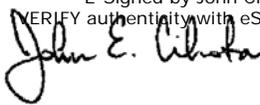




July 15, 2015

**MEMORANDUM FOR:** JAMES (JIM) P. COCHRANE  
ACTING CHIEF MARKETING AND SALES OFFICER AND  
EXECUTIVE VICE PRESIDENT

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop

A rectangular box containing a handwritten signature in blue ink that reads "John E. Cihota". Above the signature, the text "E-Signed by John Cihota" and "VERIFY authenticity with eSign Desktop" is displayed. A small black dot is visible to the right of the signature.

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance and Supply Management

**SUBJECT:** Management Alert – Philatelic Initiatives  
(Report Number FT-MA-15-007)

This management alert presents the results of our review of philatelic initiatives (Project Number 15BD003FT000). This alert responds to concerns brought to our attention regarding the U.S. Postal Service randomly distributing sheets of philatelic stamps.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

## Introduction

We are issuing this management alert to provide U.S. Postal Service management with insight into issues identified during our self-initiated review of philatelic initiatives, specifically the \$2 Inverted Jenny<sup>1</sup> stamp (Project Number 15BD003FT000). Our objective was to evaluate compliance with Postal Service regulations and statutory requirements, and to determine if there is a process in place for managing innovative ideas related to stamp promotions.

The original 1918 Inverted Jenny 24-cent airmail stamp is one of the world's most collectible stamps because a sheet of 100 misprinted stamps showed the upside-down biplane and was accidentally sold to a customer. In September 2013, to celebrate National Stamp Collecting Month, the Postal Service re-issued 2.2 million Inverted Jenny souvenir stamp sheets. Each souvenir stamp sheet features six \$2 stamps and sells for \$12. Collectors are able to purchase the stamps at selected retail counters and through USPS.com, eBay.com, and 1-800-STAMP24. The Postal Service's goal was to sell all 2.2 million stamp sheets in the first 60 days for \$26.4 million in revenue. However, as of March 31, 2015, the total stamp sales<sup>2</sup> were about \$13 million.

To generate interest in stamp collecting and engage new generations of stamp collectors, the postmaster general requested that the Postal Service create 100 additional stamp sheets that showed the biplane upright. The Postal Service included 70 Un-Inverted<sup>3</sup> Jenny stamp sheets with 1.2 million Inverted Jenny stamp sheets to be sold by retail units in the top 50 markets.<sup>4</sup> The remaining 30 Un-Inverted Jenny stamp sheets were to be randomly distributed in the first 60 days of release with the 700,000 Inverted Jenny stamp sheets available through Stamp Fulfillment Services (SFS).<sup>5</sup> SFS fulfills customer orders from eBay.com, the philatelic catalog, and USPS.com (Postal store). See [Table 1](#) for further details.

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<sup>1</sup> The Curtiss "Jenny" was one of a series of biplanes built by the Curtiss Aeroplane Company. The Inverted Jenny stamp depicts an image of an upside-down biplane.

<sup>2</sup> This includes sales from retail and Stamp Fulfillment Services fulfilled orders.

<sup>3</sup> Un-inverted means upright.

<sup>4</sup> A market is defined as a large city such as New York, Los Angeles, or Chicago. A philatelic procurement specialist analyzed data from the Solution Enterprise Asset Management system to identify the top 50 markets based on total stamp sales.

<sup>5</sup> Based on the *Stamp Collecting: Inverted Jenny Distribution and Fulfillment* plan. However, various versions existed, and none were approved.

**Table 1. Post Office Stock Distribution**

<b>Location</b>	<b>Total Inverted Jenny Stamp Sheets</b>	<b>Un-Inverted Jenny Stamp Sheets</b>
Retail Units	1,200,000	70
SFS	700,000	30
Inventory <sup>6</sup>	300,000	0
<b>Total Stamps</b>	<b>2,200,000</b>	<b>100</b>

Source: *Stamp Collecting: Inverted Jenny Distribution and Fulfillment Plan.*

All Inverted and Un-inverted stamp sheets were individually wrapped in sealed envelopes, concealing their identity. The Un-Inverted Jenny stamp sheet included a letter instructing the individual to contact the Postal Service to register his or her Un-Inverted Jenny stamp sheet and receive a special certificate signed by the postmaster general.

At retail units, neither Postal Service employees or customers knew beforehand which stamps were being purchased. For orders fulfilled at SFS, management's original distribution plan required the Automated Fulfillment Equipment System (AFES)<sup>7</sup> to identify all Inverted Jenny stamp sheet orders each day<sup>8</sup> and select one order from that pool of candidates. The AFES would mark the packing slip, which notified the SFS floor manager on duty to enter that order into an Excel spreadsheet. At the end of the week, the SFS floor supervisor would use the random number generator in Excel to select a customer order for that week to receive the Un-Inverted Jenny stamp sheet. The Un-Inverted Jenny stamp sheets were kept separately in a secure location with the stamp custodian. The stamp custodian would then remove one sealed Inverted Jenny stamp sheet envelope and replace it with a sealed Un-Inverted Jenny stamp sheet envelope before fulfilling the customer's order.

Eighty of the 100 Un-Inverted Jenny stamp sheets remain unregistered.<sup>9</sup> Of the 80 unregistered Un-Inverted Jenny stamp sheets, 57 were distributed to retail units and 23 remain in inventory at the SFS.<sup>10</sup> See [Figure 1](#) for details.

<sup>6</sup> The stock that remained in inventory was to be used to fulfill retail unit orders.

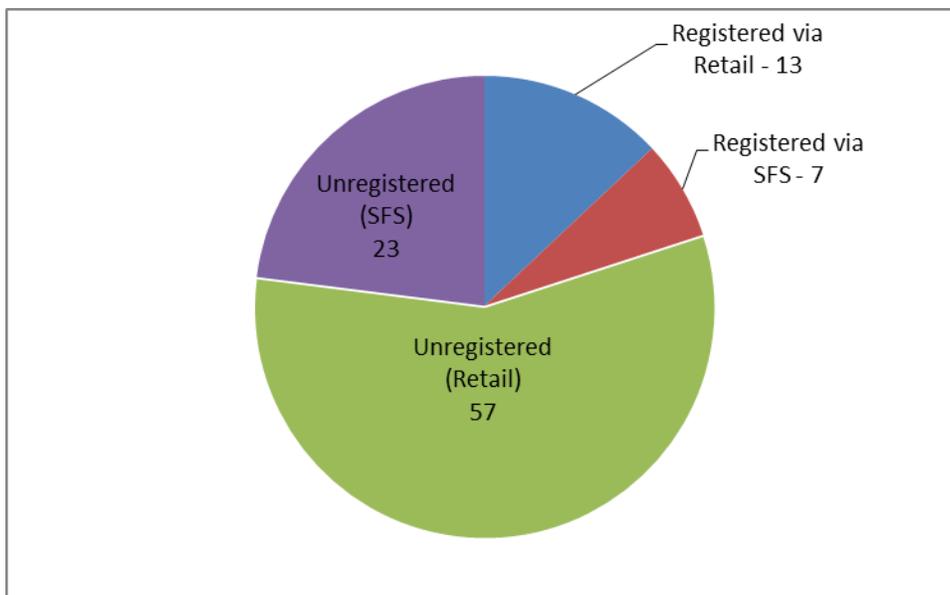
<sup>7</sup> The AFES receives order information from the National Customer Management System (NCMS) and reviews the orders to determine which piece of equipment can best fulfill the orders (automated or manual). It assists with determining how the order should be shipped (for example, Priority or First Class), and returns the completed order data to NCMS to close the order.

<sup>8</sup> Excluding Sundays. Any orders made on Sunday were rolled into Monday's orders.

<sup>9</sup> As of April 8, 2015.

<sup>10</sup> At the time of our review, 20 individuals had registered their stamp sheets with the Postal Service. There may be stamp sheets sold but not registered.

**Figure 1: Registered Un-Inverted Jenny Stamp Sheets**



Source: Un-Inverted Jenny Sheet Customer Log and SFS.

### Philatelic Promotions

The Postal Service created and improperly distributed a philatelic rarity by printing 100 sheets of the Un-Inverted Jenny stamp along with 2.2 million sheets of the Inverted Jenny stamp. This occurred because (1) the Postal Service legal department did not approve the distribution and fulfillment plan, and (2) Postal Service employees randomly selected three customers to receive a free Un-Inverted Jenny stamp sheet.

Postal Service policy over philately is vague; it states that Postal Service employees should refrain from intentionally creating philatelic rarities and does not include any exceptions, including the postmaster general’s authority to authorize these rarities.<sup>11</sup>



The Board of Governors, postmaster general, and general counsel were aware of the creation of the limited number of Un-Inverted Jenny stamp sheets. However, creation and promotion of the 100 Un-Inverted Jenny stamps were not publicly announced in the *Postal Bulletin*.

Although a distribution and fulfillment plan was developed, the Postal Service legal department did not approve it. Also, various versions of the plan were in circulation,

<sup>11</sup> *Postal Operations Manual (POM)*, Issue 9, Chapter 2, Philately, Subchapter 21, Philatelic Policies and Procedures, Section 211, July 2002 (updated through January 1, 2015).

each with the same author and date. Finally, the document did not have a version number, so the Postal Service could not accurately determine the final version.

By December 2013, Inverted Jenny stamp sheet orders declined, and SFS staff only fulfilled three Un-Inverted Jenny stamp sheet orders. Due to the decrease in orders, SFS management forgot about fulfilling the Inverted Jenny stamp orders per the distribution plan. Consequently, only one Un-Inverted Jenny stamp sheet was shipped from March 2014 to December 2014. However, the AFES continued to identify a potential weekly recipient for the Un-Inverted Jenny stamp sheet.

In December 2014, SFS management realized the Un-Inverted Jenny stamp sheets had not been placed in the Inverted Jenny stamp sheet orders on a weekly basis. To correct this situation, SFS management randomly selected three customers who purchased the Inverted Jenny stamp sheets through the Internet, telephone, or mail order during the time the promotion distribution plan was not followed and gave those customers the Un-Inverted Jenny stamp sheet in addition to the Inverted Jenny stamp sheet. Postal Service policy<sup>12</sup> prohibits employees from giving away stamps.

In January 2015, SFS suspended the promotion due to legal constraints associated with distributing stamps free of charge. However, the Postal Service decided the remaining Un-Inverted Jenny stamp sheets at retail units would be available for purchase. Management has not yet determined what they will do with the 23 Un-Inverted Jenny stamp sheets that remain at SFS.

Some collectors purchased large quantities of the Inverted Jenny stamp sheets with the hope of finding an Un-Inverted Jenny stamp sheet. Specifically, one collector purchased over 3,000 stamp sheets at various retail post offices. This collector searched for the Un-Inverted Jenny stamp sheet using his own discovery plan and budget.<sup>13</sup> After learning about the random giveaway, the collector, and many others, were not pleased. They felt the Postal Service was untruthful and misleading. This can damage the public's trust in the Postal Service.

While this innovative idea was introduced to generate public interest and increase awareness of the Inverted Jenny stamp sheet, the Postal Service strongly and inappropriately influenced the secondary market by creating the rarity. In 2014, at least two Un-Inverted Jenny stamp sheets, worth \$12 each, sold for \$51,750 and \$55,000. Additionally, by randomly giving away the Un-Inverted Jenny stamp sheets, the Postal Service created an unfair advantage for customers who purchased stamps through venues other than retail post offices.

The Postal Service needs to improve controls over the implementation of innovative ideas, engaging strategies, and promotions related to its philatelic operations (which includes commemorative stamps). In a prior U.S. Postal Service Office of Inspector

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<sup>12</sup> POM, Issue 9, Chapter 1 Retail Management, Subchapter 13, Retail Services at Counters, Section 132.41, July 2002 (updated through January 1, 2015).

<sup>13</sup> *Commentary: One stamp collector's priority*, CBS News, January 28, 2015.

General (OIG) report,<sup>14</sup> we noted improvements are needed surrounding commemorative stamp forecasting and inventory management processes. Recently, a federal appeals court upheld a decision that the Postal Service must pay \$540,000 to an artist who did not authorize use of an image of his Korean War sculpture on a 37-cent stamp. Since the Postal Service improperly gave away three Un-Inverted Jenny stamp sheets through SFS, collectors may complain or lose interest in future philatelic marketing campaigns, potentially impacting future revenue for the Postal Service. These events, combined with those described in this management alert, further suggests controls need improvement.

## Recommendations

We recommend the acting chief marketing and sales officer:

1. Develop a formal process for philatelic promotions that includes:
  - a. A strategic plan that describes how promotions will be marketed, the legal authority behind promotions, and transparency to the public to ensure fair access to promotions.
  - b. Formal approval of the promotions and strategic plan from the key executive leadership team, including the general counsel.
  - c. Controls to prevent employees from designing and implementing unapproved ideas related to philatelic promotions.
2. Develop a plan to address the Un-inverted Jenny stamps that remain in inventory (not purchased by customers) at both Stamp Fulfillment Services and retail units.
3. Revise the *Postal Operations Manual* to clarify the language of section 211, regarding the creation of philatelic rarities.

## Management's Comments

Management generally agreed with the recommendations. Regarding recommendation 1, management agreed to develop a formal process for philatelic promotions by December 31, 2015, that includes a strategic plan, formal approval, and policy to prevent employees from designing and implementing unapproved philatelic promotions. The process will not apply to special events and will apply at headquarters only.

Management partially agreed with recommendation 2 and will review the current process to address the Un-Inverted Jenny stamp sheets that remain in inventory at the Stamp Fulfillment Services by August 31, 2015. Management will not change the current plan at retail units. Although the plan is not specifically stated in management's

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<sup>14</sup> *Stamp Manufacturing and Inventory Management* (Report Number [MS-AR-12-006](#), dated July 23, 2012).

formal response, the Postal Service informed us at the exit conference that because all Inverted and Un-inverted stamp sheets were individually wrapped in sealed envelopes, concealing their identity, and comingled, it would not be cost effective to locate them. In addition, once located, it may not be a good business practice to destroy them.

Management agreed, in part, with recommendation 3 and will review the *Postal Operations Manual's* language with general counsel by August 31, 2015, to determine if clarifications are needed.

See [Appendix A](#) 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 should resolve the issues identified in the report. However, the OIG continues to believe it is important to address the Un-Inverted Jenny stamp sheets remaining in inventory at the retail units. When management develops a plan to address the inventory at the Stamp Fulfillment Services, we believe they should also disclose the reasons for leaving the inventory at the retail units unchanged. We acknowledge that it may not be cost effective to locate the Un-Inverted Jenny stamp sheets and, once located, may not be a good business practice to destroy them. Accordingly, we will not pursue this issue further.

Regarding clarification to the *Postal Operations Manual*, consulting with General Counsel is the first step in determining necessary revisions and implementing recommended changes. We will evaluate the implementation of policy changes as part of our recommendation close-out process. Accordingly, we will not pursue this issue at this time.

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

## Appendix A: Management's Comments

JAMES P. COCHRANE  
ACTING CHIEF MARKETING & SALES OFFICER  
EXECUTIVE VICE PRESIDENT



July 2, 2015

LORI LAU DILLARD

SUBJECT: Philatelic Initiatives (Report Number FT-MA-15-DRAFT)

Below you will find the responses to your recommendations to the Acting Chief Marketing and Sales Officer, and Executive Vice President.

### **Recommendation 1:**

1. Develop a formal process for philatelic promotions that includes:
  - a. A strategic plan that describes how promotions will be marketed, the legal authority behind promotions, and transparency to the public to ensure fair access to promotions.
  - b. Formal approval of the promotions and strategic plan from the key executive leadership team, including the general counsel.
  - c. Controls to prevent employees from designing and implementing unapproved ideas related to philatelic promotions.

### **Management Response:**

Agree. Management agrees with recommendations to develop a formal process for special philatelic promotions such as this, which do not fall under the scope of a philatelic agreement.

- a) A strategic plan will outline marketing, legal authority and intended transparency to the public to ensure fair access to the promotion(s).

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- b) Management will seek formal approval of above such special philatelic promotions and its strategic plan from the key Executive Leadership team, including General Counsel.
- c) Management will create policy that prevents employees from designing and implementing unapproved ideas related to philatelic promotions. Management does not agree to apply this to special events or require Headquarters to enforce this policy at the area and/or district levels.

**Target Implementation Date:** December 2015

**Responsible Official:** Manager, Exhibitions and Products, Stamp Services

**Recommendation 2:**

Develop a plan to address the Un-inverted Jenny stamps that remain in inventory (not purchased by customers) at both Stamp Fulfillment Services and retail units.

**Management Response:**

Partially agree. Management partially agrees with this recommendation. Management will review the current process to address the Un-Inverted Jenny stamps that remain in inventory at Stamp Fulfillment Services, and determine if additional controls should be put in place moving forward with this specific initiative. Management will not change the current plan in regards to the Un-Inverted Jenny stamps that remain in inventory at the field offices.

**Target Implementation Date:** August 2015

**Responsible Official:** Director, Stamp Services

**Recommendation 3:**

Revise the *Postal Operations Manual* to clarify the language of section 211, regarding the creation of philatelic rarities.

**Management Response:**

Management agrees in part. Management will review the language with HQ General Counsel to determine whether clarification is needed to the *Postal Operations Manual*.

- 3 -

**Target Implementation Date:** August 2015

**Responsible Official:** Director, Stamp Services

A handwritten signature in black ink, appearing to read 'J. Cochrane', is positioned above the printed name.

James P. Cochrane

cc: CARM