

March 31, 2000

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SUBJECT: Review of the Breast Cancer Research Stamp Program
(Report Number RG-AR-00-002)

This report presents the results of our review of the Breast Cancer Research Stamp Program (Project Number 99RA012RG000). This report is our second review on the implementation of the Stamp Out Breast Cancer Act. We previously issued a management advisory report, Stamp Out Breast Cancer Act and Stamp, dated September 30, 1998.

The audit revealed that the Postal Service received national recognition for its efforts in raising funds for Breast Cancer research. As of September 1999, the Postal Service sold approximately \$47 million in Breast Cancer Research Stamps and raised about \$8.6 million for research at the Department of Defense and the National Institutes of Health. We recommended that Postal Service management recover costs consistent with their interpretation of the act--about \$841,000--for incremental program costs incurred through fiscal year 1999, and any additional expenses that are incurred above that which would normally be incurred for a commemorative stamp. Furthermore, we recommended that Postal Service management issue guidance as to whom costs and supporting documentation are to be reported or provide the finance number to all offices incurring costs for the Breast Cancer Research Program; and develop an improved system for reasonably estimating the number of semi-postal stamps required for future semi-postal stamp programs. Postal Service management generally agreed with the intent of our recommendations. However, management's proposed actions to implement the recommendations are only partially responsive. Management's comments and our evaluation of their comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact {b6} or me at (703) 248-2300.

Sylvia L. Owens
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For Revenue Cost Containment

Attachment

cc: Mary Ann Gibbons
James C. Tolbert
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EXECUTIVE SUMMARY

Introduction

The Stamp Out Breast Cancer Act required that the Postal Service establish a semi-postal Breast Cancer Research Stamp to be available to the public for a two-year period, to raise funds for breast cancer research. This is our second report on the Postal Service's process to implement the act. The first report, Stamp Out Breast Cancer Act and Stamp, was issued on September 30, 1998.

Results in Brief

In response to the act, the Postal Service established a semi-postal Breast Cancer Research Stamp Program to raise funds for breast cancer research. As part of the program, the Postal Service participated in and funded special events and national advertising campaigns using radio, television, and magazines. As a result, the Postal Service received national recognition for its efforts and, as of September 1999 sold approximately \$47 million in Breast Cancer Research Stamps.

About \$38 million of this revenue covered the First-Class postage rate of 33 cents per stamp and about \$8.6 million was differential revenue above the First-Class postage rate. Postal Service management recovered \$205,000 in incremental costs and paid the remaining \$8.6 million in differential revenue to the Department of Defense and the National Institutes of Health for breast cancer research. Consistent with their interpretation of the act, the Postal Service management needed to recover approximately an additional \$841,000 in incremental costs incurred as of September 1999, and has until November 2000 to recover these costs.

In addition, to facilitate tracking of program costs, Postal Service management provided their field offices a list of the offices required to track costs. However, management did not provide the field with the finance number for the program or direction on where to report costs. Additional guidance in these areas may have provided greater assurance that all program expenses were identified and reported to Congress, as required by the act.

Furthermore, the Postal Service spent more than \$940,000 to print an additional 131.7 million Breast Cancer Research Stamps that, based on past sales data, may not have been needed.

**Summary of
Recommendations**

Based on this audit, we recommend that the chief financial officer and executive vice president: (1) recover costs consistent with the Postal Service's interpretation of the act--about \$841,000 as of September 1999 and (2) issue guidance on where to report costs and supporting documentation or provide the finance number to all offices incurring costs for the Breast Cancer Research Stamp program.

Also, in the event that there are future semi-postal stamp programs, we recommend that the vice president of Government Relations develop an improved system for reasonably estimating the number of stamps required to be printed for such programs.

**Summary of
Management's
Comments**

Management's comments reflected partial agreement on two recommendations and disagreement on the third. Management agreed with recovering costs consistent with their interpretation of the Stamp Out Breast Cancer Act and intends to recover a total of \$482,007 in incremental costs. They also plan to issue final regulations on recoverable costs and publish them in their Administrative Support Manual by the end of the stamp's sales period, July 2000.

Management's comments support the intent of our second recommendation to issue guidance for tracking and reporting program costs. However, management disagreed with the third recommendation, asserting that the current inventory system supports their effort to ensure stamps were readily available in all sales locations.

In addition, the Postal Service provided clarifying information regarding the cost tracking of "Shipping/Other Packaging, Stamp Design, and Prompt Payment Fees." Furthermore, the Postal Service commented that we had misstated the amount of the revenue paid to other government agencies for breast cancer research. They stated that they had only paid \$5.9 million of \$8.6 million in revenue raised as of September 1999.

**Evaluation of
Management's
Comments**

Management's comments are partially responsive to our recommendations. However, we maintain that costs deemed incremental to those normally associated with commemorative stamps should be recovered and all costs directly related to the Breast Cancer Research Stamp should be included in total program costs.

In addition, we maintain that the process used for determining stamp inventory required for this program needed improvement and, as a result, excess stamps were ordered.

We have made changes in this final report to address the Postal Service's comments regarding cost tracking. We have also revised the report to state that the Postal Service raised \$8.6 million as of September 1999 for research.

INTRODUCTION

Background

On August 13, 1997, the President of the United States signed into law the Stamp Out Breast Cancer Act. The unprecedented act mandated that the United States Postal Service establish a special rate of postage for First-Class Mail for a semi-postal stamp to raise awareness and funds for breast cancer research. The act required that the rate for the Breast Cancer Research Stamp be equal to the First-Class postage rate plus a differential, not to exceed 25 percent of the First-Class rate, and that it be made available to the public for a two-year period.

Based on the act, the Postal Service Board of Governors approved issuance of a nondenominational Breast Cancer Research Stamp on July 29, 1998, to be sold to the public at a cost of 40 cents each. The act required the differential revenue¹ from the sale of the Breast Cancer Research Stamp, less the Postal Service's costs for implementing the act, be paid to the Department of Defense Medical Research Program and the National Institutes of Health. To facilitate these payments, the Postal Service entered into memoranda of understanding with the Department of Defense and the National Institutes of Health, stipulating that payments would be made twice a year, in April and November, beginning November 1998 and ending November 2000.

The Postal Service classifies stamps into three categories: definitive, commemorative, and special issue. Definitive stamps are defined as regular postage stamps that are issued in unlimited quantities and remain on sale for an indefinite period. Commemorative stamps are defined as postage stamps that depict the cultural and historical heritage of the United States, such as special subjects of national appeal or significance. This type of stamp is printed in limited quantities, typically large and colorful, and sold for a limited time. Special issue stamps are stamps that are issued for special purposes, such as the annual Christmas stamp. These are often available in greater quantities and over longer periods than commemorative stamps. Of the three types of stamps, definitive stamps cost significantly less to produce than commemorative or

¹ Differential revenue is the revenue generated in excess of the First-Class postage rate.

special issue stamps. The Postal Service categorized the Breast Cancer Research Stamp as a commemorative stamp.

**Objective, Scope, and
Methodology**

The objective of our review was to determine if the Postal Service implemented the semi-postal stamp program in accordance with the Stamp Out Breast Cancer Act. In pursuing this objective, we focused on whether: (1) internal controls were sufficient to ensure that Breast Cancer Research Stamp revenues, costs, and payments were accounted for in accordance with the act and (2) Postal Service management took actions on suggestions in our prior management advisory report, Stamp Out Breast Cancer Act and Stamp, RG-MA-98-007, issued September 30, 1998.

To address our objectives, we interviewed Postal Service officials and contractors. We reviewed documentation to include revenues and expenses relating to the stamp in the areas of Advertising, Stamp Services, Retail, Legal, Travel Disbursements, Corporate Accounting, and various contractors. We analyzed documentation concerning the Postal Service's requirement to recover costs incurred in implementing the program. The cost data reviewed encompassed the time period from the signing of the act through fiscal year (FY) 1999.

This audit was conducted from July 1999 through March 2000 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

AUDIT RESULTS

Recognition, Awareness, and Funding



This was the first issuance of a semi-postal stamp by the Postal Service. Generally, the Postal Service plans the design and issuance of new stamps two to three years in advance. However, Postal Service management had less than a year to implement the legally mandated Breast Cancer Research Stamp Program. Postal Service officials advised us that due to time constraints, they were unable to budget for the program and encountered other logistical and resource challenges.

Regardless, the Postal Service generally complied with the Stamp Out Breast Cancer Act and promoted and raised funds for breast cancer research. The Postal Service successfully promoted national awareness for breast cancer research by participating in and funding special events, such as the Susan G. Komen Race for the Cure. They also conducted a national advertising campaign using radio, television, magazines, and other media including a billboard advertisement in Times Square (pictured at left).

To promote social awareness of breast cancer, specific initiatives were implemented by Postal Service management and employees. A promotional campaign related to Mother's Day was held in partnership with the Run/Walk for Women in New York City and Los Angeles. The Postal Service hosted numerous events at local post offices in recognition of National Breast Cancer Awareness Month in October. Another example of these awareness efforts was the partnering of postal employees in Des Moines, Iowa, with a cancer center and radio station that kicked off the "Deliver the Cure" campaign. As a result, the Postal Service received national recognition for its efforts in raising funds for this cause.

Approximately \$47 million in Breast Cancer Research Stamps were sold through the end of FY 1999. About \$38 million of this revenue covered the First-Class postage rate of 33 cents per stamp. The balance, about \$8.6 million, was differential revenue above the First-Class postage rate that was available for recovery of program costs and for breast cancer research donations to the Department of Defense and the National Institutes of Health.

Recoverable Costs

Postal Service management recovered \$205,000 in incremental costs from differential revenue; however, consistent with their interpretation of the act, the Postal Service management still needed to recover approximately an additional \$841,000 in incremental costs incurred as of September 1999. The Postal Service has until November 2000 to recover these costs.

The Stamp Out Breast Cancer Act states that the Postal Service may recover from differential revenue, “reasonable costs incurred by the Postal Service . . . including those attributable to the printing, sale, and distribution of the stamps” prior to payments being made to the Department of Defense and the National Institutes of Health.

While the act provides discretion for the Postal Service to prescribe regulations for cost recovery, the Committee on Governmental Affairs explained its view of this provision of the act, stating in the United States Senate Report 106-104, July 8, 1999, that the Stamp Out Breast Cancer Act “requires the Postal Service to recoup its costs associated with the printing, sale and distribution of the ‘Stamp Out Breast Cancer Stamp’ and the Committee fully expects the Postal Service to adhere to this requirement.” Although this report was prepared subsequent to the passage of the Stamp Out Breast Cancer Act, and in connection with a proposed bill for a new semi-postal stamp, it sets forth what Congress believed should be the cost recovery provisions related to the sale of the Breast Cancer Research Stamp.

In deciding what costs were required to be recovered, Postal Service management initially debated about whether incremental costs should be deducted from differential revenue. Several senior management officials stated that they preferred not to recover any costs because the estimated incremental costs were small in relation to the total revenue for the Postal Service. In support of this viewpoint, another Postal Service senior official stated that “recognizing the risk in the event of future semi-postal stamps, there could be a lot of free-image advertising [for the Postal Service] if we merely eat the costs based on the importance of the cause it represents.” Alternatively, the deputy postmaster general, at the time, disagreed with the position that the Postal Service would not recover any costs

against differential revenue. He stated that “this would effectively amount to an ‘in-kind’ donation by the Postal Service to charity.”

The Postal Service General Counsel reviewed the act and provided guidance on implementing the cost recovery aspects of the act. The General Counsel recommended that the Postal Service Management Committee make policy determinations as to what costs, if any, would be considered recoverable. While making this determination, the Management Committee considered two issues: (1) should incremental costs be recovered and (2) if so, what amount should be recovered. The chief financial officer defined “incremental costs” as costs that are not normally incurred in connection with regular commemorative stamps. In this regard, the Postal Service Office of General Counsel provided a statement that the chief financial officer’s suggestion to recover incremental costs was “the most sensible and politically defensible policy.”

During the April 1998 Board of Governors meeting, Postal Service officials identified five types of incremental costs associated with the Breast Cancer Research Stamp that would be tracked. These costs included: training, retail window automation programming, vending automation programming, printing of flyers, and printing of revised receipts.

Special training was needed to ensure that window clerks learned the transaction process for the Breast Cancer Research Stamp and were able to confidently answer customer questions. Sale of the stamp required the entry of a special code for tracking stamp sales, charging customers the 40 cent semi-postal rate, and generating customer receipts for income tax purposes. Guidance distributed in a *Postal Bulletin* required that “all training and associated costs for implementing the sale of the Breast Cancer Stamp be captured and reported.” These costs were considered costs not normally incurred for commemorative stamps.

The following chart identifies total program costs for the Breast Cancer Research Stamp Program as of FY 1999. It includes the total program costs recovered by the Postal Service and additional incremental costs for the Breast

Cancer Research Stamp that should be recovered, based on the Postal Service's interpretation of the act.

Cost Description	Total Program Costs	Total Costs Recovered by USPS	OIG Recommended Additional Recoverable Costs
Printing and Packaging	*\$2,062,044		
Shipping/Other Packaging	953,272		
Advertising and Promotions**	1,701,473		
Printing of Flyers	228,150		228,150
Training	612,350		612,350
Retail Window Automation Programming	176,000	\$176,000	
Labor	126,698		
Market Research	55,777		
Stamp Design	40,149		
External Legal Counsel	21,603	21,603	
Printing of Revised Receipts	7,131	7,000	131
Prompt Payment Fees	1,501		
Total	\$5,986,148	***\$204,603	\$840,631

*This amount does not include \$359,000 for the additional 50 million stamps ordered in November 1999.

**Promotions include all costs related to special events.

***This amount includes \$21,603 in external legal fees recovered in November 1999.

As the preceding chart illustrates, approximately \$1 million of the about \$6 million in program costs needed to be recovered based on Postal Service management's definition of recoverable costs. Thus, the Postal Service would absorb at least \$4.9 million in expenses incurred through FY 1999--about 83 percent of total program costs. Postal Service management's position is that this amount is covered by the First-Class postage rate and is not an incremental cost related to this stamp.

Almost \$1.7 million that would be absorbed are advertising costs. The Breast Cancer Research Semi-postal Committee, created by the Postal Service to identify and discuss issues related to the stamp, stated that those costs should be recovered. Specifically, the committee stated that "advertising costs will not be considered absorbable costs under any circumstances." At a later meeting, Postal

Service management decided not to recover any advertising costs.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

² $\$7.30 - \$5.64 = \$1.66 \times 331.7 \text{ million stamps}/1000 = \$549,000$

Recommendation

We recommend that the chief financial officer and executive vice president:

1. Recover costs consistent with the Postal Service's interpretation of the act--about an additional \$841,000 for incremental program costs incurred through FY 1999, and any additional expenses that are incurred above that which would normally be incurred for a commemorative stamp, prior to making final payment to the Department of Defense and National Institutes of Health.

**Summary of
Management's
Comments**

Management agreed in principle with recovering costs consistent with their interpretation of the Stamp Out Breast Cancer Act, but asserted that \$612,350 of the \$841,000 in identified incremental costs were incurred as part of a routine training effort and they do not plan to recover these costs. Management plans to recover \$482,007, which included some costs not included in the \$841,000.

Postal Service management noted that they plan to conduct a final evaluation of Program costs prior to making the last payment for research to the Department of Defense and the National Institutes of Health. They also plan to issue final regulations on recoverable costs and publish them in their Administrative Support Manual by the end of the stamp's sales period.

**Evaluation of
Management's
Comments**

Management's comments are partially responsive to our recommendations. We maintain that training costs identified still need to be recovered. During this review, Postal Service management explained that training of this nature is not performed on the issuance of any new stamps. The training was used to promote the unique features of the Breast Cancer Research Stamp, to explain the account identifier code used to record the sales of the stamp, and the issuance of receipts to customers for tax purposes. Management officials also stated the reason for tracking all costs associated with training is because it was included in their initial incremental cost categories. Therefore, since

Postal Service management agreed in their response to recover “costs deemed incremental to those normally associated with commemorative stamps”, these training costs should be recovered from the differential revenue.

We view the disagreement on this recommendation as unresolved.

Cost Tracking

Postal Service management provided guidance listing the offices responsible for maintaining cost information and established a finance number for the Breast Cancer Research Program. However, neither complete guidance was provided on where costs should be reported, nor was the finance number provided to field offices. The act requires that the postmaster general report to Congress the reasonable costs incurred by the Postal Service in carrying out this act. Despite the absence of complete guidance, as of September 1999 the Postal Service had tracked \$5.1 million in costs. However, we identified about \$836,000 in additional costs that should have been tracked, for a total of about \$6 million in program costs.

Postal Service guidance³ identified offices that had responsibility for maintaining or estimating cost information in connection with the Breast Cancer Research Stamp. Guidance⁴ also included instructions on how training and associated costs for implementing the sale of the Breast Cancer Research Stamp were to be captured and reported. However, the guidance did not provide the Breast Cancer Research Stamp finance number, nor was there any guidance provided that clearly identified where those costs should be reported.

Officials in Corporate Accounting stated they intentionally did not provide the program finance number to headquarters and field offices for control purposes. Postal Service management's reasoning was that this policy prevented unrelated costs from being charged to the finance number. As an alternative, they developed an internal spreadsheet to track all costs related to executing the Stamp Out Breast Cancer Act.

We determined that some program costs were inconsistently tracked, and some costs were not tracked at all. For example, we identified approximately \$650,000 in advertising expenses for the Breast Cancer Research Stamp Program by contacting the responsible contractors. Invoices for the \$650,000 were not on file in Corporate

³ *Postal Bulletin* 21973, Administrative Support Manual 645 (Revision), Cost Tracking, Estimation, Offsets, and Payments in Connection with the Breast Cancer Research Special Postage Stamp.

⁴ *Postal Bulletin* 21976, Breast Cancer Research Semi-Postal Stamp – Tracking Local Training/Administrative Cost.

Accounting and these expenses had not been charged to the program finance number.

In addition, the Postal Service did not routinely track labor hours related to specific stamp programs, even though the act required that “other resources” required in carrying out the Breast Cancer Research Stamp Program be accounted for and reported. Postal Service management provided an estimate of almost 3300 labor hours directly attributable to the Breast Cancer Research Program, which Corporate Accounting staff had not included on the internal spreadsheets. Based on labor hours provided by the Postal Service, we calculated that labor hour costs were about \$127,000.

The following chart contains costs tracked for the program. The third column identifies program expenses that were not included on either the internal spreadsheet in Corporate Accounting or under the Breast Cancer Research Stamp Program finance number.

Cost Description	Costs Tracked by Postal Service	Additional Costs Identified	Total Program Costs
Printing and Packaging	\$2,062,044		\$2,062,044
Shipping/Other Packaging	937,917	\$15,355	\$953,272
Advertising and Promotions	1,044,563	656,910	1,701,473
Printing of Flyers	228,150		228,150
Training	612,350		612,350
Retail Window Automation Programming	176,000		176,000
Labor		126,698	126,698
Market Research	55,777		55,777
Stamp Design	3,000	37,149	40,149
External Legal Counsel	21,603		21,603
Printing of Revised Receipts	7,131		7,131
Prompt Payment Fees	1,501		1,501
Total	\$5,150,036	\$836,112	\$5,986,148

Recommendation

- Issue guidance as to whom costs and supporting documentation are to be reported or provide the finance number to all offices incurring costs for the Breast Cancer Research Stamp Program.

**Summary of
Management's
Comments**

Management's comments support the intent of our recommendation to issue guidance that states as "to whom costs and supporting documentation are to be reported", but believe they have already provided this guidance. They disagreed with the other recommended option of providing the finance number to all offices incurring program costs. Management responded that within the next 60 days they would request that the field identify and provide documentation on any events related to the Breast Cancer Research Stamp that may not have been charged to the program finance number.

In reference to "cost tracking", Postal management stated that total Program costs should not include the Times Square billboard advertising costs for the Breast Cancer Research Stamp and labor costs incurred in implementing and monitoring the program. Management reasoned that advertising for the stamp intermittently appeared on the billboard and labor costs were absorbed by the existing staff budget.

**Evaluation of
Management's
Comments**

Management misunderstood our recommendation. The recommendation provides the option of either providing specific guidance on where to report Breast Cancer stamp related cost or providing the Breast Cancer Research Stamp finance number to all offices. Management has proposed action to request that field offices identify and provide documentation on any Breast Cancer Stamp-themed events that may not yet have been charged to the Breast Cancer Stamp Program finance number within the next 60 days.

This proposed action meets the intent of our recommendation.

In reference to "cost tracking", we maintain that the Times Square billboard and labor costs directly attributable to the Breast Cancer Research Stamp should be included in total program costs. The Breast Cancer Research Stamp has been advertised on the Times Square billboard since October 1998. We understand that the billboard had been rented prior to the issuance of the stamp and that two other stamps appeared on other sections of the tri-faced billboard. Therefore, we only attributed the costs specifically related to

the exhibition of the Breast Cancer Research stamp. Additionally, based on our interpretation of the Stamp Out Breast Cancer Act, labor costs are included in the “other resources” identified in the act.

Stamp Purchases

The process used to determine the number of stamps required to support the Breast Cancer Research Stamp Program needed improvement. Specifically, the Postal Service spent more than \$940,000 to print 131.7 million additional Breast Cancer Research Stamps that, based on historical sales data, may not have been needed.

Stamp Services officials stated that 200 million stamps were printed at the beginning of this program. This initial order was based on the general criteria for commemorative stamps of printing 100 million stamps per year of issuance and the requirement of the act for the stamp to be available for a two-year period. However, as of November 30, 1999, Stamp Acquisition had ordered 331.7 million stamps.

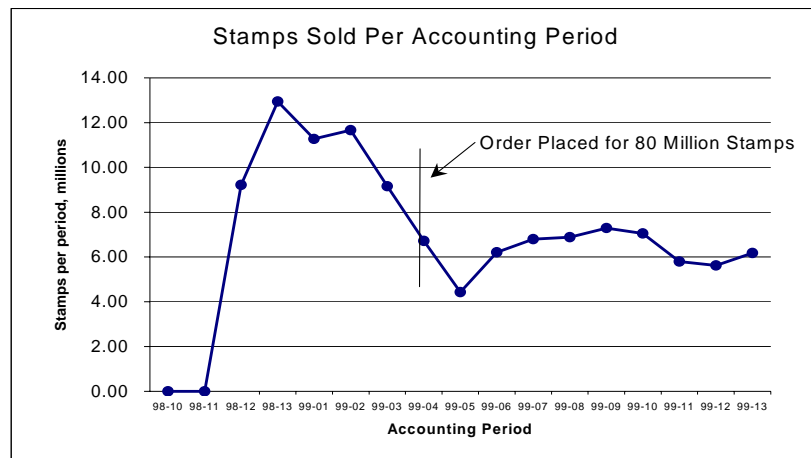
Based on a review of historical sales data for the stamp, we calculated that the 200 million stamps should have been sufficient for the two-year duration of the program. We calculated that when the Postal Service ordered 80 million additional stamps in December 1998⁵, about 139 million stamps were available for sale and stamp sales per accounting period⁶ had declined from more than 12 million to about 6.5 million, with only 20.5 accounting periods remaining in the program.

At the end of FY 1999, approximately 164.7 million stamps were available for sale. Based on the Postal Service's sales data, OIG statisticians forecasted that 74.5 million stamps should have been sufficient to meet consumer demand with 11.5 accounting periods remaining for the program. Despite having approximately 90 million more stamps than appeared necessary for the remainder of the program, Postal Service management purchased an additional 50 million stamps in November 1999. Officials in Stamp Acquisition said they purchased the additional stamps because current accounting systems do not provide precise data on stamp stock remaining in individual post offices. Thus, the additional stamps were ordered to ensure stamp distribution offices had enough stamps to supply post offices nationwide. As a result, the Postal Service incurred about \$940,000 to print stamps that may not be needed.

⁵ Postal Service management agreed to purchase, at a discount, an overrun of 1.7 million stamps with this order.

⁶ The Postal Service has 13 accounting periods per year, each equal to 4 weeks.

The following chart shows stamp sales per accounting period through September 1999 and highlights that additional stamps were ordered at a time when sales were declining.



Recommendation

We recommend that the senior vice president, Government Relations and Public Policy:

3. Develop an improved system for reasonably estimating the number of semi-postal stamps required for future semi-postal stamp programs.

Summary of Management's Comments

Management disagreed with the recommendation. However, management responded by informing us that they "have only tracked sales for stamps as a whole and have only tracked individual stamp inventory at the Stamp Distribution Office." They asserted that in the absence of an inventory system for capturing inventory data, the current system ensures that an adequate supply of Breast Cancer Research Stamps is on hand in all sales locations. Management stated that the Stamp Out Breast Cancer Act mandated the Postal Service to make Breast Cancer Research stamps readily available to the public at all stamp distribution offices and post offices throughout the required two-year sales period. Additionally, management stated that the full implementation of system-wide programs currently under development, such as Standard Accounting for Retail and Point of Service, would improve inventory

control processes and ensure that appropriate stamp inventories are maintained not only for future semi-postal issues but for all stamp stock.

**Evaluation of
Management's
Comments**

During this review, officials in Stamp Acquisition informed us that the additional stamps were purchased because the current accounting systems do not provide precise data on stamp inventory. Management reordered stamps based on inventory reductions at the stamp distribution offices, instead of on the total inventory remaining at the stamp distribution offices, individual post offices, and other postal facilities.

According to the Postal Service, about 50 million stamps remained at the stamp distribution offices, which prompted them to order an additional 80 million stamps. However, based on historical sales data we reviewed, more than 139 million stamps remained in inventory, thus no additional stamps were needed. Therefore, we continue to maintain that the process used for determining the number of stamps required for this program needed improvement and resulted in the purchase of excess stamps. We view the lack of an inventory system or process that shows total inventory on hand as a material weakness and plan to perform a separate review of stamp inventory controls and procedures. We understand that the Point of Service system is intended to address this issue once it is fully implement; however, until then, we believe the Postal Service should establish a process for considering sales and inventory data in determining when additional stamps are needed.

We view the disagreement on this recommendation as unresolved.

**Follow-up on Prior
OIG Review**

We previously issued a management advisory report, Stamp Out Breast Cancer Act and Stamp, to the Postal Service on September 30, 1998. The objective of the review was to ensure compliance with the Stamp Out Breast Cancer Act. We suggested that the Postal Service:

- (1) establish a detailed budget for the Stamp Program;
- (2) issue guidance to track and report all attributable costs;
- (3) identify and define reasonable incremental costs and disseminate this information to their field offices; and
- (4) expedite the finalization of the memoranda of understanding with the Department of Defense and the National Institutes of Health.

The first suggestion that Postal Service management establish a detailed operational budget and target spending levels for the Breast Cancer Research Stamp was partially implemented. Postal Service officials stated that they did not have enough lead-time to prepare budgets for FY 1998 and 1999 because these were already established at the time the Stamp Out Breast Cancer Act was enacted. We were provided a Marketing Plan for FY 2000; however, there were no costs associated with the plan. Officials stated that they elected not to prepare a detailed budget for the program for FY 2000.

The second suggestion that Postal Service management issue guidance to track and report all attributable costs using an assigned finance number was partially implemented. Postal Service management stated that they elected not to provide the finance number to all the offices for control purposes. During this review, numerous interviews with Postal Service management, contractors, and staff revealed that although some guidance was issued, the guidance did not provide complete information on what costs should be reported and where to report those costs.

The third suggestion that the Postal Service identify and define what constitutes reasonable and incremental costs, develop a policy, and disseminate the information to their field offices, was partially implemented. Postal Service management identified five types of costs for recovery, but did not disseminate this information to the field offices.

The fourth suggestion to expedite the finalization of the memoranda of understanding with the Department of Defense and National Institutes of Health was fully implemented. The Postal Service completed the memoranda of understanding in October 1998. The completion of the memoranda of understanding established a time frame for semiannual payments to the research institutions. To date, the Postal Service has made each of its scheduled payments.

APPENDIX. MANAGEMENT'S COMMENTS



March 27, 2000

SYLVIA L. OWENS

SUBJECT: Draft Audit Report – Breast Cancer Research Stamp Program Review

We have received and reviewed the draft report on the Breast Cancer Research Stamp program. The following are our comments on the report and our responses to the report's specific recommendations.

Recommendation #1

"Recover costs consistent with the Postal Service's interpretation of the Act – about an additional \$841,000 for incremental program costs incurred through FY 1999, and any additional expenses that are incurred above that which would normally be incurred for a commemorative stamp, prior to making final payment to the Department of Defense and the National Institutes of Health."

Response

We agree with the portion of the recommendation that the Postal Service "[r]ecover costs consistent with the Postal Service's interpretation of the Act ... prior to making final payment to the Department of Defense and the National Institutes of Health." However, we do not agree with the finding upon which the recommendation is based – that such costs total "an additional \$841,000." We have differing amounts for some of the individual cost components. Moreover, we believe the draft report contains several inaccuracies with regard to costs and the appropriateness of their allocation to the Breast Cancer Research (BCR) program.

The Stamp Out Breast Cancer Act ("the Act") explicitly gave postal management the discretion to determine which "reasonable" costs associated with the BCR stamp program should be recovered. As the report notes, interpretation of the Act's requirement regarding recovery of costs was subject to internal management discussion prior to the issuance of the stamp. Management agreed on a policy of tracking all costs and recovering those costs deemed "incremental" to those normally associated with commemorative stamps. This policy was based on the fact that non-incremental costs are recovered through base postage rates. At the April 1998 Board of Governors meeting, we identified five types of incremental costs: training, retail window automation programming, vending automation programming, printing of flyers, and printing of revised receipts. The initial identification of incremental costs was preliminary and did not preclude later changes to the cost recovery policy. Subsequently, a sixth category of incremental costs, outside legal fees, was identified.

Because the BCR stamp is the first semi-postal stamp issue in the history of the Postal Service, it has required flexibility in determining the policy for identifying and recovering incremental costs. We will conduct a final evaluation of the program costs prior to the last payment to the other agencies. We will also issue final regulations on recoverable costs and publish them in the Administrative Support Manual by the end of the stamp's sales period. If Congress decides that the criteria we establish to recover reasonable costs associated with semi-postal issues are different from those that Congress has envisioned, it may wish to include, in any future semi-postal legislation, the definitive criteria for determining the reasonable costs we should recover from the stamp's surcharge revenue, as well as its intent on the tax-deductibility of the surcharge.

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The majority of the \$841,000 identified in the report as additional recoverable costs comprises the "stand-up talk" training for field staff immediately prior to issuance of the stamp. This training was estimated at \$612,350. "Stand-up talks" are routinely used by management to provide employees with information to do their jobs, emphasize various sales promotions, and introduce and explain new products. We used this vehicle to promote the unique features of the BCR stamp as well as to explain the Account Identifier Code that was used to record sales of the stamp. Accordingly, it is our position that these training costs are not an incremental cost for the BCR stamp and therefore are not recoverable.

As of the date of this report, we intend to recover the following costs that we consider incremental to the BCR program:

- Packaging costs - \$39,000
- Printing of flyers - \$231,273
- Vending machine reconfiguration costs - \$7,000
- Reprogramming retail window automation devices - \$176,000
- Receipt printing costs - \$7,131
- Legal fees - \$21,603

These costs total \$482,007, of which \$204,603 has already been recovered from the surcharge revenue.

We note the following additional information in the "Cost Tracking" chart on page 9 of the report:

Shipping/Other Packaging (footnote)	The \$43,400 contract modification was exercised prior to the end of fiscal year 1999 and is already included in the total of \$937,917.
Advertising and Promotions	The \$223,000 in costs for the Times Square billboard should not be included in this cost category. The billboard, which from time to time displayed a depiction of the BCR stamp, had been rented prior to the issuance of the BCR stamp. Its purpose was to promote the Postal Service's commemorative stamps program as a whole and is therefore not a BCR program expense.
Labor	Labor costs of \$126,698 should not be charged to the BCR stamp program. As discussed during previous meetings with the evaluators, we do not assign labor costs to individual programs. All work associated with the BCR stamp was absorbed by existing staff and staff budget. We incurred no additional staffing-related expenses because of the BCR stamp program.
Stamp Design	\$3,000 of the stamp design costs had been identified and tracked from program inception and should be listed in the previous column.
Prompt Payment Fees	The entire \$1,601 has been tracked and should be listed in the previous column.

Other items that require clarification occur elsewhere in the draft report and cover letter, largely as the result of the use of inconsistent time periods:

- Program results reported in the cover letter are incorrect. As of September 1999, total remittances to the other government agencies were \$5.9 million, not "about \$8.6 million," which were the total remittances as of the last payment to the agencies on November 1, 1999.
- Other inaccuracies regarding program results occur on pages i. and 4 of the draft report. As of the end of September 1999, almost \$8.8 million in differential revenue had been collected and \$183,000 in costs recovered, for a net differential of \$8.6 million. A reduction in fiscal year 2000 transfers to the other agencies later raised the recovered cost total to approximately \$205,000.

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Recommendation #2

"Issue guidance as to whom costs and supporting documentation are to be reported and to provide the finance number to all offices incurring costs for the Breast Cancer Research Stamp program."

Response

We agree with the first part of the recommendation that guidance be issued regarding "to whom costs and supporting documentation are to be reported." That guidance was issued in *Postal Bulletin 21973* as an update to the Administrative Support Manual. However, we disagree with the second part of the recommendation that we "provide the [program] finance number to all offices incurring costs for the BCR stamp program."

Since the BCR stamp program is a headquarters-funded program, the program's finance number was intentionally not provided to field offices for purposes of control. We believe this policy prevented improper costs from being charged to the BCR program finance number and reduced staff time spent on reconciling and validating activity charged to the finance number. Existing procedures published in *Postal Bulletin 21973* and *Postal Bulletin 21976* provided methods of reporting authorized costs directly incurred by headquarters and field offices. Such costs were then examined for validity. If incorrectly charged to another finance number, they were then transferred to the BCR program finance number.

The BCR program authorized headquarters and field participation in a limited number of BCR promotional events. Costs for these events were to be charged to the BCR finance number as they were identified. Within the next sixty days, we will request that the field identify and provide documentation on any other BCR-themed events that may have been conducted that have not yet been charged to the BCR finance number. However, the field routinely participates in events, such as 10K runs, to leverage not only the goodwill attendant with the issuance of the BCR stamp, but also to generate goodwill for the Postal Service as an involved and concerned member of the community.

Recommendation #3

"Develop an improved system for reasonably estimating the number of semi-postal stamps required for future semi-postal stamp programs."

Response

We disagree with the recommendation that the Postal Service develop an improved system for reasonably estimating the number of stamps required for future semi-postal stamp programs. We believe that the current system ensured that adequate BCR stamps were on hand in all sales locations. Further, the Postal Service is developing systemwide programs (i.e., Point of Service (POS) and Standard Accounting for Retail (SAFR)) that, among other capabilities, will allow for the tracking of inventories and sales at the individual unit level. These systems, when fully implemented, will improve the inventory control process and ensure that appropriate stamp inventories are maintained at individual post offices not only for future semi-postal issues but for all stamp stock. We consider that our POS and SAFR programs, initiated several years ago, will provide us with a vastly expanded degree of accountability down to the local unit. Therefore, we do not plan to take any further action relative to the specifics of this recommendation.

The BCR semi-postal stamp presented a unique situation not encountered with other stamps. First, the Act required that the Postal Service track sales and inventory of a specific stamp issue. Historically, we have only tracked sales for stamps as a whole and have only tracked individual stamp inventory at the Stamp Distribution Office (SDO) level. Second, our interpretation of the Act

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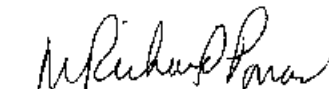
was that the Postal Service had been mandated to make the BCR stamp available for sale to the public at all sites and through all sales channels throughout the Act's two-year sales period. The mandate that the stamp be widely and constantly available in all 38,000+ post offices, stations, and branches required that an initial distribution be made to all sales outlets and that adequate inventory for restocking remain available at all SDOs throughout the entire sales period.

In the absence of an inventory system in place for capturing individual inventory data for field retail units, the only reasonable method for assuring that adequate inventory levels remain on hand is via monitoring, on an ongoing basis, stamp inventories at our available supply chain sites, the 108 SDOs. Consequently, quantity determinations and decisions to reprint were based on monthly inventory drawdown averages, factoring in the number of months the stamps would remain on sale, as illustrated in the attached chart.

When the BCR stamp went on sale, approximately 60 million of the 200 million initial order were shipped directly to sales channels. Approximately 140 million remained in the SDOs to accommodate additional orders. Within six months, less than 60 million of the initial order remained in the SDOs, which reflects an average inventory drawdown of over 10 million per month. At this point, a reprint of 80 million was ordered to replenish inventories. By November 1999, inventory levels had dropped to approximately 35 million, reflecting a continued average monthly drawdown of approximately 10 million stamps. A second reprint of 50 million stamps was ordered to ensure adequate inventory levels would be available at the SDOs for post office requisitioning through the end of the sales period. We disagree with the report's conclusion that the Postal Service spent approximately \$940,000 to print unneeded stamps.

Relying exclusively on accounting period sales data (as used in the draft report) while ignoring the need to have inventory on hand understates the amount of inventory required to meet anticipated demand. For example, average stock level of only 2,000 BCR stamps per sales outlet would indicate a need to have a BCR stamp inventory 76 million greater than inventory needs estimated based only on sales. Moreover, without drawdown information, it is not possible to properly exchange stamps between SDOs to ensure that all post office sales venues can be properly supplied.

If you wish to discuss any of our comments, our staffs are available at your convenience.

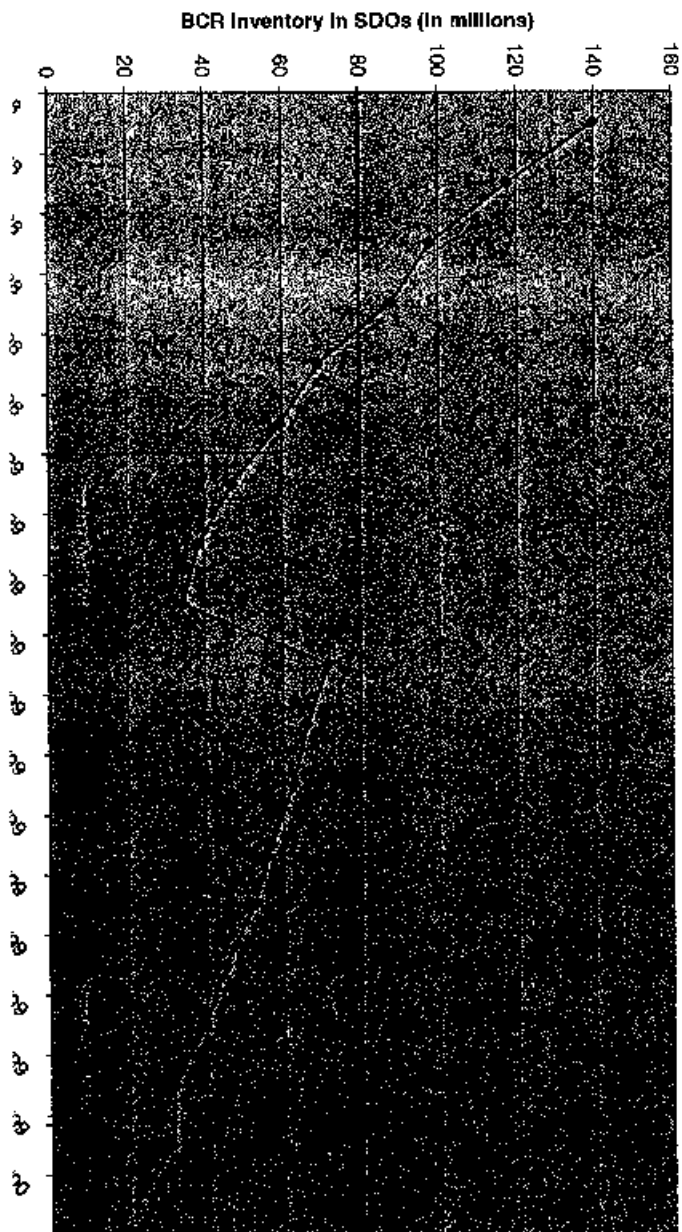


M. Richard Porras
Chief Financial Officer
And Executive Vice President



Deborah K. Willhite
Senior Vice President
Government Relations and Public Policy

Attachment



Breast Cancer Research (BCR) Stamp
Stamp Distribution Office (SDO) Inventory Levels
From 7/98 through 1/00

**Major Contributors to
This Report**

[Redacted content]