

September 20, 1999

M. RICHARD PORRAS  
CHIEF FINANCIAL OFFICER AND SENIOR VICE PRESIDENT

KENNETH J. HUNTER  
CHIEF POSTAL INSPECTOR

SUBJECT: Bank Secrecy Act System Update  
(Audit Report Number FR-AR-99-007)

Attached is our report on the United States Postal Service (USPS) implementation of the Bank Secrecy Act. We initiated this audit to determine if the Bank Secrecy Act System will allow the USPS to comply with the requirements of the Bank Secrecy Act in a timely manner.

The audit revealed that USPS had made progress towards implementing the Bank Secrecy Act, but continues to be non-compliant with the Act in certain areas. Specifically, full implementation was delayed due to restricted funding and unanticipated system development complications, standard operating procedures were not developed and sensitive and restricted production data was used in the 'test' environment. Management agreed to our recommendations and the corrective actions taken or planned address the issues in this report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact John M. Seeba, Director, Financial Audit, at (703) 248-2207 or me at (703) 248-2300.

Richard F. Chambers  
Assistant Inspector General  
for Performance

Attachment

cc: Richard D. Weirich  
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## EXECUTIVE SUMMARY

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### Introduction

This report presents the results of our audit on the progress of USPS implementation of the Bank Secrecy Act (Project Number 99PF004FR000). Our objective was to determine if the Bank Secrecy Act System will allow USPS to comply with the requirements of the Bank Secrecy Act in a timely manner.

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### Results in Brief

The USPS has made progress towards implementing the Bank Secrecy Act, but continues to be non-compliant with the Act in certain areas.<sup>1</sup> Specifically:

- USPS management officials do not expect full implementation of the Bank Secrecy Act System until the end of fiscal year 2001 or the beginning of fiscal year 2002.
- Standard operating procedures were not developed for the Bank Secrecy Act Support Group at the St. Louis Accounting Service Center. Further, a formal agreement was not established between the Inspection Service and the Bank Secrecy Act Compliance Office concerning each other's specific roles and responsibilities regarding the USPS compliance and anti-money laundering program; and
- Application developers used sensitive and restricted production data in the 'test' environment.

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### Summary of Recommendations

We recommended that the Chief Financial Officer and Senior Vice President fund implementation of the Bank Secrecy Act and consider appointing a full-time Compliance Officer to facilitate the implementation of the Bank Secrecy Act system. We also recommend that responsible officials establish standard operating procedures and a formal agreement regarding the USPS Bank Secrecy Act Program. The specific recommendations are contained in the body of this report.

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### Summary of Management's

Representatives of the Chief Financial Officer and Senior Vice President, and the Chief Postal Inspector concurred

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<sup>1</sup> USPS may be considered generally compliant in the area of money laundering deterrence, but is not compliant in the areas of reporting required transactions, suspicious analysis, and compliance monitoring.

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**Comments**

with the recommendations contained in this report. Their response to the recommendations included a summary of initiatives the USPS has in progress, completed, or planned, addressing the issues. We summarized these responses in the report and included the full text of the responses in Appendix.

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**Evaluation of  
Management's  
Comments**

Management's corrective actions taken or planned are responsive to the issues addressed in this report.

## INTRODUCTION

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### Background

The Bank Secrecy Act<sup>2</sup> is a law enacted to deter money-laundering activities. Money laundering is the attempt to conceal or disguise the nature, location, source, ownership, or control of money derived from illegal activities. In the United States alone, estimates of the amount of drug profits laundered through various financial systems have been as high as \$100 billion. The Bank Secrecy Act requires certain cash purchases of financial instruments such as money orders, wire transfers, and stored value cards to be reported to the United States Department of Treasury.

The Bank Secrecy Act requires the USPS to establish and maintain a compliant program; an active anti-money laundering program; and audits to evaluate compliance. Establishing a compliance program includes training applicable employees, recording and reporting required transactions to the United States Department of Treasury, and monitoring internal compliance with the Bank Secrecy Act requirements. An active anti-money laundering program includes detecting and deterring money laundering activity. The USPS Office of Inspector General will periodically perform independent audits to evaluate compliance. The USPS may be subject to civil penalties for willful non-compliance with Bank Secrecy Act reporting and record-keeping requirements that range from \$25,000 to \$100,000 for each occurrence.

The USPS is currently developing a Bank Secrecy Act System, which will provide them with the ability to monitor the USPS compliance with the Bank Secrecy Act. Specifically, the system will assist the USPS in, among other things:

- a. determining whether required records and reports were properly completed and reported as required;
- b. performing suspicious analysis on the sale of various USPS financial products for use in investigations; and
- c. detecting and deterring money laundering by identifying potential money laundering scenarios.

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**Objective, Scope, and** Our objective was to determine if the Bank Secrecy Act

<sup>2</sup> Public Law 91-508, 84 Stat. 1114 (1970).

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**Methodology**

System will allow USPS to comply with the requirements of the Bank Secrecy Act in a timely manner. We reviewed documentation for the Bank Secrecy Act System development and discussed the current status of the Bank Secrecy Act System with representatives from the St. Louis Accounting Service Center and the Bank Secrecy Act Compliance Office.

We conducted the audit from June through August 1999 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

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**Prior Audit Coverage**

We issued a Management Advisory Report (FR-LA-98-001) on the Bank Secrecy Act program on September 30, 1998. In that report, we concluded that the USPS made progress in complying with the BSA, but there were three areas of concern:

- system access,
- training, and
- document retention.

Management concurred with our suggestions and corrective actions were planned or taken.

## AUDIT RESULTS

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<b>Bank Secrecy Act Compliance</b>	The USPS has not complied with the Bank Secrecy Act <sup>3</sup> since 1988 when they were first placed under the reporting requirements of the Bank Secrecy Act. <sup>4</sup> Specifically, compliance monitoring, suspicious analysis of transactions, required reporting of transactions to the United States Department of Treasury, and anti-money laundering procedures have not been fully implemented within the USPS Bank Secrecy Act Program.
Bank Secrecy Act System	USPS management officials do not expect full implementation of the Bank Secrecy Act system until the end of fiscal year 2001 or the beginning of fiscal year 2002. Implementation was delayed due to restricted funding <sup>5</sup> and unanticipated system development complications related to Privacy Act and other system requirements. Non-compliance with the Bank Secrecy Act subjects the USPS to millions of dollars <sup>6</sup> of potential civil penalties and increases the risk that USPS financial instruments will be a vehicle to launder money. In addition, the cost of implementing the system could be offset with laundered money that is seized and forfeited to the USPS.
Standard Operating Procedures and Formal Agreement	Standard operating procedures were not developed for the Bank Secrecy Act Support Group at the St. Louis Accounting Service Center. Further, a formal agreement was not established between the Inspection Service and the Bank Secrecy Act Compliance Office concerning each other's specific roles and responsibilities regarding the USPS compliance and anti-money laundering program. Management personnel did not make the development of standard operating procedures and a formal agreement a priority. Standard operating procedures are necessary to ensure the Bank Secrecy Act Support Group personnel are

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<sup>3</sup> Several audit reports issued by the United States Postal Inspection Service during fiscal year 1999 have cited specific instances of non-compliance with the Bank Secrecy Act. Specifically, 32 of 41 offices (78%) visited in Florida and New Jersey were non-compliant with various Bank Secrecy Act requirements. Examples of the non-compliance issues included untimely submission of required forms, general lack of knowledge of the requirements, and utilization of out-dated forms.

<sup>4</sup> A Federal Register bulletin was published on January 13, 1988, with an effective date of April 12, 1988, placing the USPS under the reporting requirements of the Bank Secrecy Act.

<sup>5</sup> Due to current USPS financial constraints, budgeting and funding for the Bank Secrecy Act System was spread over future years. Management personnel estimate that an additional \$2.8 million would be needed in fiscal year 2000 to ensure the System is fully implemented by October 31, 2000 or shortly thereafter.

<sup>6</sup> Each instance of non-compliance with Bank Secrecy Act reporting or record keeping requirements subjects the USPS to potential civil penalties ranging from \$25,000 to a maximum of \$100,000.



aware of and perform their specific roles and responsibilities to ensure compliance with the Bank Secrecy Act. In addition, a formal agreement is necessary to ensure that all aspects of Bank Secrecy Act compliance, to include the anti-money laundering program, are addressed to alleviate potential duplication of efforts within the program. Standard operating procedures and a formal agreement will allow the USPS to assess planned components of the Bank Secrecy Act System for compliance with the Bank Secrecy Act.

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Use of Sensitive and Restricted Production Data in the Test Environment

In our audit report, Fiscal Year 1999 Information System Controls, San Mateo Information Service Center (Report No. FR-AR-99-008), we identified that application developers used sensitive and restricted production data in the 'test' environment. One of the systems involved in this issue was the Bank Secrecy Act system. This resulted because of miscommunication between St. Louis Integrated Business Systems Solutions Center, San Mateo Computer Operations Service Center and Bank Secrecy Act personnel. As a result, sensitive and restricted information was made available to individuals who had no need to access this data. We made recommendations to the Computer Operations Service Center Manager in that audit report and therefore, we make no further recommendations in this report.

<b>Recommendations</b>	<p>We offer the following recommendations:</p> <p>The Chief Financial Officer and Senior Vice President should:</p> <ol style="list-style-type: none"><li>1. Provide funding to allow implementation of the Act by October 31, 2000.</li></ol>
<b>Management's Comment</b>	<p>The Chief Financial Officer and Senior Vice President concurred with this recommendation and stated that funding will be provided to implement all components of the Bank Secrecy Act System by October 31, 2000.</p>
	<ol style="list-style-type: none"><li>2. Consider appointing a full-time Bank Secrecy Act Compliance Officer until the Bank Secrecy Act system becomes fully operational.</li></ol>
<b>Management's Comment</b>	<p>The Chief Financial Officer and Senior Vice President concurred with this recommendation and stated that a full-time Bank Secrecy Act Compliance Officer would be appointed by the beginning of Quarter II, Fiscal Year 2000.</p>
	<ol style="list-style-type: none"><li>3. Direct the Bank Secrecy Act Compliance Officer to:<ol style="list-style-type: none"><li>a. Develop standard operating procedures for the Bank Secrecy Act Support Group at the St. Louis Accounting Service Center.</li><li>b. Coordinate operating procedures and responsibilities with the Bank Secrecy Act Support Group and the Inspection Service before incorporating changes in the Bank Secrecy Act System.</li></ol></li></ol>
<b>Management's Comment</b>	<p>The Chief Financial Officer and Senior Vice President concurred with this recommendation and stated that standard operating procedures for the Bank Secrecy Act Support Group would be developed by November 30, 1999. Further, he stated that operating procedures and responsibilities would be coordinated with applicable organizations prior to incorporating changes in the Bank Secrecy Act System.</p>
	<p>The Chief Financial Officer and Senior Vice President and</p>

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the Chief Postal Inspector should:

4. Direct the Bank Secrecy Act Compliance Officer and the Deputy Chief Inspector, Criminal Investigations, to develop a Formal agreement concerning the specific roles and responsibilities of their respective offices regarding the USPS Bank Secrecy Act compliance and anti-money laundering program.

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**Management's  
Comment**

The Chief Financial Officer and Senior Vice President, and the Chief Postal Inspector concurred with this recommendation. The Bank Secrecy Act Compliance Office will develop a formal agreement by November 30, 1999.

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**Overall Evaluation of  
Management's  
Comment**

Management agreed with our recommendations and the corrective actions taken or planned address the issues raised in this report.

M. RICHARD PORRAS  
CHIEF FINANCIAL OFFICER  
SUNSHINE VICE PRESIDENT



September 14, 1999

MR. RICHARD F. CHAMBERS  
ASSISTANT INSPECTOR GENERAL  
FOR PERFORMANCE  
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Bank Secrecy Act System Update (Number FR-AR-99-Draft)

We have reviewed the draft audit report for the Bank Secrecy Act System Update and concur with the four recommendations. Attached are management's responses to the recommendations indicating our concurrence and detailing corrective actions taken or planned.

If you have any questions or need additional information, please contact Robert J. Pedersen, BSA Compliance Officer, at (202) 268-6137.

A handwritten signature in black ink, appearing to read "M. Richard Porras".

M. Richard Porras

Attachment

**Management's Responses to Recommendations in the OIG Audit Report: Bank Secrecy Act System Status Update, Dated August 11, 1999**

**RECOMMENDATION #1**—Provide funding to allow implementation of the Bank Secrecy Act (BSA) by October 31, 2000.

**Management's Response**

It is management's understanding that the intent of the recommendation is to ensure that the Postal Service is fully compliant with all existing BSA regulations by October 31, 2000. Management concurs with this intent.

Postal Service management has made significant commitments to BSA compliance in the past three fiscal years. In Fiscal Years 1997 through 1999, approximately \$5 million were expended on BSA system development. In FY 1999 alone (a very lean budget year for the Postal Service), approximately \$2.4 million were expended on BSA system development. The expenditure over the past three fiscal years has contributed to a system infrastructure that will fully support the Postal Service's BSA compliance and anti-money laundering program.

The following major components of the BSA System are in production:

- Form 8105-A transaction analysis
- Form 8105-B transaction analysis
- Quality Assurance monitoring to ensure data integrity of forms 8105-A and 8105-B
- CTR reporting to Treasury
- Detection of suspicious money orders at the point of clearing
- Data entry of suspicious money orders
- Matching money orders reported on Forms 8105-B with suspicious cashed money orders
- Comprehensive and integrated law enforcement reports
- Point of sale controls for Dinero Seguro, including monitoring purchase activity for individual customers during the same business day, regardless of the number of post offices visited.

In addition, programming has begun for detection of suspicious funds transfer (Dinero Seguro) transactions, and the component should be completed by November 30, 1999.

One of the last major components of the BSA compliance and anti-money laundering system involves an automated process to monitor employee compliance with BSA reporting requirements, and to ensure that appropriate corrective action is taken when employee noncompliance is detected. When this component is completed, the Postal Service will be fully compliant with all existing BSA regulations. Under currently planned BSA funding for FY 2000, management expects this component to be implemented by October 31, 2000.

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Although additional BSA regulations requiring money services businesses to report suspicious activity are anticipated, the Department of Treasury has advised the Postal Service that these regulations are still several months away, and when promulgated, will not be effective until calendar year 2001 at the earliest. The Postal Service has demonstrated a willingness to be pro-active with respect to the Bank Secrecy Act by implementing some systems to detect and report suspicious money order and funds transfer (Dinero Seguro) transactions in advance of the regulations. By taking this pro-active measure, the Postal Service, with full agreement of the Department of Treasury, has established and is using a postal form (Form 8105B) for the reporting of suspicious transactions at the point of sale. When the new regulations requiring the Postal Service to report suspicious activity to the Department of Treasury are promulgated, the Postal Service will continue to use its form, and will not have to retrain window clerks or adopt use of the Treasury form. This will significantly minimize the impact that the new regulations will have on Postal Service operations.

The BSA Compliance Office will implement analysis systems to detect and report suspicious transactions in additional postal financial products and services. Management is committed to ensuring that these analysis systems are implemented by the time the "suspicious detection and reporting" regulations are effective, thereby ensuring that the Postal Service continues to be fully compliant with all existing regulations. In addition, the BSA Compliance Office will closely coordinate with managers in other departments to ensure that new financial products and services being developed will be compliant with BSA.

**RECOMMENDATION #2**—Consider appointing a full-time Bank Secrecy Act Compliance Officer until the Bank Secrecy Act system becomes fully operational.

**Management's Response**—Management concurs.

A full-time Bank Secrecy Act Compliance Officer will be appointed to the position by the beginning of Quarter II, FY 2000.

**RECOMMENDATION #3A**—Develop standard operating procedures for the Bank Secrecy Act Support Group at the St Louis Accounting Service Center.

**Management's Response**—Management concurs.

The Compliance Office began drafting Standard Operating Procedure (SOP) guidelines for the Support Group as early as November 1996. The structure and reporting lines for the Support Group have evolved over a long period of time. Management is finalizing the organization chart for the Group, which will detail the reporting lines for the supervisor and employees in the Support Group. The organization chart and SOP will be completed by November 30, 1999.

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**RECOMMENDATION #3B**—Coordinate operating procedures and responsibilities with the Bank Secrecy Act Support Group and the Inspection Service before incorporating changes in the Bank Secrecy Act System.

**Management's Response**—Management Concur.

The Compliance Office has been coordinating its procedures and responsibilities with the Inspection Service and the St Louis Accounting Service Center in the past. This coordination has not been formalized. In recent months, the Compliance Office deemed it appropriate to institute a Change Control Board (CCB), which will serve to formally coordinate any changes made to the BSA System with the BSA Support Group, the Inspection Service, and other Postal Service departments as appropriate. The CCB will be in effect by October 15, 1999.

**RECOMMENDATION #4**—Develop a formal agreement concerning the specific roles and responsibilities of the (Inspection Service and BSA Compliance Office) regarding the Postal Service's Bank Secrecy Act compliance and anti-money laundering program.

**Management's Response**—The BSA Compliance Office concurs.

The BSA Compliance Office has drafted a proposed formal agreement between the Inspection Service and the Compliance Office. The Compliance Office submitted the draft formal agreement to the Inspection Service on August 27, 1999. The Compliance Office intends to host sufficient meetings with the Inspection Service to determine whether an agreement can be reached by November 30, 1999. Additional time may be needed, pending discussions between the U.S. Treasury, the BSA Compliance Office and the Inspection Service. The Compliance Office will keep the Office of Inspector General apprised of the progress as to the signing of the formal agreement.



UNITED STATES POSTAL INSPECTION SERVICE

OFFICE OF CRIMINAL INVESTIGATIONS

September 1, 1999

MR. RICHARD F. CHAMBERS  
ASSISTANT INSPECTOR GENERAL  
FOR PERFORMANCE

SUBJECT: Bank Secrecy Act System Update (Number FR-AR-99-Draft)

We have reviewed the draft audit report for the Bank Secrecy Act System Update and concur with the recommendation that the Inspection Service and the Bank Secrecy Act (BSA) Compliance Office develop a formal agreement concerning their respective roles and responsibilities for compliance with the Bank Secrecy Act.

We received the draft proposal on August 25, 1999, from the BSA Compliance Office outlining the proposed roles and responsibilities. We are in the process of reviewing and evaluating the proposal. We plan to have our response to the proposal finalized by October 1999.

If you have any questions or need additional information, please contact Chris Giusti, Assistant Inspector in Charge, Money Laundering Group, at (202) 268-5430.

A handwritten signature in cursive script that reads "F. J. Marion".

F. J. Marion  
Acting Deputy Chief Inspector  
Criminal Investigations

cc: Mr. Porras  
Mr. Kearney  
Mr. Pedersen  
Mr. Kiel  
Mr. Crawford  
Mr. DuPilka  
Mr. Katz



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**Major Contributors to [REDACTED]  
This Report**