012.

Recommendations

We recommend the vice president, Channel Access:

1. Modify the Point-of-Service system to prompt users to enter:

    ▪ ██
    ████████████████

    ▪ ██
    ██████████████████████

2. Modify Postal Service Form 1412, Daily Financial Report, ██████████
    ██
    ██
    ██████████.

3. Modify the Returned Check Management System ████████████████

    ▪ ██
    ████████████████████████

    ▪ ██
    ██████████████

We recommend the vice president, Delivery and Post Office Operations:

4. Direct district management to conduct training or stand-up talks on the check
    acceptance process and entering checks into the Point-of-Service System for
    personnel.

5. Require host post offices to continuously provide the most recent bad check lists to
    contract postal units.

Management's Comments

Management disagreed with recommendations 1 through 3 and agreed with
recommendations 4 and 5. Management noted that Postal Service controls over check
acceptance resulted in a percentage of returned checks that is lower than what is
expected by the retail industry. Further, they stated that a prior OIG report[21] concluded
that Postal Service's check acceptance and bad check collection processes were seven

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[21] *Bad Check Prevention and Collection (*Report Number FI-AR-12-002, dated January 10, 2012).

times more effective than industry average, and any recommendations that incur cost should be closely evaluated in terms of expected benefits and return on investment.

Regarding recommendation 1, to modify the POS System to prompt users to enter the check account number and customer name, management stated they will not implement any new non-critical changes to the current POS software as it is scheduled to be replaced in FY 2013. In addition, management stated that it was not cost beneficial to have retail associates enter this information manually since: (1) the system obtains the account information from the check's magnetic ink character recognition line automatically and (2) would require additional keystrokes and time, which would impact retail efficiency, transaction time, and potential hours.

Management did not agree with recommendation 2 to modify PS Form 1412 to include information containing the number of bad checks attempted to be cashed that day, account numbers, bank routing numbers, and check names. Management stated that it replaced the manual process for reviewing bad check lists with an electronic process in the POS System. In addition, the Postal Service Privacy Office opposed printing personal information on the proposed report.

Management disagreed with recommendation 3 to modify the RCMS to allow for the entry of the first and last name of the customer and the retail associate identification number for purposes of detecting fraudulent activity, displaying bad check history, and identifying which associates are consistently accepting bad checks. Management said that entering the name of the customer would increase time and give false positives. In addition, management stated associates' identification numbers are already available in the Retail Data Mart.

Management agreed with recommendation 4 and plans to conduct training or stand-up talks for employees on the check acceptance process and entering checks into the POS System. These actions are scheduled for completion by September 30, 2012.

Management agreed with recommendation 5 to require host post offices to continuously provide the most recent bad check lists to CPU. Corrective action is planned for completion by September 30, 2012.

Subsequent to their response, the Postal Service notified us that they agreed with the monetary impact.

See Appendix D for management's comments, in their entirety.

Evaluation of Management Comments

The OIG acknowledges management's comments that the Postal Service has been significantly better than industry averages when it comes to the percentage of bad checks received. We also acknowledge that implementation of recommendations 1, 2, and 3 could warrant additional costs and impact both efficiency and privacy. However,

we maintain that additional controls included in the POS System (or its replacement) and RCMS would further prevent and detect bad check acceptance and deter attempts to defraud the Postal Service, potentially with little or no additional costs. For example, if the system ensured data was complete at the time of the transaction (whether personnel scanned or manually entered the information) and prevented a bad check from being passed at the retail counter, the Postal Service could save identification and collection costs that would have been incurred later in the process. Additionally, as noted in the report, if RCMS prompted Postal Service personnel to search for entries on customers' names in addition to routing and account numbers, the Postal Service could identify a larger universe of customers writing bad checks as part of their electronic bad check list. This, too, could reduce the number of bad checks initially accepted and, thereby, save identification and collection costs that would have been incurred later in the process.

Regarding recommendation 1, although we agree modifications to the POS system would result in additional, initial costs and could reduce efficiency, we maintain the proposed modifications would potentially allow fewer bad checks to bypass the system. We are not advocating manual entry of account numbers or customer name. Rather, we believe a system edit could be implemented in POS that will only accept a transaction when 10-digits are captured in the account number field. If the system did not obtain the account information from the check's magnetic ink character recognition line automatically, then a re-scan or manual entry would be required to ensure the complete account number is captured in the POS system. Additionally, a widely available product like optical character recognition software could be used to capture the customer name. Since customer names are imprinted on checks (rather than written by the customer), the read rate should be fairly high. Again, manual entry might be required if the software does not capture the correct information. We believe the perceived increase in inefficiencies would be offset by the decreased costs associated with no longer needing to pursue collection of a bad check.

Regarding recommendation 2, we disagree and continue to maintain the proposed modified PS Form 1412 would provide the reviewing supervisor with an up-to-date view of potential fraudulent names associated with bad check information. The current electronic process does not provide the supervisor with an overview of the number of bad checks attempted to be cashed for a particular day along with their respective account numbers, bank routing numbers, and customer names. Additionally, we understand the Postal Service Privacy Office concerns regarding printing sensitive information; however, the Postal Service currently forwards the same printed bad check information to its CPUs that is electronically available in the POS system, and could be incorporated on the PS Form 1412.[22]

Regarding recommendation 3, we disagree and continue to maintain the proposed modification in RCMS to allow for the entry of the first and last name of the customer would increase the chance of assessing additional bad check history in order to better detect and analyze potential fraudulent activity. Additionally, we maintain the second

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[22] Handbook F-101, Section 9-3.5.3, page 121, May 2012.

proposed RCMS modification to enter the retail associate identification number would better equip account specialists to identify retail associates who are consistently accepting bad checks along with their location. We agree retail associate identification numbers are readily available in the Retail Data Mart; however, specialists would have to manually retrieve the information, taking additional time and effort instead of entering the identification numbers printed on the readily available returned check copies.

Additionally, as included in our report, an inquiry of bad checks using a customer's name rather than just the routing and account numbers more than doubled the number of prior bad checks related to the customer. As noted in our report, from October 2010 to April 2012, nearly $43 million in bad checks were accepted by the Postal Service. Further, nearly $19 million remains uncollected, including nearly $16 million in checks that were accepted in FYs 2010 and 2011. The OIG considers management's comments responsive to recommendations 4 and 5 in the report. For recommendations 1 through 3, we do not plan to pursue the issue at this time.

The OIG considers recommendation 5 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Additional Information

Background

Postal Service retail associates may accept personal, bank, government agency, business, travelers, and American Express gift checks for customer transactions when presented with proper photo identification. While paying by check is convenient for some customers, there is a risk associated with check acceptance. To reduce the risk, Accounting Services[23] ███████████████████████████████████████ ██ ██ ██, POS will display a message declining the check. ██████ ██████████████████████████████████████ In addition, the account on which the check is drawn has nonsufficient funds available, resulting in a delay or loss of funds transferred to Postal Service accounts. Furthermore, some customers attempt to defraud the Postal Service by making purchases with fraudulent checks and counterfeit bank account numbers.

Although current data suggests the number of checks continues to decline each year, the Postal Service still accepted ████████████████████████████████████ ██ ██ ██████████████████████████████████████ remains uncollected. See Table 3 for an overview of the number and dollar amounts of bad checks processed by the Postal Service each fiscal year.

Table 3: Number and Dollar Amounts of Bad Checks Processed by Accounts Reconciliation Branch

Fiscal Year	Number of Bad Checks	Total Amount of Bad Checks
███	███	████
███	███	████
████	███	████

Source: RCMS.

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[23] Accounting Services manages accounting processes and procedures for the Postal Service.
[24] Effective March 7, 2009, management enhanced customer check acceptance functionality in the POS system to include the bad check list file.
[25] During Q1, FY 2012, Information Technology merged the Finance Branch's stand-alone RCMS into the Eagan ASC's web-based RCMS. The Finance Branch processes bad checks from lockbox customers while the Eagan ASC processes bad checks from retail locations, such as post offices. As such, the data for FY 2012 includes bad checks processed by both branches from October 2011 through April 2012.

Banks attempt to deposit nonsufficient funds checks twice before sending bad check images to Accounting Services, Eagan ASC, for processing. The Eagan ASC is responsible for reviewing perceived fraudulent check activity from retail locations, such as post offices, stations, and branches; and entering information from bad check images into the RCMS database on a daily basis. They are also responsible for the collection and resolution of all checks accepted at retail locations returned from Postal Service bank accounts. Generally, the bad check process takes about 3 weeks from the time a bad check is presented at a retail unit, unsuccessfully deposited by a bank, and sent to the Eagan ASC for collection.[26]

The Eagan ASC refers checks identified as fraudulent to the Inspection Service field offices on a weekly basis. The Inspection Service then initiates investigations on those frequently referred bad check customers. During FYs 2010 and 2011, the Inspection Service opened a total of 66 cases and made 39 arrests pertaining to bad checks. The OIG Office of Investigations handles referrals pertaining to suspicious activity involving PRU personnel. During the same time, the OIG's Office of Investigations opened one case involving a Postal Service employee passing a bad check, which resulted in a letter of removal.

Objective, Scope, and Methodology

Our objective was to determine the effectiveness of controls over the check acceptance process. To accomplish our objective, we:

- Analyzed bad check data from RCMS to identify units and personnel with occurrences of bad check acceptance.

- Interviewed Postal Service personnel to gain an understanding of check acceptance, bad check processing procedures, and Lean Six Sigma initiatives.

- Contacted CPU personnel to determine whether bad check lists were being distributed to the units.

- Conducted visits to Eagan, MN, ASC to observe bad check processing and follow-up procedures to determine whether controls and monitoring are adequate. We also visited the Oakland, CA Post Office, Civic Center Station, to observe POS system check processing procedures.

We conducted this review from February through September 2012 in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on July 9, 2012, and included their comments where appropriate.

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[26] The Eagan ASC is responsible for collecting nonsufficient funds checks of $5,000 or more, suspicious checks, and checks returned for reasons other than nonsufficient funds. The Postal Service contracted with a collection agency to handle nonsufficient funds checks under $5,000.

We assessed the reliability of RCMS and RDM data by judgmentally comparing system data to source documentation. We also interviewed account specialists at the Eagan ASC who were knowledgeable about the system processes and data. In addition, we interviewed CPU personnel to gather information regarding their use of the bad check list. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Our *Bad Check Prevention and Collection*[27] report determined that the Postal Service's policies and procedures to prevent and collect bad checks were effective and efficient. However, the audit found that there was additional opportunity to decrease bad check costs by increasing the bad check service fee to the national retail median.

The OIG recommended that management increase the bad check service fee to the national retail median of $30. Management agreed with the recommendation in the report.

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[27] Report Number FI-AR-12-002, dated January 10, 2012.

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
5	Unrecoverable Revenue Loss[28]	████████

The monetary impact calculation is based on the dollar value of ████ bad checks accepted at CPUs nationwide, which were identified in CYs 2010 and 2011 and remain uncollected. This amount includes the $25 returned check fee added to the value of each check by either the Eagan ASC or the collection agency when pursuing collection efforts.[29]

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[28] Amount the Postal Service is (or was) entitled to receive, but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed.
[29] Handbook F-101, Section 9-3.5.1.e, page 121, May 2012.

Appendix C: Check Acceptance Data

Table 4 shows the number and total amount of returned checks accepted by each district between FY 2010 through Q 2, FY 2012.

**Table 4: Number and Amount of Returned Checks Accepted
by District and Fiscal Year**

District Name	FY 2010		FY 2011		FY 2012 (Q1-Q2)		TOTAL	
	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted
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District Name	FY 2010		FY 2011		FY 2012 (Q1-Q2)		TOTAL	
	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted
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███	██	███	██	███	██	███	██	██
███	██	███	██	███	██	███	██	██
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District Name	FY 2010		FY 2011		FY 2012 (Q1-Q2)		TOTAL	
	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted	Number of Bad Checks Accepted	Total Amount of Bad Checks Accepted
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Source: RCMS.

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[30] The number and dollar amount of bad checks unaccounted for represent the difference identified when comparing the total number of bad checks accepted each fiscal year and the subtotals of the bad checks accepted within each district.

We analyzed the POS *Bad Check Override Report* from October 2009 through April 2012. Table 5 shows override transactions by district, number of units, and supervisors.

Table 5: Check Override Activity by District During FY 2010 – Q2, FY 2012

District Name	Number of Bad Check Overrides	Total Amount of Bad Check Overrides	Number of Units with Bad Check Overrides	Number of Supervisors Who Performed Overrides
███	█	█████	█	█
█████	█	████	█	█
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███	█	████	█	█
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██	█	████	█	█
███	█	████	█	█
███	█	███	▌	█
██████	█	███	█	█
███	█	████	█	█
██████	█	██	▌	▌
███	█	███	█	█
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████	█	███	█	█
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███	█	████	█	█
███	█	████	█	█
███	█	████	█	24

District Name	Number of Bad Check Overrides	Total Amount of Bad Check Overrides	Number of Units with Bad Check Overrides	Number of Supervisors Who Performed Overrides
███████████	█	███	█	█
███████████	█	███	█	█
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District Name	Number of Bad Check Overrides	Total Amount of Bad Check Overrides	Number of Units with Bad Check Overrides	Number of Supervisors Who Performed Overrides
███	█	███	█	█
███	█	███	█	█
███	█	███	█	█
████	█	██	█	█
████	█	██	█	█
████	█	██	█	█
████	██	████	██	██

Source: RCMS.

Appendix D: Management's Comments

KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS

UNITED STATES
POSTAL SERVICE

August 6, 2012

Lucine M. Willis
Director, Audit Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-20202

SUBJECT: OIG Report Number FI-MA-12-DRAFT – Controls over the Check
Acceptance Process

This letter is in response to Draft Management Advisory Report – Controls Over the
Check Acceptance Process (Report Number FI-MA-12-DRAFT) dated July 20.

In general, Management notes that the U.S. Postal Service's (USPS) controls over check
acceptance has resulted in a percentage of returned checks that is lower than what is
expected by the retail industry. In fact, the January 10, OIG report (FI-AR-12-002),
specifically states that the USPS's check acceptance and bad check collection processes
are seven times more effective than industry average. Any recommendations that incur
cost should be closely evaluated in terms of expected benefits and return on investment.

Specific responses to the report's recommendations are listed below.

<u>Recommendation</u>

We recommend the vice president, Channel Access:

1. Modify the Point-of-Service system to prompt users to enter:

- ███████████████████████████████████████

- ███████████████████████████████████████

2

Management Response:

- Management will not implement any new non-critical changes to the current Point of Sale software which is scheduled to be replaced in Fiscal Year (FY) 2013 by Retail Systems Software (RSS). New changes are currently being scheduled for RSS after January 2014.

- The POS system (and future Retail System Software) prompts the retail associate to place the check face down into the printer to scan and obtain the account information from the check's magnetic ink character recognition line. Retail Associates do not normally enter the information manually. The benefits to be gained by implementing this change are not quantified sufficiently in the report. We disagree with the need for any change.

- Management disagrees with entering the first and last name of the customer. Implementation requires additional keystrokes and time which impacts retail efficiency, transaction time and potentially hours. More than █████ checks were accepted in FY2011. Estimating 30 seconds to read and key in the name, transaction time would increase by more than 317,000 hours. In addition, name matches would create false positives, negatively impacting customer experience.

Recommendation

We recommend the vice president, Channel Access:

2. Modify Postal Service Form 1412, Daily Financial Report, ███████████████████

██

Management Response:

The PS Form 1412 is a Daily Financial Report. It is assumed the recommendation is to create a new end of day report that is generated by the Point of Service (POS) One system. Management disagrees with generating a separate manual report for identification of bad checks. In 2009, the manual process for reviewing bad check lists was replaced by an electronic process in POS One. Additionally, during the exit conference on the subject report, the Privacy Office opposed printing personal information on the proposed report.

Recommendation

3. Modify the Returned Check Management System ███████████████

3

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Management Response:

Neither the Vice President Channel Access, nor the Vice President Delivery and Post Office Operations have jurisdiction over the Returned Check Management System which belongs to the Banking Reconciliation Branch. Input was obtained from the Field Accounting office in developing this response.

Further correspondence on this topic should be directed to the Controller, Tim O'Reilly.

Management disagrees with entering the first and last name because of the same reasons noted for not entering the first and last name at retail: increased time and false positives.

Management disagrees with modifying the RCMS to enter the retail associate identification number because this information is already available in the Retail Data Mart.

Recommendation

We recommend the Vice President, Delivery and Post Office Operations:

4. Direct district management to conduct training or stand-up talks on the check acceptance process and entering checks into the Point-of-Service System for personnel.

Management Response:

Management agrees to conduct stand-up talks on proper check acceptance processes. This will be completed in Quarter 4, FY2012.

Recommendation

We recommend the Vice President, Delivery and Post Office Operations:

5. Require host post offices to continuously provide the most recent bad check lists to contract postal units.

4

Management Response:

Management agrees to distribute messaging to host post offices reminding them
to provide the most recent bad checklist to contract postal units. This will be
completed in Quarter 4, FY2012.

This report as well as management's comments should be exempt from disclosure under
the Freedom of Information Act (FOIA). This information should be exempt from
disclosure due to its confidential nature as under good business practices it would not be
publically disclosed. The information would be of potential benefit to individuals seeking
to defraud the postal service.

Kelly M. Sigmon for _Elizabeth A Schaefer_

Kelly M. Sigmon   Dean J. Granholm
Vice President, Channel Access   Vice President, Delivery and Post Office Operation

9/6/2012   08/06/2012
Date   Date

cc: Sally Haring, Manager, Corporate Audit and Response Management
      Timothy O'Reilly, Vice President, Controller
      Karen Mastervich, Manager, Retail Business Technology
      Jeff Day, Manager, Retail Operations
      Jack Meyer, Manager, Corporate Accounting