



November 2, 2007

ANDRE D. BOYKINS  
MANAGER, STAMP DISTRIBUTION

SUBJECT: Audit Report - Fiscal Year 2007 Financial Installation Audit –  
Kansas City Stamp Service Center – Kansas City, Missouri  
(Report Number FF-AR-08-020)

This report presents audit results for our fiscal year (FY) 2007 audit of U.S. Postal Service Kansas City Stamp Service Center (SSC), Kansas City, Missouri (Project Number 07BD004FF012). The Kansas City SSC serves the accountable paper needs of post offices, stations, branches, and contract units in the Gateway, Hawkeye, Mid-America, Central Plains and Dakotas Districts. The SSC is also responsible for accepting all returned accountable paper and destroying redeemed stock received from approximately 5,000 Postal Service installations within the five districts. We conducted this self-initiated financial installation audit in support of the audit of the Postal Service's financial statements.

### **RESULTS IN BRIEF**

Based on the items we reviewed, generally, the internal controls we examined were in place and effective. However, there was an internal control and compliance issue related to the timely destruction of obsolete (nonsalable) stock. We noted the results of our accountability examinations in the appendix.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our audit was to determine whether internal controls at the Kansas City SSC were in place and effective. To accomplish this objective, we performed fieldwork from September 11 through 20, 2007. We randomly selected and physically counted 60 out of 759 stock items on September 12, 2007. We reviewed all stamp stock shipments received during August 2007 and traced them to supporting documentation. We observed procedures for filling and dispatching stamp requisitions on September 13, 2007. We reviewed stamp stock destruction procedures and supporting documentation for 10 of the most recent Postal Service (PS) Forms 17, Stamp Return/Stamp Requisition, from Postal Service Quarter 3, FY 2007.

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 used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We also evaluated whether the internal control structure over safeguarding of assets was implemented and functioning as designed. We interviewed supervisors and employees and observed operations at this judgmentally selected Postal Service site.

We conducted our audit from September through November 2007 in accordance with generally accepted government auditing standards and included tests of internal controls that were necessary under the circumstances. We discussed the results of our audit with management officials on September 20, 2007, and included their comments where appropriate.

### **PRIOR AUDIT COVERAGE**

The U.S. Postal Service Office of Inspector General has not conducted financial installation audits of this unit in the past 5 years.

### **RESULTS**

#### **Stamp Stock Destruction Procedures Were Not Followed**

The Kansas City SSC did not destroy approximately \$1.7 billion worth of obsolete stock. Postal Service policy states that all nonsalable or withdrawn items from sale stamp stock must be destroyed each postal quarter.<sup>1</sup> Center personnel stated the recent rate increases in January 2006 and April 2007, prevented them from meeting the quarterly destruction standards. According to the acting manager, ensuring installations receive new stock with applicable rates took priority over destroying obsolete stock. The Postal Service could incur unnecessary inventory costs and an increased risk of pilferage when obsolete stock is not properly destroyed.

#### **Recommendation**

We recommend the Manager, Stamp Distribution, to direct unit management to:


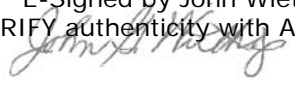
1. Destroy obsolete stock, as required.

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<sup>1</sup> Handbook F-1, *Post Office Accounting Procedures*, Section 456, November 1996 (updated with *Postal Bulletin* revisions through July 19, 2007).

We would appreciate a written response to our finding and recommendation by December 4, 2007. Please e-mail the response to me at [jwiethop@uspsoig.gov](mailto:jwiethop@uspsoig.gov) and Katherine S. Banks, Manager, Corporate Audit and Response Management, U.S. Postal Service at [CARMManager@usps.gov](mailto:CARMManager@usps.gov). The e-mailed response should include the signature of the Manager Stamp Distribution. The response should also indicate agreement or disagreement with the finding and recommendation and describe actions taken or planned with the associated completion dates. We will consider responses that do not indicate the actual completion date or planned completion date as not responsive and may pursue formal audit resolution. We will notify you within 15 days after receiving your response if we do not consider your corrective action responsive to our recommendations. Otherwise, consider your corrective action to be responsive.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact Sean Balduff at (314) 439-6008 or me at (314) 439-6021.

E-Signed by John Wiethop   
ERIFY authenticity with Approve!  


John G. Wiethop  
Director, Field Financial - Central

cc : Vincent H. DeVito, Jr.  
Stephen J. Nickerson  
Steven R. Phelps  
Thelma Butler  
Diane L. Dalsing  
Katherine S. Banks

## APPENDIX ACCOUNTABILITY EXAMINATION SUMMARY

This table presents the results of accountability examinations performed during the audit. There were 759 inventory items totaling \$3,095,136,160 as of September 11, 2007. We randomly selected a sample of 60 items to examine based on a weighted average of the dollar amount of items. The sample was selected from vaults containing salable items--vaults 1, 2, 3, 6, 7 and 8. Shortages and overages presented are the total value of all shortages and overages identified during the examination of each vault accountability.

Accountability	Total Value of Accountability for Sample per Inventory Report	Total Value of Accountability for Sample per OIG Examination	Total Value of All	
			Shortages	Overages
Vault 1	\$9,307,176.57	\$9,306,978.37	(\$198.20)	\$0
Vault 2	7,749,363.05	7,749,361.55	(1.50)	0
Vault 3	5,666,298.97	5,666,306.45	0	7.48
Vault 6	193,894,058.30	193,894,271.50	0	213.20
Vault 7	616,085,681.15	616,085,681.15	0	0
Vault 8	20,906,520.00	20,906,520.00	0	0
<b>Total</b>	<b>\$853,609,098.04</b>	<b>\$853,609,119.02</b>	<b>(\$199.70)<sup>2</sup></b>	<b>\$220.68<sup>2</sup></b>

<sup>2</sup> The total difference between overages (\$220.68) and shortages (\$199.70) equals an immaterial overage of \$20.98. Unit personnel adjusted the overages and shortages by completing PS Form 8144, Stamp Discrepancy Report, and inputting the results to the Stamp Service System.