



March 19, 2008

KATHLEEN AINSWORTH
VICE PRESIDENT, RETAIL OPERATIONS

ALL VICE PRESIDENTS, AREA OPERATIONS

SUBJECT: Audit Report – Local Stamps on Consignment Programs
(Report Number MS-AR-08-003)

This report presents the results of our self-initiated review of Local Stamps on Consignment (SoC) Programs (Project Number 07RG008MS000). Our objectives were to determine whether Retail Access Channels officials terminated all local SoC agreements and properly accounted for stamp shipments to consignees. Click [here](#) or go to Appendix A for additional information about this audit.

Despite instructions from U.S. Postal Service senior management from 2004 through 2007, Retail Access Channels officials did not terminate all local SoC agreements and properly account for stamp shipments to consignees. In addition, Retail Associates¹ (RA) incorrectly recorded transactions in the account used by the Postal Service for revenue generated by local SoC programs. These transactions totaled \$1.6 million in fiscal year (FY) 2007 and \$3.64 million in FY 2006. Our audit identified \$817,012 in recoverable revenue loss and \$51,693 in unrecoverable revenue loss, which we will report in our *Semiannual Report to Congress*.

Terminating Agreements and Properly Accounting for Stamp Consignments

Retail Access Channels officials had not terminated 392 local SoC agreements. Seventy-three of the 392 accounts owe the Postal Service \$827,672 for stamp consignments. The accounts for 71 of the 73 consignees have been inactive for at least 3 months, and they owe the Postal Service \$817,012 for stamp consignments. The other two consignees obtained stamp consignments from the [REDACTED] Post Office in the Houston District on November 14 and December 10, 2007; they owe the Postal Service \$10,660. We also computed forfeited interest of \$51,693 between January 1, 2006, and December 31, 2007, for one past due account that has owed the Postal Service \$417,600 since January 2001. The \$817,012 that the inactive accounts owe the Postal Service is recoverable revenue loss and the forfeited interest of \$51,693 is

¹ A Retail Associate is any field employee authorized to perform financial transactions at a retail postal unit, such as full and part-time Sales and Service Associates, Window Clerks, or Window Distribution Clerks.

unrecoverable revenue loss, which we will report in our *Semiannual Report to Congress*.

Headquarters Retail Access Channels officials stated that area and district officials did not always provide the documentation needed to collect the amounts that consignees owe the Postal Service and terminate existing local SoC agreements. Click [here](#) or go to Appendix B for our detailed analysis of this issue.

We recommend the Vice Presidents, Area Operations, direct the retail and marketing managers for each Postal Service cluster² to:

1. Provide information about their local Stamps on Consignment programs, including existing agreements and amounts that consignees owe the Postal Service for stamp consignments, to the Manager, Retail Access Channels.

We also recommend the Vice President, Retail Operations, direct the Manager, Retail Access Channels, to:

2. Terminate existing local Stamps on Consignment agreements, incorporate them into the national program, and collect the past due amounts that consignees owe the Postal Service for stamp consignments.

Stamps on Consignment Revenue Account Was Overstated

RAs incorrectly recorded \$1.6 million in FY 2007 and \$3.64 million in FY 2006 in the account used by the Postal Service to track revenue from the local SoC programs. District and unit officials stated that RAs incorrectly recorded transactions related to Account Identifier Code³ (AIC) [REDACTED], Postage Stock Sales, in AIC [REDACTED], Stamps on Consignment Replenishment Sales. In addition, officials stated they identified a system-wide deficiency that resulted in incorrect reporting. Headquarters Retail Access Channels and Finance officials worked together to deactivate AIC [REDACTED] on April 27, 2007, by upgrading the POS ONE system software. This upgrade eliminated the incorrect option, so area and district officials can no longer record transactions in AIC [REDACTED]. Because corrective action has already been taken and post offices and postal retail units can no longer record amounts in AIC [REDACTED], we are not making a recommendation in this area. Click [here](#) or go to Appendix B for our detailed analysis of this issue.

² The Postal Service has 80 district offices, each led by a district manager who is responsible for retail, delivery, and administrative support for a network of local post offices and their employees. Senior plant managers are responsible for mail processing at one or more mail processing plants that sort the mail for local post offices within each district's service area. Each district manager and senior plant manager reports to one of nine vice presidents of area operations. Each district office and the processing facilities in its service area constitute a performance cluster.

³ The AIC is a three-digit code that assigns financial transactions to the proper account in the general ledger. Each AIC is assigned to a corresponding general ledger account.

Management's Comments

In general, management agreed with our findings and recommendations. Area management and Retail Access Channels officials plan to terminate all of the local SoC agreements we identified and settle consignees' past due amounts by September 30, 2008.

However, some area officials disputed their total past due amounts. Western Area officials indicated that three past due consignee accounts were overstated by a total of \$132,924, and Eastern Area officials stated that two were overstated by a total of \$2,040. In addition, area officials stated they collected some past due accounts during our audit, and those accounts should not be reported as recoverable revenue. Some area officials also disputed the total number of existing agreements, stating that local officials had closed some agreements. Management's comments, in their entirety, are included in [Appendix H](#).

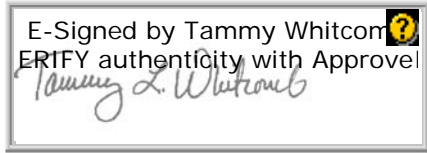
Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report. For the three past due accounts that Western Area officials indicated are overstated, they provided no documentation indicating that consignees paid for the stamp consignments or returned the stamp stock to the Postal Service. For the two consignees in the Eastern Area, documentation from Headquarters Retail Access Channels supported the past due amounts we reported as recoverable revenue.

We consider past due amounts collected during our audit as recoverable revenue loss. We also consider agreements that local officials terminated after December 2004 still open because local officials did not have the authority to award, modify, or terminate local SoC agreements from that time forward.

We will report \$817,012 in recoverable revenue loss and \$51,693 in unrecoverable loss in our *Semiannual Report to Congress*. The OIG considers all the 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 follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Robert Mitchell, Director, Sales and Service, or me at (703) 248-2100.



Tammy L. Whitcomb
Deputy Assistant Inspector General
for Revenue and Systems

Attachments

cc: Patrick R. Donahoe
William P. Galligan
Lynn Malcolm
Janet L. Webster
Harry Guey-Lee
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The local SoC programs allowed local businesses to sell stamps, which the Postal Service had consigned to them, to customers. Postal Service area and district officials administered these programs through a delegation of authority to award, modify, and terminate stamp consignment agreements granted to managers, Administrative Services, by the Vice President, Purchasing and Materials, in December 1994.

Despite instructions from Postal Service’s senior management from 2004 through 2007, Retail Access Channels officials did not terminate all local SoC agreements and properly account for stamp shipments to consignees. Postal Service records indicate local SoC programs generated \$2.97 million and \$25.3 million revenue in FYs 2007 and 2006, respectively.

Amounts Recorded in the Local Stamps on Consignment Revenue Account

Area Offices	FY 2007 Actual	FY 2006 Actual	FY 2005 Actual	FY 2004 Actual
Capital Metro	\$329,262	\$968,783	\$372,417	\$1,196,141
Eastern	220,451	2,631,900	6,287,706	6,083,464
Great Lakes	67,523	1,057,819	2,573,279	3,332,174
New York Metro	151,755	383,497	603,445	598,203
Northeast	267,915	2,873,801	5,150,803	3,513,544
Pacific	740,869	1,891,915	6,686,808	3,406,718
Southeast	98,248	565,379	3,711,786	5,281,288
Southwest	297,892	586,337	6,919,553	8,989,670
Western	793,597	14,365,385	16,008,640	19,194,925
TOTAL	\$2,967,512	\$25,324,816	\$48,314,437	\$51,596,127

Source: Headquarters Retail Access Channels Officials

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether Retail Access Channels officials terminated all local SoC agreements and properly accounted for stamp shipments to consignees.

Our scope included all local SoC agreements and transactions from FY 2005 through December 2007 (first quarter of FY 2008). We limited our scope to 79 of the 80 Postal Service performance clusters because the Appalachian performance cluster did not respond to our information request. The Appalachian performance cluster recorded \$633,415 and \$24,805 local SoC revenue in FYs 2006 and 2007, respectively.

To accomplish our objectives, we:

- Reviewed documentation pertaining to consignment shipments, payments, and stamp returns for the period FY 2005 through December 2007, for 79 of the 80 Postal Service performance clusters nationwide.
- Interviewed headquarters Retail Access Channels officials to determine whether area and district officials have provided them with the documentation necessary to terminate local SoC agreements and collect the past due amounts that consignees owe the Postal Service.
- Selected four of the nine Postal Service area offices with the highest number of active local SoC agreements. We interviewed area retail and marketing officials to determine whether they have provided headquarters Retail Access Channels officials with the documentation necessary to terminate local SoC agreements and collect the past due amounts that consignees owe the Postal Service.
- Analyzed data obtained from the Retail Data Mart and discussed the results of our analysis with Postal Service officials. We relied on data from this system to conduct interviews and analyses. We did not directly audit the system, but discussed with Postal Service officials the relevance of the data to our audit work.

We conducted this performance audit from May 2007 through March 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on January 10 and 22, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Review of the Stamps on Consignment Program (Report Number DR-AR-07-003, dated March 31, 2007). Postal Service officials properly accounted for stamp inventory under consignment with American Banknote Company (ABN). However, ABN deducted some unapproved transactions from their stamp accountability.⁴ The audit identified \$310,608 in questioned costs and \$67,337 in unrecoverable revenue.

We recommended that management assess the need to adjust ABN's accountability, request ABN officials to follow key contract provisions, and develop an action plan to

⁴ Accountable materials include postal items such as postage stamps, stamped envelopes and postal cards, blank postal money order forms, or any unsold item awaiting destruction.

approve and process future adjustments to ABN's stamp accountability. We also recommended management request ABN officials to inform consignees of the importance of signing for stamp shipments, explore ideas to encourage consignees to make timely payments, and request ABN officials to pay the Postal Service for accounts that are past due. We recommended that management coordinate with area delivery supervisors to ensure delivery scanning, require signature confirmation training for delivery personnel at postal facilities, and train delivery supervisors to monitor proof of delivery errors. Management agreed with our findings, recommendations, and financial outcomes, and planned initiatives to address the issues identified in this report.

Fiscal Year 2006 Financial Installation Audit – [REDACTED] Station, Denver Colorado (Report Number FF-AR-06-186, dated June 6, 2006). The report identified \$186,303 in interest lost due to uncollected revenue because unit management did not require a local consignee to make payment until January 2006 for stamps valued at \$1.9 million received in June 2002. The station manager and unit supervisor stated they were not aware that the local contract required the consignee to pay for original and replenished stock within 30 days of receiving the stock. In addition, district employees inappropriately renewed a multi-million dollar local contract for a consignee in December 2005. Postal Service management had instructed local officials to terminate local consignments agreements and incorporate them into the national SoC program.

APPENDIX B: DETAILED ANALYSIS

Terminating Agreements and Properly Accounting for Stamp Consignments

Retail Access Channels officials had not terminated 392 local SoC agreements. Seventy-three of the 392 accounts owe the Postal Service \$827,672 for stamp consignments. The accounts for 71 of the 73 consignees have been inactive for at least 3 months, and they owe the Postal Service \$817,012 for stamp consignments. The other two consignees obtained stamp consignments from the [REDACTED] Post Office in the Houston District on November 14 and December 10, 2007; they owe the Postal Service \$10,660. (See Appendices C and D.)

We could not determine whether the number of existing local SoC agreements and the amounts consignees owe the Postal Service for stamp consignments, as shown in Appendices C and D, are complete. We could not make this determination because headquarters Supply Management and area and district officials did not maintain a consolidated list of local SoC agreements, along with pertinent information. The Vice President, Purchasing and Materials, delegated authority in December 1994 to Postal Service managers, Administrative Services, to award, modify, and terminate stamp consignment agreements. However, this delegation did not give officials guidance on their responsibilities for local SoC programs.

Headquarters Retail Access Channels officials stated that local management maintained individual contracts. Therefore, headquarters had to rely on area and district officials for the documentation needed to collect the amounts that consignees owe the Postal Service and to terminate existing local SoC agreements. Retail Access Channels officials stated that area and district officials did not always provide the necessary documentation. They also stated that terminating local agreements and collecting the amounts owed the Postal Service is laborious and time-consuming. They are working with all area and district offices to pursue the outstanding consignment funds from known local consignees and terminate the existing agreements.

In a December 2004 memorandum from the Vice President, Supply Management, to area marketing and retail managers, the Vice President rescinded the delegation of authority previously granted to Postal Service managers, Administrative Services, to award, modify, and terminate local SoC agreements. The delegation of authority was no longer necessary because the Postal Service had established a national SoC program. The Vice President instructed local officials to incorporate their local SoC programs into the national program.

In a letter dated June 21, 2005, the Vice President, Supply Management, delegated authority to the Manager, Retail Access Channels, to issue contract termination letters and letters of demand for reimbursement of financial shortages in order to close all

existing local SoC agreements. The initial delegation of authority was valid through June 25, 2006, but has been extended four times and will expire on March 31, 2008.

If officials do not terminate all local SoC agreements, the Postal Service will duplicate efforts and expend resources to administer local SoC programs that should be incorporated into the national SoC program. In addition, the longer consignees maintain custody of stamp consignments, the less likely they will be to pay the Postal Service or return the stamp stock. Officials could lose the manual documentation that supports transactions, or they might not pursue the collection of past due accounts. Further, the longer consignees' past due amounts remain unpaid, the more interest income the Postal Service forfeits.

Since we initiated our audit on May 17, 2007, Postal Service officials have collected \$127,535 from 47 past due accounts. (See Appendix E.) However, as we previously stated, 71 existing accounts owing the Postal Service \$817,012 for stamp consignments have been inactive for at least 3 months. The \$817,012 that these inactive accounts owe to the Postal Service is recoverable revenue loss, and we will report it in our *Semiannual Report to Congress*.

We also computed forfeited interest of \$51,693 between January 1, 2006, and December 31, 2007, for one past due account that has owed the Postal Service \$417,600 since January 2001. The \$51,693 in forfeited interest is unrecoverable revenue loss, and we will report it in our *Semiannual Report to Congress*. (See Appendix F.)

Stamps on Consignment Revenue Account Was Overstated

RAs incorrectly recorded \$1.6 million in FY 2007 and \$3.64 million in FY 2006 in the account used by the Postal Service to track revenue from the local SoC programs. These transactions do not pertain to local SoC programs and should have been recorded in other accounts. Consequently, the local SoC revenue account was overstated by those amounts in those 2 years. (See Appendix G.)

District and unit officials stated that RAs incorrectly recorded transactions related to AIC [REDACTED], Postage Stock Sales, in AIC [REDACTED], SoC Replenishment Sales. In addition, officials stated they identified a system-wide deficiency that resulted in incorrect reporting. When RAs entered transactions for AIC [REDACTED], Stamps by Mail, the screen on the POS ONE system gave them two choices. When RAs selected the correct option, the transaction was recorded in AIC [REDACTED]. However, when RAs selected the other option, the transaction was incorrectly recorded in AIC [REDACTED]. Headquarters Retail Access Channels and Finance officials worked together to deactivate AIC [REDACTED] on April 27, 2007, by upgrading the POS ONE system software. This upgrade eliminated the incorrect option, so area and district officials can no longer record transactions in AIC [REDACTED].

Postal Service policies and procedures require retail personnel to record transactions in the proper accounts.⁵ Field unit managers are responsible for reviewing supporting documentation for all financial transactions and ensuring that the transactions are properly reported. If officials do not properly record transactions, Postal Service accounting records will reflect inaccurate information.

⁵ Handbook F-1, *Post Office Accounting Procedures*, sets forth the Postal Service's policies and procedures to ensure consistent accounting practices and proper financial reporting by field units.

APPENDIX C: EXISTING LOCAL STAMPS ON CONSIGNMENT AGREEMENTS

Area Offices	Total Number of Existing Agreements
Capital Metro	15
Eastern	198
Great Lakes	20
New York	13
Northeast	22
Pacific	10
Southeast	18
Southwest	22
Western	74
TOTAL	392

Source: OIG analysis of Postal Service documentation

APPENDIX D: PAST DUE CONSIGNEE ACCOUNTS

Area Offices	Total Number of Past Due Accounts	Amounts Owed by Inactive Consignees	Amounts Owed by Active Consignees	Amounts Owed by Inactive and Active Consignees
Capital Metro	1	\$3,675		\$3,675
Eastern	21	80,233		80,233
Great Lakes	7	12,737		12,737
New York	6	15,010		15,010
Northeast	7	33,931		33,931
Pacific	1	1,665		1,665
Southeast	11	25,518		25,518
Southwest	6	423,820	\$10,660	434,480
Western	13	220,423		220,423
TOTAL	73	\$817,012	\$10,660	\$827,672

Source: OIG analysis of Postal Service documentation

**APPENDIX E: CONSIGNEE ACCOUNTS
COLLECTED DURING AUDIT**

Area Offices	Total Number of Accounts	Total Amount Collected
Capital Metro	2	\$4,680
Eastern	6	12,684
Great Lakes	1	780
New York	2	4,680
Northeast	6	30,900
Pacific	5	22,323
Southeast	7	9,779
Southwest	0	0
Western	18	41,709
TOTAL	47	\$127,535

Source: OIG analysis of Postal Service documentation

APPENDIX F: CALCULATION OF UNRECOVERABLE REVENUE

We identified \$51,693 in unrecoverable revenue loss in forfeited interest attributable to one consignee between January 1, 2006, and December 31, 2007. This consignee has owed the Postal Service a total of \$417,600 for stamp consignments since January 2001.

We made the following assumptions in our calculation.

Postal Service's Cost of Borrowing

Dates	Interest Rate
December 7 through December 31, 2007	4.50%
April 27 through December 6, 2007	5.00%
January 1, 2006, through April 26, 2007	5.25%

Source: Postal Service Headquarters Finance documentation

Forfeited interest was calculated using the formula $(1 + \text{Postal Service's Cost of Borrowing} \times \frac{x}{365}) * \text{consignment amount} - \text{consignment amount}$, where "x" was the number of days the payment was past due.

The forfeited interest calculation was compounded and applied to the consignment amount between January 1, 2006, and December 31, 2007.

We will report \$51,693 in unrecoverable revenue loss in our *Semiannual Report to Congress*.

**APPENDIX G: AMOUNTS INCORRECTLY RECORDED
IN THE STAMPS ON CONSIGNMENT REVENUE ACCOUNT**

Area Office	FY 2006	FY 2007
Capital Metro	\$888,341	\$179,873
Eastern	70,268	130,488
Great Lakes	320,017	40,583
New York Metro	4,840	2,771
Northeast	980,344	267,915
Pacific	634,257	523,600
Southeast	7,498	71,919
Southwest	466,527	271,888
Western	263,941	110,797
TOTAL	\$3,636,033	\$1,599,834

Source: OIG analysis of Postal Service documentation

APPENDIX H. MANAGEMENT'S COMMENTS

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS



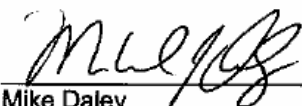
February 15, 2008

Johnson John
Acting Director, Audit Reporting
1735 North Lynn St.,
Arlington, VA, 22209-20202

SUBJECT: Stamps on Consignment (Report Number MS-AR-08-DRAFT)

The Pacific Area disagrees with the findings and the monetary impact of \$1665.00 as stated in the audit report. Our records show that the consignee paid the outstanding amount on November 8, 2007, which is within the scope period of this audit. Supporting documentation will be provided to Retail Access Channels through a separate attachment.

Management's response does not contain any information that may be exempt from disclosure under the Freedom of Information Act (FOIA).



Mike Daley
Vice President, Operations
Pacific Area

cc: Eduardo H. Ruiz
Annette Goetz

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Redacted

VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



February 22, 2008

JOHNSON JOHN

SUBJECT: Stamps on Consignment Audit MS-AR-08-DRAFT

The New York Metro Area agrees to work with Retail Access Channels to recover monies owed as identified and where local support documentation of payment has not been provided. We cannot ascertain the validity of every instance noted and will continue to work with Retail Access Channels until all identified unresolved consignees are confirmed. At that point, we will move forward in the process in order resolve the situation with every confirmed consignee and recover all appropriate revenue.

The Stamps on Consignment Audit MS-AR-08-DRAFT has identified six locations which will be discussed below by district. Balance amounts noted in this letter relate to information contained within the Audit Draft.

Westchester District

Molloy Pharmacy, Contract #99-0006, shows a balance due of \$2,340 for which the district has provided receipt of payment on June 20, 2007. This information was submitted to headquarters (Retail Access Channels and the Office of the Consumer Advocate) on January 31, 2008. The contract was terminated by Retail Access Channels on that date.

Medical Arts Pharmacy, Contract #00-00011, shows a balance due of \$2,340. The local post office has provided the consignee a Letter of Demand dated May 18, 2007. They have not been able to recover the monies owed; therefore further follow-up by Retail Access Channels is necessary. The company had several ownership changes and each owner refuses to make payment on the contract. Although the contract is not transferable and the monies are owed strictly by the original consignee, the Westchester District has attempted to deal with everyone in the ownership chain. This location was terminated by Retail Access Channels on April 24, 2007.

142-02 20th AVENUE, ROOM 318
FLUSHING, NY 11351-0001
(718) 321- 5823
FAX: (718) 321-7150

- 2 -


New York District

McKinsey and Company, Contract #02-011, shows a balance due of \$3,700 for which the local office has no record of payment. Further follow-up by Retail Access Channels is necessary. There is no record of termination by Retail Access Channels.

Always Love Pharmacy, Contract #098-0001, shows a balance due of \$990 for which the local office has no record of payment. The last date a contract was signed was June 17, 2002. Further follow-up by Retail Access Channels is necessary for recovery of funds owed. There is no record of termination by Retail Access Channels.

McGraw-Hill Employees FCU, Contract #02-012, shows a balance due of \$4,680 for which the district has provided receipt of on March 7, 2007. The contract was terminated by Retail Access Channels on that date.

14th Street Love, contract number not known, shows a balance due of \$960 for which the district has provided receipt of payment on January 13, 1999. The contract was terminated by Retail Access Channels on that date.



David L. Solomon
Vice President, New York Metro Area

cc: Royce Brown, Operations Specialist, Retail Access Channels
Rowena Dufford, Audit Response Analyst, Consumer Advocate
Robert Mitchell, Director of Sales and Services

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FAX: (718) 321-7150

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



February 22, 2008

Tammy L Whitcomb
Deputy Assistant Inspector General for Revenue and Systems
Office of the Inspector General
1735 North Lynn Street
Arlington, Virginia 22209-2020

SUBJECT: Draft Audit Report – Local Stamps on Consignment Programs
(Report Number MS-AR-08-DRAFT)

We agree with the findings.

Recommendation # 1:

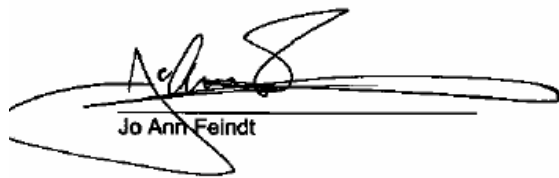
We recommend the Vice President; Great Lakes Area Operations direct the retail and marketing managers for each Postal Service cluster to:

1. Provide information about their local Stamps on Consignment programs, including existing agreements and amounts that consignees owe the Postal Service for stamp consignments, to the Manager, Retail Access Channels.

Response: We agree with this recommendation

We have provided all information to the Manager, Retail Access Channels as requested. Based on this research, we do not have any active local Stamps on Consignment agreements. Year to date reports show \$0 in AIC [redacted] for the Great Lakes Area.

We agree with the OIG's finding of 7 unpaid accounts with a total of \$12,737.



Jo Ann Feindt

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TIMOTHY C. HANEY
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



February 25, 2008

Johnson John
Acting Director, Audit Reporting
1735 North Lynn Street
Arlington, VA 22209

Subject: Local Stamps on Consignment Programs (Report #MS-AR-08-DRAFT)

Dear Mr. John:

The following are updates concerning the seven identified (by the OIG review) Local Stamps on Consignment programs in the Northeast Area:

[REDACTED] **Assets at Risk \$18,500**

Turned over to the Inspection Service who could not collect. All corresponding information forwarded to USPS Headquarters to attempt to settle the account. (Attachment #1)

[REDACTED] **Assets at Risk \$2,040**

OIC is attempting to collect payment from store owner. Request for payment sent on January 31, 2008. (Attachment #2)

[REDACTED] **Assets at Risk \$4,440**

The claim for loss of \$1,480.00 was approved and processed on 11/30/2007. Local Post office disputes the additional \$2,960; they have no record of this amount. (Attachment #3)

[REDACTED] **Assets at Risk \$4,440**
(Massachusetts District is responsible, not the District of Maine)

Uncollectable account forwarded to USPS Headquarters for action. (Attachment #4)

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860-285-7040
FAX 860-285-1253

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[REDACTED]

Assets at Risk \$2,040

Closed – Paid (Attachment #5)

[REDACTED]

Assets at Risk \$2,040
Assets at Risk \$431

Both closed – Claims for loss were supposedly filed, but there is no record that can be found at this time. Local District will continue to search. (Attachment #6)

Please contact [REDACTED] if there is any additional information required at this time.


Timothy C. Haney

cc: Manager, Finance
Manager, Marketing
Manager, Accounting

ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



February 22, 2008

LUCINE WILLIS
ACTING DIRECTOR, AUDIT REPORTING
1735 NORTH LYNN STREET
ARLINGTON, VA, 22209-2020

SUBJECT: Draft Audit Report – Local Stamps on Consignment Programs
(Report Number XX-AR-08-DRAFT)

In general, management agrees with the findings in the draft audit report.

Recommendation 1:

The Vice Presidents, Area Operations, direct the retail and marketing managers for each Postal Service cluster to provide information pertaining to their local stamps on consignment programs including existing agreements and amounts consignees owe the Postal Service for stamp consignments, to the Manager, Retail Access Channels.

Response:

We agree with this recommendation. This information requested above has been provided to the Manager, Retail Access Channels. However we disagree with the number of existing local agreements (22) listed in Appendix B: Existing Local Stamps on Consignment Agreements for the Southwest Area.

Based on records and/or statements provided by Postmasters and Station Managers in the four (4) districts, twenty (20) of the twenty two (22) listed existing agreements for the Southwest Area are deemed closed by district and area retail and most have been inactive for periods of 18-24 months or longer. Since this audit was conducted, letters of termination were sent on December 19, 2007 to the two (2) remaining active consignees (Wal Marts) located in Houston district from the HQ Stamps on Consignment program office and all funds owed to the USPS for these two agreements have been collected.

Outstanding funds owed for four (4) of the six (6) past due accounts listed in Appendix C: Past Due Consignee Accounts have been collected totaling \$12,025. The two (2) remaining consignments that still owe the USPS are [REDACTED] (\$417,600) located in Dallas district and [REDACTED] (\$2,340) located in Oklahoma district.

[REDACTED] In an attempt to collect funds owed, the unit manager issued a letter of demand to [REDACTED] on November 26, 2007. As of February 11, 2008 there had been no response from the consignee and district retail instructed the unit manager to follow up again with this consignee in writing. Area and district retail will continue to pursue the collection of outstanding funds owed by this consignee and expect to collect past due amounts by April 30, 2008.

[REDACTED] Beginning in 2004; the Dallas district started pursuing the collection of outstanding funds owed to the USPS at the urging of Southwest Area Retail, with the assistance of Southwest Area Law Office Attorney [REDACTED] and guidance from the HQ Stamps on Consignment program manager, [REDACTED]. The attached email messages and Facsimile letters from [REDACTED] to [REDACTED] best describe the events and final disposition of funds owed to the USPS by [REDACTED] located in Coppell TX. We have exhausted all District,

PO BOX 224748
DALLAS TX 75222-4748
214-819-8650
FAX: 214-905-9227

- 2 -

Area and HQ efforts and do not expect to collect funds owed by this consignee as confirmed by [REDACTED], HQ Stamps on Consignment program manager in the attached email dated October 4, 2006.

Recommendation 2:

The Vice President, Delivery and Retail, direct the Manager, Retail Access Channels to terminate existing local stamps on consignment agreements, incorporate them into the national program, and collect past due amounts consignees owe the Postal Service for stamp consignments.

Response:

We agree with this recommendation. This is a HQ activity.

We acknowledge the monetary impact of \$419,940 due to the uncollected revenue from [REDACTED]



Ellis A. Burgoyne
Vice President, Southwest Area Operations

cc: [REDACTED]

MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



February 22, 2008

Johnson John
Acting Director, Audit Reporting
1735 North Lynn St.
Arlington, Va. 22209-20202

SUBJECT: Eastern Area Response to Local Stamps on Consignment Programs
(Report Number MS-AR-08-DRAFT).

Management agrees that proper procedures were not followed when terminating and collecting funds for local stamps on consignments. Many of the Stamps on Consignments (SOC) were closed and collected by local management and not by Headquarters Retail Access Channels. The Eastern Area does not agree with the amount of assets at risk in Appendix D. Supporting documentation disputing the amount listed will be provided upon request.

Recommendation: 1. Provide information about their local Stamps on consignment programs, including existing agreements and amounts that consignees owe the Postal Service for stamp consignment, to the Manager, Retail Access Channels.

The Eastern Area is coordinating with the Manager, Retail Access Channels, to collect the funds that are due the Postal Service. All information has been provided to Retail Access Channels in Headquarters. All Eastern Area Districts were instructed to provide information about their local stamps on consignment to the Area, Retail Marketing Department. The Area Retail Marketing Department, verified the information, and sent it to Headquarters, Retail Access Channels. This has been completed.

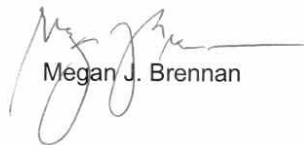
Recommendation: 2. Terminate existing local Stamps on consignment agreements, incorporate them into the national program, and collect the past due amounts that consignees owe the Postal Service for stamp consignments.

The Eastern Area has closed all of the local SOC's, and is coordinating with Headquarters, Retail Access Channels to collect all money that is owed to the Postal Service. Lists were sent to each District from the Area, instructing them to verify the status of local SOC's. All information was provided to Headquarters, Retail Access Channels so a coordinated effort to collect all funds due the Postal Service could take place. The collection of funds or a claim for loss will be completed by September, 2008.

ONE MARQUIS PLAZA
5315 CAMPBELLS RUN ROAD
PITTSBURGH PA 15277-7010
412-494-2510
FAX: 412-494-2582
WWW.USPS.COM

All new leads for Stamps on Consignment are sent to Headquarters, Retail Access Channels and they forward the leads to American Bank Note for final approval. The Eastern Area is in compliance with the National Program for Stamps on Consignment.

Should you have any questions or require any additional information, please contact [REDACTED], Customer Service Program Analyst, at [REDACTED] or [REDACTED].



Megan J. Brennan

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS



February 22, 2008

JOHNSON JOHN
ACTING DIRECTOR, AUDIT REPORTING

SUBJECT: Local Stamps on Consignment Programs – MS-AR-08-DRAFT

Western Area management has conducted a thorough review of the OIG calculations of unrecovered revenues and agrees in part with the amounts listed as assets at risk. The three disputed amounts are listed below, and documentation is attached for all 13 consignments reported as having assets at risk.

1. Postal Federal Community CU paid the full amount owed of \$7,696. The higher amount listed, \$10,920, reflects the impact a rate increase made on the outstanding value based on the quantity of stamps. This latter amount is in error.
2. Mail Store and More in Nevada-Sierra was sold in 2006. Based on the entries into AIC 095 for the unit managing the consignment, the final amount of the consignment was \$1,170. It cannot be determined from available records whether this final amount was collected. There is nothing to support the \$92,215 the OIG claims is at risk.
3. County Market in Northland paid in full the \$2,405 owed on 8/22/07. There is nothing to support the \$41,060 the OIG claims is at risk.

The remaining revenues have either been paid, have been referred to Headquarters, or have letters of demand on file. Attachment #1 details all actions taken. This reduced our assets at risk to \$58,173.

Recommendation 1:

That the Vice Presidents, Area Operations, direct the retail and marketing managers for each Postal Service Cluster to: Provide information about their local Stamps on Consignment programs, including existing agreements and amounts that consignees owe the Postal Service for stamp consignments, to the Manager, Retail Access Channels.

Response:

Management agrees and has completed the template included as attachment #1.

Recommendation 2:

That the Vice President, Delivery and Retail, direct the Manager, Retail Access Channels, to: Terminate existing local Stamps on Consignment agreements, incorporate them into the national program, and collect the past due amounts that consignees owe the Postal Service for stamp consignments.

1745 STOUT STREET, SUITE 1000
DENVER CO 80299-5000
303-313-5100
FAX: 303-313-5102
WWW.USPS.COM

Response:

Management agrees and attachment #2 documents actions taken to close all consignments with the assistance of the Manager, Retail Access Channels.



Sylvester Black

Attachment



MARKETING
SOUTHEAST AREA



February 25, 2008

Johnson John
Director, Audit Reporting (A)
1735 North Lynn St.,
Arlington, VA, 22209-20202

SUBJECT: Transmittal of Draft Audit Report – Local Stamps on Consignment
Programs (Report Number MS-AR-08-DRAFT)

The Southeast Area has reviewed the attached Stamps on Consignment agreements provided by the OIG. We are not in agreement with all of the findings.

All the listed agreements have been closed and are no longer active. Collection attempts have been made to all accounts listed on the attachment. Four of the accounts listed have paid their outstanding balances and receipts are available. Documentation showing payment could not be located for the remaining seven accounts with a total outstanding balance of \$15,388.

Status on each of the accounts listed in the OIG audit is shown on the attachment. The Southeast Area will continue to work with Retail Access Channels at Headquarters to collect or dismiss the remaining outstanding debts as all termination and/or collection notices are sent by Retail Access Channels.

The Southeast Area is unaware of any reason preventing this information from being made available via the Freedom of Information Act. If further information is required, please contact


for Kay M. Loggins
Manager, Marketing

Attachment

cc: Royce A. Brown, Operations Specialist-Headquarters
Rowena C. Dufford, Audit Response Analyst-Headquarters
Terry J. Wilson, Vice President Operations – Southeast Area

225 N HUMPHREYS BLVD
MEMPHIS TN 38168-0830
901 747-7807
FAX: 901 747-7491

Purpose: To determine if the existing consignment contracts that have a balance owed to the USPS are dormant and dormant.
 Scope: All 73 existing local SoC agreements with balances due.
 Source: District Officials.
 Conclusion: Of the 73 consignments owed, 71 consignments totaling \$817,012 were dormant.

Complinee Bv Number	Responsible Cluster	Contract No.	Assets at Risk	Date of Last Activity	W/P Ref.	Comments
44 Microlink & Mailboxes	North Florida	114384-04-U-5016	\$2,220.00	Over 1 year		closed - collection attempt returned to sender
45 Mail Specialty Shop	Tennessee		\$5,530.00	Over 3 mos		closed - no record of payment
46 Apple Discount Drugs	Tennessee		\$2,750.00	Over 3 mos		closed - balance paid - receipts available
47 Cools Food Store #1	Tennessee		\$780.00	Over 3 mos		closed - balance paid - receipts available
48 Fort Sanders Credit Union	Tennessee		\$1,920.00	Over 3 mos		closed - no record of payment
49 K-Mart	Tennessee		\$740.00	Over 3 mos		closed - no record of payment
50 21st Century	Tennessee		\$1,258.00	Over 3 mos		closed - no record of payment
51 First Tennessee Bank	Tennessee		\$5,250.00	Over 3 mos		closed - balance paid - receipts available
52 Eagles Landing Professional Pharmacy	Atlanta	120444-94-Y-0359	\$1,740.00	Over 3 mos		closed - collection attempts unsuccessful - new owners
53 Moyes Pharmacy	Atlanta	120444-94-0484	\$1,960.00	Over 3 mos		closed - collection attempts unsuccessful - new owners
54 Clark Atlanta University	Atlanta	120444-99-U-0498	\$1,320.00	over 2 years		closed - balance paid - receipts available
TOTAL - SOUTHEAST			\$25,518.00			
			Less Paid Receipts			
			\$10,130.00			
			Corrected Balance			
			\$15,388.00			

VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS



February 22, 2008

Johnson John
Acting Director, Audit Reporting
1735 North Lynn Street
Arlington, Virginia 22209-2020

SUBJECT: Local Stamps on Consignment Program
Report Number MS-AR-08-DRAFT

Management agrees with the findings of the local consignment at Postal Connections, 5026 Peters Creek Parkway, Winston Salem, NC 27127, whereas it was reported that Postal Connections owed the Postal Service \$3675 in June, 2007. The Greensboro District office had previously been working with the owner to have this amount paid in full, and all monies were collected in June, 2007.

Recommendation

Postal Connections, 5026 Peters Creek Parkway, Winston Salem NC 27127, was not closed out properly, Contract Number 363197-03-Y-0002.

Response

Owner of Postal Connections, was notified by the district office and also by management at the Station, their stamps consignment agreement was terminating. Total amount of consignment was \$3675. Last replenishment was in 2006. The Station was in the process of collecting the funds owed USPS when the OIG's office began auditing the Greensboro District. Management agrees this local consignment owed USPS \$3675 to close out this consignment agreement. This local consignment was officially terminated and debts were paid to USPS June 28, 2007 in the amount of \$3675.

On September 10, 2007, Retail Manager for the Greensboro District received an email from in Headquarters advising if the money had been collected, and if it had not was going to contact Owner (he had not made prior contact with him). informed the money had been collected, and a copy of the check along with postal paperwork was provided. Please see attached copies of paperwork also submitted to the OIG's office on November 27, 2007, showing this consignment was paid in full on June 28, 2007.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

Jerry D. Lane

MAILING ADDRESS:

18501 SHADY GROVE ROAD
GAITHERSBURG, MD 20898-9998
(301) 548-1410
FAX: (301) 548-1434

PHYSICAL ADDRESS:

6 MONTGOMERY VILLAGE AVE.
GAITHERSBURG, MD 20879-3562



February 22, 2008

JOHNSON JOHN

SUBJECT: Draft Audit Report – Local Stamps on Consignment Program
Report Number MS-AR-08-DRAFT

In response to the February 7 letter referenced above, please find our comments on the specific recommendation.

Recommendation 2:

We recommend the Vice President, Delivery and Retail, direct the Manager, Retail Access Channels to:

Terminate existing local Stamps on Consignment agreements, incorporate them in to the national program, and collect the past due amounts that consignees owe the U.S. Postal Service (USPS) for stamp consignments.

Response:

We agree with the recommendation and will continue to work with the areas and districts to identify, terminate, and collect the past due amounts owed to the USPS. It is expected that all identified local consignment agreements will be terminated and past due amounts will be settled by September 30, 2008. When appropriate, these customers will be referred to the national consignment program.

It should be noted that during the period of January 2005 through December 2007, 221 local consignments were identified, termination letters issued and \$3.4 million in past due amounts was collected. Additionally, \$223,236 was collected during the OIG audit period of May 2007 to February 2008.

No information in the Draft Audit Report is exempt from disclosure under the Freedom of Information Act (FOIA).

A handwritten signature in black ink, appearing to read "Kathy Ainsworth".

Kathy Ainsworth
Vice President
Retail Operations

cc: Mr. Mitchel