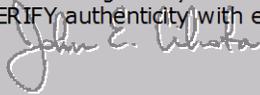




June 15, 2016

MEMORANDUM FOR: JAMES (JIM) P. COCHRANE
CHIEF MARKETING AND SALES OFFICER AND
EXECUTIVE VICE PRESIDENT

E-Signed by John Cihota 
VERIFY authenticity with eSign Desktop


FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance, Pricing, and Investments

SUBJECT: Management Alert – Stamp Fulfillment Services
(Report Number FT-MT-16-001)

This report presents the results of our review of the Stamp Fulfillment Services (Project Number 16BR001FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Introduction

This alert responds to concerns brought to our attention regarding the Kansas City, MO, Stamp Fulfillment Services' (SFS) handling and storage of the U.S. Postal Service's off-sale inventory¹ (Project Number 16BR001FT000). Our objective was to evaluate internal controls over off-sale retail merchandise and accountable paper stored at the Kansas City SFS.

Retail merchandise — such as coffee mugs and t-shirts — may contain a picture of a stamp but does not contain an actual stamp. Accountable paper consists of postage stock, bird stamps,² philatelic products, stamped papers, and blank money order stock.

The SFS is the sole order fulfillment center for the Postal Service's stamps and products.³ This facility:

- Receives orders through the Postal Service's various sales channels, such as the Postal Store,⁴ eBay, and mail.
- Fulfills and ships national orders for stamps, stationery items, philatelic products, and other retail merchandise to customers worldwide.
- Provides requests for cancellation services for philatelists and philatelic dealers.

The East Coast Distribution Center (ECDC) in Dulles, VA, is an auxiliary fulfillment center. The ECDC only ships stamps⁵ to postal retail units and is the disaster recovery site for the SFS. We did not perform fieldwork or review internal controls at the ECDC.

We performed this review because the acting manager of the SFS provided information about off-sale inventory stored and used for improper purposes at the SFS. The off-sale inventory consisted of retail merchandise and accountable paper. Further, the acting manager provided information about Harry Potter stamps that prior SFS management (management) sold at a discount to Royal Mail without Postal Service Headquarters' knowledge or approval. In addition to this management alert, we investigated alleged misconduct at the SFS facility and issued a report of investigation on April 8, 2016.

¹ Off-sale (or returned) inventory includes merchandise returned by the customers, items taken off sale, and any serviceable material over and above the need of the installation accountable for it.

² The Postal Service sells migratory bird hunting and conservation stamps that are required by federal law to hunt migratory birds.

³ As of January 31, 2016, the SFS stamp and product inventory was \$2.8 billion.

⁴ The Postal Store at www.usps.com.

⁵ As of January 31, 2016, the ECDC stamp inventory was \$337 million.

Summary

The Postal Service needs to improve controls over off-sale inventory at the Kansas City SFS. Management did not follow policies to dispose of off-sale inventory in the best interests of the Postal Service. Further, management provided Harry Potter stamps at a discount to Royal Mail without Postal Service Headquarters' knowledge or approval. Headquarters contributed to these issues by providing inadequate oversight of management's activities. As a result, management used off-sale inventory for improper purposes and is at risk of losing revenue of \$24,371 for the Harry Potter stamps they provided to Royal Mail.

Off-Sale Inventory Accountability

Management did not always follow established Postal Service policies for off-sale retail merchandise and accountable paper. Management stored these items instead of disposing of the products as required (see Figure 1).⁶

Figure 1. Inventory Storage



Source: U.S. Postal Service Office of Inspector General photograph taken October 14, 2015.

⁶ Handbook AS-701, *Asset Management*, Section 6-1.4, January 2015, states that employees responsible for material management must take all necessary steps to ensure the prompt and proper redistribution, recycling, and disposal of material. Section 6-4.6.1 states that preferred disposal methods include options such as recycle or destruction.

Headquarters contributed to these issues by not providing adequate oversight of management's activities. As a result, management used off-sale inventory for improper purposes. We found that:

- Management used off-sale inventory for gifts, employee incentives, facility decorations, and Combined Federal Campaign (CFC) donations. Postal Service policy prohibits giving or gifting property to employees, with the exception of Postal Service property expressly purchased for employee recognition.⁷
- Management arbitrarily discounted and sold off-sale inventory through a retail outlet within the SFS. Postal Service policy states that headquarters is responsible for discounts or revaluation of retail products.⁸
- Management sold off-sale inventory at a discount during exclusive employee sales events. Postal Service policy requires employee sales to be held in conjunction with public sales or auctions that have been advertised to the general public.⁹

Additionally we found that:

- Management did not perform frequent counts or an annual examination of the off-sale inventory. The Postal Service requires SFS personnel to perform an annual examination of all accountable paper, document the results, and report any discrepancies.¹⁰
- Management created an internal procedure to remove items and adjust the item quantity of the off-sale inventory. Postal Service policy states that headquarters is responsible for establishing and maintaining national asset management policies, programs, and procedures¹¹ and management should have followed them. Headquarters is aware of the internal procedure and is currently working to eliminate it to adhere to policy.
- There were security concerns¹² that we reported to U.S. Postal Inspection Service personnel for further action.

We performed a physical count of the off-sale inventory stored within the SFS from December 8 through 10, 2015.

⁷ Handbook AS-701, Section 6-4.6.

⁸ Handbook F-1, *Accounting and Reporting Policy*, Section 4-11.4.2, January 2015.

⁹ Handbook AS-701, Section 6-4.6.2.2.1.

¹⁰ Handbook AS-701, Section 4-3.4.4, Security, stockroom anti-pilferage principle 4, and Handbook F-1, Section 4-11.3.2.

¹¹ Handbook AS-701, Section 1-2.1.

¹² Some surveillance cameras located throughout the building were not working.

We were able to reconcile a majority of the items with the SFS inventory records containing about 1.5 million items; however, we identified:

- 828,290 items in inventory records, but not physically counted. For example, inventory records showed 1,557 stamp panels, but we physically counted 1,500 items.
- 33,214 items physically counted but the count was different from the recorded quantity in the inventory records. For example, we counted 750 envelopes with a digital color postmark, but the inventory records showed only 226 envelopes.
- 6,575 items physically counted but not included in inventory records. For example, we counted 430 commemorative panels,¹³ but the inventory records did not include any of the commemorative panels.

We recognize that off-sale inventory items do not carry a value within the Postal Service financial statements; however, these items have a market value. We calculated the value of off-sale inventory at \$7,141,652, based on the value disclosed in the item description within inventory records.

Harry Potter Stamps

Management provided Harry Potter stamps at a discount¹⁴ to Royal Mail without headquarters' knowledge or approval. Specifically, after verbal agreement, management provided 2,649 books of Harry Potter stamps with a face value of \$24,371¹⁵ to Royal Mail during FY 2014. Headquarters contributed to this issue by allowing an environment in which management operated the SFS without regard to established guidelines. Postal Service policy states that it is unlawful for Postal Service employees entrusted with the sale or custody of postal stamps to sell stamps for less than face value.¹⁶ As of April 6, 2016, the Postal Service has not received payment from Royal Mail and risks losing revenue of \$24,371.

Management Actions

During our fieldwork on December 10, 2015, management informed us they plan to:

- Establish accountability of current off-sale items at the SFS.
- Destroy future off-sale items returned to the SFS.

¹³ Commemorative panels are a product sold in conjunction with commemorative postage stamps. Each panel has the commemorative stamp affixed and contains background information and illustrations.

¹⁴ Management verbally agreed to discount them 35 percent; however, the discount agreement was never finalized.

¹⁵ One book of stamps contained 20 individual stamps valued at 46 cents each in fiscal year (FY) 2014.

¹⁶ *Postal Operations Manual*, Issue 9, Chapter 1 Retail Management, Subchapter 13, Retail Services at Counters, Section 132.41, July 2002 (updated through December 24, 2015).

- Establish a process to restrict gifts to employees, the CFC, or any other group.
- Eliminate employee discounts.
- Develop official lines of communication and specific approval processes to restrict sale of Postal Service products without formal agreement.

Recommendations

We recommend the chief marketing and sales officer:

1. Strengthen headquarters oversight of management actions at Stamp Fulfillment Services to include accounting for and disposing of off-sale retail merchandise and accountable paper.
2. Develop and implement a process to dispose of existing off-sale retail merchandise and accountable paper stored within Stamp Fulfillment Services.

Management's Comments

Management agreed with the recommendations. Regarding recommendation 1, management will follow established Postal Service policies to ensure accounting for and disposal of off-sale retail merchandise and accountable paper. Headquarters also reiterated that it holds the former SFS manager responsible and accountable for their actions, the same as all other managers, to properly ensure oversight, management, and protection of assets.

Regarding recommendation 2, management will shred, auction, recycle, or dispose of all off-sale retail merchandise and accountable paper currently stored with SFS, using established procedures and approved contractors. Additionally, management will create a quarterly inventory report to ensure proper disposition of future off-sale items.

Management will implement both recommendations by September 30, 2016.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

The intent of the recommendation was to ensure personnel follow proper policies and procedures in the future. Management will not enhance controls at the SFS. However, they will follow existing policies to ensure proper accounting and handling and also reiterated their commitment to SFS manager accountability. We believe these actions meet the intent of the recommendation and will not pursue the issue further.

Both recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Both recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Management's Comments

JAMES P. COCHRANE
CHIEF MARKETING & SALES OFFICER
EXECUTIVE VICE PRESIDENT



June 8, 2016

SHERRY FULLWOOD
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Stamp Fulfillment Services (Project Number 16BR001FT000)

Thank you for the opportunity to respond to the recommendations contained in the Management Alert - Stamp Fulfillment Services (Project Number 16BR001FT000) recently conducted by your office. Below you will find the responses to your recommendations to the Chief Marketing and Sales Officer, and Executive Vice President.

Recommendation 1:

Strengthen headquarters oversight of management actions at the Stamp Fulfillment Services to include accounting for and the disposal of off-sale retail merchandise and accountable paper.

Management Response:

Agree. Management agrees with recommendation to strengthen the oversight of management actions at Stamp Fulfillment Services to include accounting for and the disposal of off-sale retail merchandise and accountable paper. However, Headquarters holds the Manager, Stamp Fulfillment Services responsible and accountable for all his/her actions, the same as all other USPS Managers and Executives, to properly ensure oversight, handle/manage all inventory, and protect all USPS assets housed in/at Stamp Fulfillment Services.

Management Action:

Postal policy will be followed to ensure the accounting and disposal of off-sale retail merchandise and accountable paper. All on-hand, off-sale items returned to Stamp Fulfillment Services, and taken out of inventory in this category will be disposed of in accordance with Handbook F-1, Section 4-11; AS-701, Section 6; and ELM 490.

Target Implementation Date: September 30, 2016.

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- 2 -

Responsible Official: Director, Stamp Services

Recommendation 2:

Develop and implement a process to dispose of existing off-sale retail merchandise and accountable paper stored within the Stamp Fulfillment Services.

Management Response:

Agree. Management agrees with the recommendation to develop and implement a process to dispose of existing off-sale retail merchandise and accountable paper stored within the Stamp Fulfillment Services.

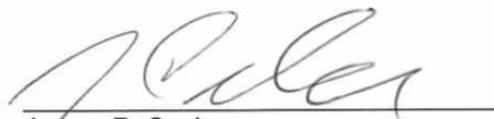
Management Action:

All of the items currently stored (under lock) in the "Show Room" and "Framed Art Room" will be disposed of properly. Items that can be destroyed by shredding will be shred locally. Items that can be sold at auction through Asset Management (GovDeals.com, eBay.com) will be sold. Items that cannot be shred or sold will be sent for recycling, where appropriate, or disposed of through the SFS solid waste removal contractor. Stamp Services is recommending that the OIG have someone available to witness the disposal on a date agreeable to all. Additionally, a Quarterly Inventory report will be used to ensure that no buildup or improper disposition of off-sale items occurs in the future.

Target Implementation Date: September 30, 2016.

Responsible Official: (A) Manager, Stamp Fulfillment Services

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



James P. Cochrane
Chief Marketing & Sales Officer
and Executive Vice President

cc: Ms. Haring
Corporatae Audit and Response Management