



## AUDIT REPORT

# Internal Controls Over Stamp Stock Shipments - Central Square Post Office, Cambridge, MA

September 25, 2017



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Report Number FT-FM-17-032



# OFFICE OF INSPECTOR GENERAL UNITED STATES POSTAL SERVICE

## HIGHLIGHTS

September 25, 2017

### Internal Controls Over Stamp Stock Shipments – Central Square Post Office, Cambridge, MA Report Number FT-FM-17-032

#### **BACKGROUND:**

The U.S. Postal Service Office of Inspector General (OIG) used data analytics to identify offices with lost or stolen stamp stock shipments. We identified \$46,337 of expenses related to lost or stolen stamp stock shipments for the Central Square Post Office, Cambridge, MA, between May 1, 2016, and April 30, 2017.

Stamp Fulfillment Services, Kansas City, MO, fulfills stamp orders from postal retail units. Retail units are responsible for identifying and locating missing stamp stock shipments. When retail units do not resolve discrepancies timely, Accounting Services records an expense to the units for the difference.

Management advised that they are strengthening overall stamp accountability and upgrading financial controls, including:

- Daily financial accountability reconciliations and semi-annual stamp counts at Stamp Fulfillment Services.
- Enhancements to tracking stamp movement and in-transits at Stamp Fulfillment Services; and stamp shipments to individual post offices.
- A new tracking process and centralized review of all missing stamp stock shipments, including orders sent to the wrong unit.

- A new stamp destruction process that better aligns and tracks inventory discrepancies.

Our objective was to determine whether internal controls over stamp stock shipments were in place and effective at the Central Square Post Office, Cambridge, MA.

#### **WHAT THE OIG FOUND:**

Internal controls over stamp stock shipments were not in place and functioning at the Central Square Post Office. Specifically:

- The unit manager was not aware two stamp stock shipments totaling more than \$15,000 were missing for 37 and 25 days, respectively.
- Unit personnel did not research and timely resolve \$1,300 in stamp stock discrepancies.

This occurred because of:

- Miscommunication among personnel at the local unit regarding receipt and recording of stamp stock shipments.
- Stamp stock was received without the presence of a witness.
- The unit manager did not provide any oversight of the stamp stock process, to include reviewing and confirming the accuracy of stamp inventory transactions recorded.

- Discrepancies were not monitored through resolution.

As a result, stamp stock shipments totaling over \$16,000 were not timely accounted for, increasing the risk that these stamps could have been stolen and not detected. Further, unresolved discrepancies impact financial reporting accuracy.

On July 19, 2017, after our departure from the unit, the manager provided the audit team with supporting documentation for six of seven stamp stock discrepancies; however, a \$1,300 discrepancy remains unresolved.

***WHAT THE OIG RECOMMENDED:***

We recommended district management:

- Include appropriate personnel on communications regarding in-transit stamp stock shipments.
- Assign a witness to be present when accepting stamp stock shipments.
- Develop a process to review and confirm the accuracy of recorded stamp inventory.
- Monitor stamp stock discrepancies through resolution.

*[Link to review the entire report](#)*



September 25, 2017

**MEMORANDUM FOR:** MICHAEL W. RAKES  
A/MANAGER, GREATER BOSTON DISTRICT



**FROM:** Lorie Nelson  
Director, Finance

**SUBJECT:** Audit Report – Internal Controls Over Stamp Stock  
Shipments – Central Square Post Office, Cambridge, MA  
(Report Number FT-FM-17-032)

This report presents the results of our audit of the Internal Controls Over Stamp Stock Shipments – Central Square Post Office, Cambridge, MA (Project Number 17BFM026FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dianna Smith, Acting Deputy Director, Financial Controls, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the Internal Controls Over Stamp Stock Shipments at the Central Square Post Office in Cambridge, MA (Project Number 17BFM026FT000). The Central Square Post Office is in the Greater Boston District of the Northeast Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at U.S. Postal Service locations.

To determine whether internal controls were in place and effective for stamp stock shipments, we extracted and analyzed stamp stock financial differences data identified at the Central Square Post Office from May 1, 2016, through April 30, 2017. We also interviewed responsible personnel, conducted walkthroughs of the stamp stock process, and examined the unit's available support documentation.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).<sup>1</sup> We did not test the validity of controls over this system; however, we verified the accuracy of the data by reviewing the related documentation and internal controls, interviewing knowledgeable Postal Service personnel, and tracing selected information to the supporting source records. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from July through September 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 20, 2017, and included their comments where appropriate.

## Internal Controls Over Stamp Stock Shipments

Internal controls over stamp stock shipments were not in place and functioning at the Central Square Post Office. The unit manager was not aware stamp stock shipments were missing and a stamp stock discrepancy was not researched and timely resolved.

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<sup>1</sup> A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

## Receiving and Recording Stamp Stock

The unit manager was not aware two stamp stock shipments totaling \$15,333 were missing for 37 and 25 days, respectively (see [Table 1](#)). This occurred for several reasons:

- The notification from Accounting Services<sup>2</sup> that alerts the unit that an in-transit stamp stock shipment has not been recorded within 10 days of the shipment date did not get to the appropriate manager for resolution. The notifications originally go to the Postmaster, who sends the notices directly to the lead sales and service associate (LSSA)<sup>3</sup> for research and resolution. However, the unit manager, who is responsible for ensuring controls are in place for maintaining an accurate inventory, was not included on these communications.

Postal Service policy states Accounting Services monitors all stamp stock movement between Stamp Fulfillment Services<sup>4</sup> and the postal retail units (PRU). After 10 days, Accounting Services sends a report to the PRU for all in-transit stamp shipments along with instructions on how to research and resolve.<sup>5</sup> The responsibility for locating missing stamp stock shipments remains with the Postmaster.<sup>6</sup>

- The stamp stock was received by the LSSA only, without the presence of a witness. Postal Service policy states, when receiving stock, the employee must count the stock and verify it to the computer-generated stamp requisition form with a witness. Both individuals are required to sign the form.<sup>7</sup>
- The unit manager did not provide oversight of the stamp stock process, to include reviewing or confirming the accuracy of stamp inventory transactions recorded. Postal Service policy states the Postmaster or unit manager is responsible for ensuring that controls are in place for maintaining an accurate inventory including proper entry of all financial transactions.<sup>8</sup>

Further, the LSSA stamp stock verification of one shipment of stamps, which was missing for 25 days, identified \$1,300 more in stamp inventory than the value of the stamp stock that was ordered (see [Table 1](#), shipment identifier 2). Unit personnel did not contact Stamp Fulfillment Services in Kansas City, MO or the Accounting Help Desk for assistance in resolving the discrepancy. Accounting Services expensed the unit after 15 days of no resolution. The unit manager stated he was not aware of the discrepancy

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<sup>2</sup> Accounting Services are accounting, disbursing, and data processing facilities that provide accounting support for postal activities. When retail units do not resolve discrepancies timely, Accounting Services, St. Louis, MO, records an expense to the units for the discrepancy.

<sup>3</sup> At a finance station without a domiciled supervisor, a LSSA may be assigned the unit reserve and a separate stamp and/or cash credit from which direct sales to the public are conducted.

<sup>4</sup> Located in Kansas City, MO, SFS is the sole order fulfillment center for the Postal Service's stamps and products.

<sup>5</sup> Handbook F-101, *Field Accounting Procedures*, June 2016, Section 8-4.

<sup>6</sup> Handbook F-101, Section 11-5.5.

<sup>7</sup> Handbook F-101, Section 11-5.1.

<sup>8</sup> Handbook F-101, Section 11-3.1.

and he relies on the LSSA to receive and record stamp stock inventory without interference from unit management. The manager also said he does not review and verify the accuracy of inventory transactions recorded by the LSSA nor monitor discrepancies until they are resolved.

**Table 1. Stamp Stock Discrepancies Within the Unit's Control**

Shipment Identifier	Reason Code	Account Identifier Code <sup>9</sup>	Absolute Value	Discrepancy Value	Number of Days Elapsed Before The Correction Was Made
1	DD <sup>10</sup>	647 <sup>11</sup>	\$372.70	\$372.70 <sup>12</sup>	37 Days
	EF <sup>13</sup>	247 <sup>14</sup>	\$372.70	\$0.00	
2	DD	647	\$14,960.00	\$14,960.00	25 Days
	EE <sup>15</sup>	247	\$16,260.00	\$0.00	
	The unresolved amount is the difference between \$14,960.00 and \$16,260.00.				\$1,300.00
Total				\$16,632.70	

Source: EDW system data and unit documentation.

As a result, stamp stock shipments totaling \$16,633 were not timely accounted for, increasing the risk that these stamps could have been stolen and not detected. Also, unresolved discrepancies impact financial reporting accuracy.

On July 19, 2017, after our departure from the unit, the manager provided the audit team with supporting documentation for six of seven stamp stock discrepancies. One discrepancy valued at \$1,300 remains unresolved.

<sup>9</sup> The account identifier code consists of three digits. It is used to classify financial transactions to the proper general ledger account.

<sup>10</sup> Expense entry created automatically because store has not picked up any of the stock that was shipped or picked up stock with a different shipment number than what was shipped. Expense could also be an offset to a prior expense.

<sup>11</sup> Expense associated with financial shortages due to discrepancies in post office's daily financial report, related to stock ledger (stock in-transit) exceptions. This amount is a debit (increase) to the unit's expense account.

<sup>12</sup> The \$15,332.70 is the total of the \$372.70 + 14,960.00 discrepancy values rounded to \$15,333.

<sup>13</sup> Expense entry created manually using the Intransit Expense Form.

<sup>14</sup> Expense associated with financial overages due to discrepancies in post office's daily financial report, related to stock ledger (stock in-transit) exceptions. This amount is a credit (decrease) to the unit's expense account.

<sup>15</sup> Expense entry created automatically because store has picked up stock with no record of it being shipped. Expense could also be an offset to a prior expense.



- The unit initiated timely action on three of seven stamp stock discrepancies; however, the timeliness of the final resolution was beyond the unit's control. Specifically:
  - The East Cambridge Post Office stamp stock shipped on 2/3/2017 and valued at \$8,251.90, was mistakenly recorded into inventory at the Central Square Post Office on 2/6/2017. The unit identified the error on 2/8/2017 and transferred the stamp stock to East Cambridge on the same day using the manual stamp requisition form. To correct the recording error in the Retail System Software (RSS),<sup>16</sup> the Greater Boston District Office completed a manual journal voucher on 3/29/2017, 55 days later (see [Table 2](#), shipment identifier 3).
  - Unit staff could not record two stamp stock inventory items valued at \$3,060 into RSS on the date the stock was received, 1/9/2017, because the item identification numbers were not recognized in RSS. It took 45 days for the issue to be resolved (see [Table 2](#), shipment identifier 4).

**Table 2. Stamp Stock Discrepancies Beyond the Unit's Control**

Shipment Identifier	Reason Code	Account Identifier Code	Absolute Value	Discrepancy Value	Number of Days Elapsed Before The Correction Was Made
3	EE	247	\$8,251.90	\$0.00	55 Days
4	EF	647	\$3,060.00	\$0.00	45 Days
	EE	247	\$3,060.00	\$0.00	

Source: EDW system data and unit documentation.

## Recommendations

We recommend the manager, Greater Boston District:

1. Include the unit manager on the communication alerts received from Accounting Services regarding in-transit stamp stock shipments.
2. Assign a witness to be present when accepting stamp stock shipments.
3. Develop a process to review and confirm the accuracy of recorded stamp inventory.
4. Monitor stamp stock discrepancies through resolution.

<sup>16</sup> RSS was deployed in February 2016 and replaced the Point of Service (POS) system, which is the primary hardware and software system used to conduct retail sales transactions in post offices.

## Management's Comments

Management agreed with the findings and recommendations and stated that the required procedures for maintaining controls over stamp stock shipments are important to avoid potential risks, including theft or fraud. Regarding recommendation 1, management provided documentation to show that as of September 4, 2017, the Manager, Customer Services, is receiving the in-transit stamp stock notifications from Accounting Services.

Regarding recommendation 2, the LSSA completed training July 28, 2017, on procedures for accepting and verifying stamp stock shipments and is aware of the requirement to have a witness present and to sign PS Form 17 after content verification is complete. Further, the unit implemented a requirement that the LSSA remove the shipment from the registry cage only when there is a witness available to receive the shipment, and provided documentation of recent witness signatures on PS Forms 17.

Regarding recommendation 3, management implemented a process to track and verify stamp stock shipment activities from the shipment of stock from SFS through data entry of stock inventory items into RSS. Management also monitors the unit's compliance for resolving stamp stock financial discrepancies by periodically verifying stamp stock transaction entries recorded in the unit's daily financial report. Management provided documentation to show recent implementation of these activities.

Regarding recommendation 4, as a result of the training on July 28, 2017, and the recently implemented processes to monitor the receipt, processing and data input of stamp stock shipments, management now has the tools and training to investigate, resolve, and finalize any issues that may result from discrepancies in stamp stock shipments.

See [Appendix A](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report and corrective actions should resolve the issues identified in the report. The OIG considers all recommendations closed upon issuance of this report.

## Appendix A: Management's Comments



September 21, 2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Internal Controls over Stamp Stock Shipments – Central Square Post Office, Cambridge MA Report Number FT-FM-17-DRAFT

Thank you for the opportunity to respond to the Office of Inspector General's audit of Internal Controls over Stamp Stock Shipments – Central Square Post Office, Cambridge MA. Greater Boston District agrees with the findings made during the audit. We agree that the required procedures for maintaining controls over Stamp Stock Shipments are important to avoid potential risks including theft or fraud.

**Recommendation #1**

Include the unit manager on the communication alerts received from Accounting Services regarding in-transit stamp stock shipments.

**Management Response/Action Plan:**

Greater Boston District agrees with this recommendation. The Manager Customer Services is now receiving the in-transit stamp stock notifications from Accounting Services as indicated in the attached eMail (Attachment A).

**Target Implementation Date:**

Completed

**Responsible Official:**

Michael King, Manager Customer Services

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**Recommendation #2**

Assign a witness to be present when accepting stamp stock shipments.

**Management Response/Action Plan:**

Greater Boston District agrees with this recommendation. The LSSA has been trained in the procedure of accepting and verifying shipments and is aware that a witness must be present each time. The shipment is not removed from the Registry cage until there is a witness available to receive the shipment, and the witness signs the PS 17 after verifying that the shipment is complete (Attachment B).

**Target Implementation Date:**

Completed

**Responsible Official:**

Michael King, Manager Customer Services

**Recommendation #3**

Develop a process to review and confirm the accuracy of recorded stamp inventory.

**Management Response/Action Plan:**

Greater Boston District agrees with this recommendation. Management has put in place a process whereby the stamp stock shipments are tracked and verified as received utilizing notifications from SFS on the shipment of stock (Attachment C) until the stamp stock is received, placed in the registry cage, witnessed as received and entered into RSS. Management further monitors compliance by periodically verifying any AIC 247/647 entries from the 1412 and they also verify by utilizing the AIC 247/647 Financial Differences report in EDW (Attachment D).

**Target Implementation Date:**

Completed

**Responsible Official:**

Michael King, Manager Customer Services

**Recommendation #4**

Monitor stamp stock discrepancies through resolution.

**Management Response/Action Plan:**

Greater Boston District agrees with this recommendation. As stated in Recommendation #3, Management is monitoring the receipt, processing and input of stamp stock shipments. Additionally, Management now has the tools and training to investigate, resolve and finalize any issues that may result from discrepancies in Stamp Stock shipments, as demonstrated by the documentation provided to the OIG at the time of the audit, as well as the subsequent training on AIC 247/647 Financial Differences (Attachments E, F, G).

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Target Implementation Date:  
Completed

Responsible Official:  
Michael King, Manager Customer Services



Michael W. Rakes  
District Manager, Greater Boston

cc: VP Controller  
VP Retail & Customer Service  
VP Area Operations (Northeast)  
Manager, Finance (Greater Boston)  
Manager, Corporate Audit Response Management