

September 30, 1998

ALLEN R. KANE
CHIEF MARKETING OFFICER
AND SENIOR VICE PRESIDENT

Subject: Stamp Services (FA-MA-98-001)

In June 1998, members of the Office of Inspector General (OIG) staff visited the Stamp Fulfillment Services Center (SFSC) and the Stamp Distribution Network (SDN) located in Kansas City, Missouri. This is a Management Advisory Report that highlights the results of that review.

The overall objectives of our review were to determine if adequate controls existed over stamp inventories and to determine if corrective actions had been taken for issues identified in OIG Management Advisory Report RG 98-001.

To accomplish our objectives, we toured both facilities and interviewed key personnel to obtain an overview of operations. We discussed the stamp destruction process and performed a limited review of inventory procedures utilized at both locations. In addition, we verified whether the corrective actions implemented by local management for OIG Report RG-98-001 had been completed. Our review was conducted during the period June 8-12, 1998 in accordance with generally accepted government auditing standards. We tested management controls over stamp inventories to the extent deemed necessary.

BACKGROUND

The SFSC is designed to service the needs of USPS' philatelic customers. The SFSC maintains a stamp inventory with a retail value of \$500 million and generates sales of approximately \$60 million annually.

The SDN is a separate facility adjacent to the SFSC. Personnel at the SDN:

- Provide stamps (with a retail value of \$1 billion at the time of our review) to 3,500 post offices in 4 states.

- Destroy discontinued and obsolete stamp stock (with a retail value of \$1.3 billion as of the date of our review) redeemed by post offices in the 4 states.
- Distribute “Celebrate the Century” stamps and new “H” stamps¹, and maintain the National Stamp Depository (with a retail value of \$100 million as of the date of our review).

In recent years, neither the SFSC nor the SDN had received extensive audit coverage. In fact, the USPS Inspection Service had not audited either facility in the last 5 years.

Review Results

Management officials have taken steps to implement a system of internal controls over stamp inventories. Specifically, SFSC management personnel had established procedures to perform statistical inventory cycle counts on a daily basis, and perform a complete inventory each August. SDN personnel perform a combination of quarterly and accounting period inventories to test the accuracy of stamp stock.

Our review disclosed that SFSC and SDN personnel took adequate actions to implement suggestions identified in Management Advisory Report RG-98-001. Specifically, SFSC personnel completed renovations of the camera monitoring station. In addition, SDN personnel have taken actions to address the timely destruction of obsolete stamps.

We did identify one area of concern during this review. Specifically, SFSC management personnel had not established formal inventory discrepancy thresholds. Instead, management personnel were exercising their "professional judgment" as to which discrepancies identified during daily or annual inventory counts warranted further review. If officials are permitted to subjectively determine which discrepancies will be reviewed, there is no assurance that serious discrepancies will be evaluated. In addition, officials acknowledged that under the current method they are not always able to identify the root cause of discrepancies. We believe that predetermined thresholds would ensure that (1) discrepancies are objectively selected for further research and corrective actions, and (2) resources could be devoted to more serious discrepancies in order to identify root causes.

Recommendation

We recommend that the Manager, SFSC, establish inventory discrepancy thresholds (either dollar value or percentage, or a combination thereof) for SFSC inventory items. Those items

¹ “H” stamps are nondenominational stamps printed in anticipation of the next rate increase.

exceeding the discrepancy threshold should be researched to identify the root cause and appropriate corrective actions.

**Management
Comments**

The Acting Manager, Stamp Fulfillment Services, agreed to implement our suggestion of establishing discrepancy thresholds for SFSC inventory items. The Acting Manager's comments are included as Attachment 1.

**Evaluation of
Management
Comments**

The acting manager's comments are responsive to the suggestion identified in the report.

We appreciate the cooperation and courtesy showed to the OIG staff during the review. If you have any questions or need additional information, please contact [REDACTED], or me at (703) 248-2300.

Colleen A. McAntee
Assistant Inspector General
Performance

cc: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Major Contributors
to this Report

██████████
██████████
██████████
██████████

MANAGER, STAMP FULFILLMENT SERVICES



September 23, 1998

ALLEN KANF
CHIEF MARKETING OFFICER
AND SENIOR VICE PRESIDENT

SUBJECT: Management Advisory Report - Stamp Services
(FA-MA-98-XXX)

When Stamp Fulfillment Services (SFS), transitioned from an individual to unit accountability environment, some of the historical controls were rendered obsolete by the new processes. A new measurement system, Inventory Record Accuracy (IRA), was implemented to judge the accuracy and tolerance of cycle counting procedures. This system was adopted as a "best practice" in the catalog industry. While it is a relatively accurate method of measurement, it does leave the process vulnerable to subjective decision making.

SFS Management agrees that predetermined thresholds are necessary to provide adequate assurance of inventory control. Accordingly, I am implementing the following procedure.

Upon conclusion of the cycle counting of an item, should there be an overage or shortage in excess of \$200.00 on the inventory face value for that item, the discrepancy will be researched in depth by the accounting section at SI S. Based on recommendations arising from the research, appropriate corrective actions and controls will be put in place to prevent future similar discrepancies.

The action establishes specific, measurable inventory tolerances that are compatible with an order processing, operations focused facility such as SFS. I trust the recommendations made by members of the OIG staff have been satisfied. However, I certainly welcome any comments, questions, or concerns. If further action is deemed necessary, I am always available to discuss alternative suggestions.

A handwritten signature in cursive script, appearing to read "Gary A. Stone".

Gary A. Stone
Acting Manager

CC: Azeemah Jaffer



Colleen McAntee