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SUBJECT: Audit Report – Fiscal Year 2007 Financial Installation Audit –  
Stamp Distribution Offices (Report Number FF-AR-08-062)

This report presents the results of our financial installation audits at 12 judgmentally selected offices – 11 stamp distribution offices (SDO) and one stamp services center (SSC) for fiscal year (FY) 2007 (Project Number 07BD004FF000.) We conducted these audits in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements.

### **Background**

Beginning in FY 2001, the U.S. Postal Service Office of Inspector General (OIG) assumed responsibility from the U.S. Postal Inspection Service for conducting financial field audits at three levels of financial installations: revenue-generating units, which include post offices, contract postal units, and self-service and automated postal centers; business mail entry units; and stamp distribution offices.

SDOs and SSCs receive and ship stamps, Postal Service stationery, philatelic products, and money orders for all post offices, branches, and stations within their service areas. A stamp stock destruction committee at each office opens, verifies, and destroys stamp stock submitted for destruction. However, at SSCs, a stamp stock return committee verifies all returned stamp stock either for destruction or for further distribution. A District Marketing Manager is responsible for the overall operation of each SDO. Headquarters Stamp Acquisition and Distribution is responsible for the overall operations of the SSCs.

## **Objective, Scope, and Methodology**

The overall objective of our audit was to determine whether internal controls at SDOs were in place and effective.

To accomplish our objective, we performed fieldwork at 11 SDOs and one SSC during FY 2007. (See Appendix A.) The audits performed at these offices were unannounced. We judgmentally selected the offices from a population of 89. In addition, during our audit of the Chicago SDO, we included the collocated Chicago Accountable Paper Depository (APD) because the offices share a common work area.<sup>1</sup> As part of our review, we:

- Conducted a physical inventory count of the stamp stock at each office.
- Selected stamp stock shipments received during a reporting period and traced the shipments to supporting documentation.
- Observed procedures for filling and dispatching stamp requisitions.
- Reviewed stamp stock destruction procedures and supporting documentation for the most recent Postal Service (PS) Forms 17, Stamp Requisition/Stamp Return.

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We also evaluated whether the internal control structure over financial reporting and safeguarding of assets was implemented and functioning as designed.

We conducted these audits from October 2006 through January 2008 in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed the results of our audits with management officials on December 13 and 17, 2007, and included their comments where appropriate. We issued individual reports to management at each office.

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<sup>1</sup> APDs provide stamp stock to SDOs and SSCs.

## **Prior Audit Coverage**

The OIG issued a report titled *Fiscal Year 2003 Financial Installation Audit – Stamp Distribution and District Accounting Offices* (Report Number FF-AR-04-149, dated May 6, 2004). The report disclosed internal control and compliance issues related to stamp accountability and stamp stock destruction committees. We recommended management reinforce procedures to resolve stamp stock inventory discrepancies, conduct and document stamp stock counts when accountabilities are transferred, and secure accountable papers from loss. In addition, we recommended management reinforce the importance of maintaining the correct composition of the stock destruction committee and reinforce, through training, procedures relating to destroying stamp stock. Management agreed with our recommendations and issued a memorandum dated September 15, 2004, to the Vice Presidents, Area Operations, advising them of the audit findings and requesting that field management enforce existing policy and procedures.

The OIG issued a report titled *Fiscal Year 2004 Financial Installation Audit – Stamp Distribution Offices* (Report Number FF-AR-05-074, dated March 2, 2005). The report disclosed internal control and compliance issues related to stamp accountability and stamp stock destruction. We recommended management reinforce the importance of limiting the stamp stock destruction committees' term lengths and appointing observers of committee activities. Management agreed with our recommendation and issued a memorandum on February 22, 2005, reinforcing the stamp stock destruction committee policy. In this report, we discuss four stamp stock destruction conditions, which we previously reported.<sup>2</sup>

## **Results**

Based on the items we reviewed, generally, the internal controls at the SDOs<sup>3</sup> were in place and effective. However, we identified one office for which internal controls over stamp stock destruction were not effective. (See Appendix A.) There were internal control and compliance issues related to stamp destruction and security at 11 of the 12 offices. Employees stated they were either unaware of or did not fully understand the requirements, or they were following procedures already in place. When employees do not follow stamp stock procedures, there is an increased risk of financial loss to the Postal Service.

We also identified an issue related to Postal Service guidance that does not specify how often a manager is to observe the stamp stock destruction activities or whether the observations should be unannounced.

We present the detailed audit findings for the 12 offices in Appendix B. We identified \$155 million in non-monetary impact for accountable items at risk, which we reported in

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<sup>2</sup> In this FY 2007 report, we did not audit the same stamp distribution offices that we audited in FY 2004.

<sup>3</sup> For the remainder of this report, we refer to the 11 SDOs and the one SSC as offices, unless we are reporting a finding at an SSC, in which case we refer to it specifically as the SSC.

the individual audit reports. (See Appendix A.) [REDACTED]

### Stamp Destruction

The supervisors or service employees at nine offices did not always follow established policies and procedures pertaining to committee composition and oversight, and to destruction spreadsheets and requisition/return forms.

#### Committee Composition and Oversight

The committees for either stamp destruction or stamp stock return were not composed of the proper membership, or management had not designated an employee to observe committee activities. Specifically:

- At three offices, the District Customer Service Support Managers did not appoint an alternate postmaster or non-financial supervisor to the stamp destruction committee.<sup>4</sup> In addition, one manager did not appoint two employees from the accountable paper section to the regular and alternate destruction committees.
- At two offices, the District Finance Manager did not appoint a supervisor or manager designee who was not a regular or alternate member of the committee to observe activities of the stamp destruction committee.<sup>5</sup> (*Repeat condition from FY 2004.*)
- At one office, management allowed two employees from the accountable paper section to serve as two of the three required stamp destruction committee members.<sup>6</sup>
- At the SSC, management did not establish a formal stamp stock return committee.<sup>7</sup> Instead, the SSC used clerks who were available to verify incoming stamp stock.
- At one office, the stamp destruction committee did not request an exception to extend the term for an accountable paper clerk whose 3-year term had expired.<sup>8</sup> (*Repeat condition from FY 2004.*)
- At one office, only one of the three required committee members witnessed the complete destruction of stamp stock.<sup>9</sup>

<sup>4</sup> *Field Accounting Procedures (FAP)*, Section 1305.3, page 157, August 2007 Draft.

<sup>5</sup> FAP, Section 1305.2, page 157.

<sup>6</sup> FAP, Section 1305.3, page 157.

<sup>7</sup> *Stamp Stock Destruction Standard Operating Procedures*, page 10, June 2005.

<sup>8</sup> FAP, Section 1305.4, page 158.

<sup>9</sup> FAP, Section 1305.7, page 159.

### Destruction Spreadsheet and Requisition/Return Forms

The stamp stock destruction committees did not always properly complete destruction spreadsheets and requisition/return forms. Specifically:

- At four offices, the committees did not properly complete the stamp destruction spreadsheet.<sup>10</sup> For example, four offices did not record the verification date, one office did not log the unit identification or finance number, and one office did not log in the value of stock to be destroyed and any net differences noted. (*Repeat condition from FY 2004.*)
- At three offices and the SSC, the committee did not initial the changes made to PS Forms 17 or properly sign the forms after stamp stock was destroyed.<sup>11</sup> In one instance, only one of the three required committee members signed 107 out of 150 judgmentally selected forms. (*Repeat condition from FY 2004.*)
- At two offices, the committee certified stamp stock as destroyed before it was actually destroyed.<sup>12</sup> For example, at one office, the committee signed PS Forms 17 indicating they destroyed the stock. However, the committee had not destroyed the stock because of a problem with the contract for destruction.

### Stamp Security

Supervisors or service employees at six offices did not always follow prescribed policies and procedures related to stamp transfers, notification of and accounting for discrepancies, and access to and storage of stock and merchandise.

### Stamp Transfers

Management did not adequately document or properly transfer stamp stock. Specifically:

- At two offices, management used replacement employees during temporary absences of the stamp stock custodian without properly transferring the accountability.<sup>13</sup>
- At one office, the supervisor temporarily released stamp stock from the vault without documenting the release.<sup>14</sup>

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<sup>10</sup> FAP, Section 1305.7, page 159.

<sup>11</sup> FAP, Section 1305.7, page 159.

<sup>12</sup> FAP, Section 1305.7, page 159.

<sup>13</sup> FAP, Section 1301.2, page 147 and Appendix IV, page 333.

<sup>14</sup> FAP, Section 1301.2, page 147.

- At one office, the employees delivered stock shipments to the registry and left before a registry employee verified and signed the transfer documentation.<sup>15</sup>

### Notification of and Accounting for Discrepancies

Management did not always notify [REDACTED] or properly account for discrepancies. Specifically:

- At three offices, management did not notify [REDACTED] of stamp discrepancies.<sup>16</sup> [REDACTED]<sup>17</sup>
- At one office, management did not reduce the inventory for approximately \$4 million of destroyed stock at the collocated APD. In addition, the superintendent did not adjust inventory for four PS Forms 17 containing stock destruction data that did not agree with the amounts on the inventory list, resulting in an overage of \$651,348.<sup>18</sup>
- At the SSC, the supervisor did not submit PS Form 8144, Stamp Discrepancy Report, to the manager for shortages identified as far back as September 2006 for appropriate adjustments to the Stamp Services System.<sup>19</sup>

### Access to and Storage of Stock and Merchandise

Management did not always properly restrict access to stock or properly store postal-related merchandise. Specifically:

- At two offices, management did not properly restrict access to stamp stock scheduled for destruction. For example, the configuration of the accountable paper unit at one office did not allow stock to be properly secured. At the other office, a single committee member had access to the room where the certified stock for destruction was held.<sup>20</sup>
- At two offices, management did not properly store postal-related merchandise.<sup>21</sup> For example, one office stored merchandise belonging to the marketing department in one general-purpose container and five cabinets in the stamp destruction vault and unit work area.

<sup>15</sup> Handbook DM-901, *Registered Mail*, Section 4-1.1, September 2004.

<sup>16</sup> Handbook F-1, *Post Office Accounting Procedures*, Section 453.1.3, November 1996 (updated with *Postal Bulletin* revisions through July 19, 2007).

<sup>17</sup> *Stamp Services Government Relations, Guidelines for Locating Lost or Missing Registered Stamp Stock Shipment*, Step 4, October 2, 2006.

<sup>18</sup> *Stamp Service System User's Manual*, updated 2003.

<sup>19</sup> FAP, Section 1302.11, page 152.

<sup>20</sup> FAP, Section 303.2, page 25.

<sup>21</sup> Management Instruction PO-130-92-2, *Postal-Related Merchandise*, page 3, dated April 20, 1992.

- At two offices, management did not secure keys to the stamp stock vault.<sup>22</sup> For example, at one office, management placed the duplicate key and access keys inside the walk-in area of the main vault, which was accessible to all employees.

We issued reports to district management for the SDOs and to Headquarters Stamp Services for the SSC. We received concurrence with the findings and recommendations included in the individual audit reports; therefore, we are not making recommendations in this summary report. As a result, management chose not to respond formally to this report.

Also, in response to our audit of the ██████ SSC, Headquarters Stamp Services has made or is making changes to policy. Specifically, management determined that the current policy did not clearly specify the composition of the stamp stock return committee. Management updated the procedures to identify committee roles and responsibilities. In addition, management determined that instructions for PS Form 8144 did not specify when employees should process a discrepancy in the inventory. Management is sending a request to Headquarters, Corporate Accounting, to include a timeframe in the instructions to process discrepancies.

### **Policy for Observation of Stamp Destruction Activities**

During our audit, we determined that Postal Service policy regarding observation of stamp destruction needed clarification. The policy required that a supervisor or manager who is not a regular or alternate member of the committee be designated to observe activities of the destruction committee.<sup>23</sup> However, the policy did not specify how often the manager was to observe the stamp destruction activities or whether the observations were to be announced or unannounced. We discussed the issue with the Manager, Revenue and Field Accounting, who subsequently revised the policy to specify that the district appoint a manager to randomly select and observe, unannounced, stamp destruction activities, at a minimum, once a year. Since the revised policy addresses our concern, we are not making a recommendation.<sup>24</sup>

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<sup>22</sup> FAP, Section 307.2, page 29.

<sup>23</sup> FAP, Section 1305.2, page 157.

<sup>24</sup> FAP, Section 1305.2, page 157.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda Libician-Welch, Director, Field Financial – West, or me at (703) 248-2100.



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#### Attachments

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## APPENDIX A

### STAMP DISTRIBUTION OFFICES AUDITED AND NON-MONETARY IMPACT REPORTED

This table presents the judgmentally selected SDOs that were audited as well as the non-monetary impact for accountable items at risk.

	Office Name	Location	OIG Report Number	Non-Monetary Impact for Accountable Items at Risk <sup>25</sup>
1.	[REDACTED] <sup>26</sup>	[REDACTED]	[REDACTED]	\$94,103,944
2.	[REDACTED]	[REDACTED]	[REDACTED]	0
3.	[REDACTED]	[REDACTED]	[REDACTED]	0
4.	[REDACTED]	[REDACTED]	[REDACTED]	0
5.	[REDACTED]	[REDACTED]	[REDACTED]	0
6.	[REDACTED]	[REDACTED]	[REDACTED]	498,148
7.	[REDACTED]	[REDACTED]	[REDACTED]	0
8.	[REDACTED]	[REDACTED]	[REDACTED]	0
9.	[REDACTED]	[REDACTED]	[REDACTED]	2,594
10.	[REDACTED]	[REDACTED]	[REDACTED]	60,650,515
11.	[REDACTED]	[REDACTED]	[REDACTED]	0
12.	[REDACTED]	[REDACTED]	[REDACTED]	0
	<b>Total</b>			<b>\$155,255,201</b>

<sup>25</sup> For summary purposes only, we present the non-monetary impact for accountable items at risk related to stamp stock not adequately being secured. We included these amounts in the individual reports previously issued.

<sup>26</sup> Generally, the internal controls we examined were in place and effective, except for internal controls related to stamp stock destruction.

## APPENDIX B

### FINDINGS REPORTED

In FY 2007, the OIG issued reports for 12 SDOs. The table below provides a year-to-date summary of the results. The findings are listed for each site in the order of the most frequent findings for each area.

Findings	1	2	3	4	5	6	7	8	9	10	11	12	Number of offices with findings
<b>Stamp Destruction</b>													
<b><u>Committee Composition and Oversight</u></b> <i>The office did not:</i>													
Appoint an alternate postmaster, non-financial supervisor, or employee from the accountable paper section to serve on the regular and alternate committees.	X									X		X	3
Appoint an official to observe the activities of the stamp destruction committee.							X					X	2
Prohibit two employees from the accountable paper section from serving as two of the three stamp destruction committee members.					X								1
Establish a formal stamp stock return committee.				X									1
Request an exception to extend an accountable paper clerk whose term had expired.		X											1
Have more than one committee member witness the stamp stock destruction.	X												1
<b><u>Destruction Spreadsheet and Requisition/Return Forms</u></b> <i>The office did not:</i>													
Properly complete the stamp destruction spreadsheet.	X									X	X	X	4
Initial changes made to or properly sign PS Form 17 after stock was destroyed.	X			X		X				X			4
Verify that stamp stock was actually destroyed before certifying as destroyed.						X				X			2

Findings													Number of offices with findings
<b>Stamp Security</b>													
<b>Stamp Transfers</b> <i>The office did not:</i>													
Properly transfer stamp stock to a replacement employee.			X			X							2
Document stamp stock released from the stamp destruction vault.									X				1
Verify and sign registry documentation for stock shipments.								X					1
<b>Notification of and Accounting for Discrepancies</b> <i>The office did not:</i>													
Notify investigative authorities of stamp discrepancies.	X							X	X				3
Reduce and/or adjust inventory for destroyed stock.	X												1
Did not submit PS Form 8144 for shortages.				X									1
<b>Access to and Storage of Stock and Merchandise</b> <i>The office did not:</i>													
Properly restrict access to stock scheduled for destruction.						X				X			2
Properly store postal-related merchandise.									X	X			2
Secure keys to the stamp vault.						X				X			2
<b>Other</b> <i>The office did not:</i>													
Sign PS Form 3238, Destruction Certificate, immediately after destruction of stock. <sup>27</sup>				X									1
Immediately request a new stamp destruction contract after expiration of a contract. <sup>28</sup>	X												1

<sup>27</sup> According to management, PS Form 3238 is obsolete; therefore, we did not discuss this issue in detail in this report.

<sup>28</sup> Since this was a contracting matter outside the scope of our audit, we did not discuss the details in this report. We reported this matter to district management, who took appropriate corrective action.