



Office of Inspector General | United States Postal Service

Audit Report

Stamp Count Analysis

Report Number 20-124-R20 | June 10, 2020



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Highlights

Objective

We issued a series of reports between September 2016 and June 2017 on U.S. Postal Service stamp, money order, and cash inventory accountability at 10 post offices. Also, in April 2018, we performed a nationwide audit of the design and effectiveness of internal controls over stamp stock accountabilities. As a result of these audits, management implemented three controls: monthly meetings between the Controller and area personnel, facility reviews of financial controls, and an online certification process requiring field offices to be certified in managing controls over stamp stock accountabilities and shipments.

Each Postal Service retail unit must maintain an inventory for items such as stamps, money orders, and cash. Sales and service associates do not have an individually assigned stamp stock inventory and instead work from a shared retail floor stock. A count of the retail floor stock must be conducted at least once each quarter. If the count results in a variance greater than \$100, the unit must notify our office.

Because of the volume of small value items, a perfect count of stamp stock inventory is unlikely, and significant numbers or trends of perfect counts or near perfect counts can indicate weak controls over stamp stock. A perfect count is when a unit does not identify a shortage or overage in retail floor stock, and a near perfect count is when a unit reports a variance within \$5 of the expected count. The objective of this audit was to determine whether perfect and near perfect counts of retail floor stock decreased from fiscal year (FY) 2018 to FY 2019.

Our fieldwork was nearly completed before the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID19) on March 13, 2020. The results of this audit do not reflect operational changes and/or service impacts that may have occurred as a result of the pandemic.

Findings

Nationwide, the number of perfect counts and the number of units that reported perfect counts decreased by 14 and 12 percent, respectively, from FY 2018, quarter (Q)1, to FY 2019, Q4. The number of near perfect counts and the number of units that reported near perfect counts increased slightly, both by about 2 percent. A reduction in the perfect counts indicates the risk of inaccurate financial reporting or ineffective internal controls over the stock count process has declined.

We also found that perfect counts were no more than 5 percent of the total, and near perfect counts were 23 percent or less of the total counts performed by all units in any one quarter. In addition, we reviewed the units from the previous audits and identified none of the 10 units reported perfect counts, but four units reported five near perfect counts during the scope period.

When analyzing the data by area and district, we found regions where the units with perfect or near perfect counts increased significantly more than others. For example, between FY 2018, Q1, and FY 2019, Q4:

- In the Eastern and Great Lakes areas, units reporting perfect counts decreased by more than 25 percent.
- In the Pacific Area, units reporting perfect counts increased by 8 percent.
- In the Northeast Area, units reporting near perfect counts increased 14 percent.
- Ten districts in four areas notably exceeded the average percentage of units reporting perfect and near perfect counts. We made referrals to our Office of Investigations as appropriate.

District, area, and headquarters management do not analyze perfect or near perfect count results of retail floor stock to identify financial or internal control risks. However, they do use perfect counts as an indicator for other activity, such as identifying sites for retail unit reviews. Additionally, headquarters officials are developing a new report (estimated for July 2020) that would identify stock counts with high dollar variances and units with a high frequency of counts.

Recommendations

Based on the audit results, we did not make any recommendations. However, we plan to continue analyzing this activity and may perform additional work in the future.

Transmittal Letter

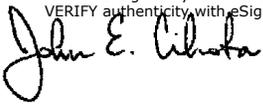


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 10, 2020

MEMORANDUM FOR: CARA M. GREENE
VICE PRESIDENT, CONTROLLER

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop 



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

SUBJECT: Audit Report – Stamp Count Analysis
(Report Number 20-124-R20)

This report presents the results of our self-initiated audit of Stamp Count Analysis.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of Stamp Count Analysis (Project Number 20-124). The objective of our audit was to determine whether perfect and near perfect counts of retail floor stock decreased from fiscal year (FY) 2018 to FY 2019.

Each U.S. Postal Service retail unit must maintain an inventory for items such as stamps, money orders, and cash. Sales and service associates do not have an individually assigned stamp stock inventory and instead work from a shared retail floor stock. A count of the retail floor stock must be conducted at least once each quarter (Q)¹ (at least four times per year). If the count results in a variance greater than \$100, the unit must complete and submit Postal Service (PS) Form 571, *Discrepancy of \$100 or More in Financial Responsibility*, to the appropriate U.S. Postal Service Office of Inspector General (OIG) office. A perfect count is when a unit does not identify a shortage or overage in the retail floor stock, and a near perfect count is when a unit reports a variance within \$5 of the expected count. Because of the volume of small value items, a perfect count of stamp stock inventory is unlikely, and significant numbers or trends of perfect counts or near perfect counts can indicate weak controls over stamp stock.

Our fieldwork was nearly completed before the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID-19) on March 13, 2020. The results of this audit do not reflect operational changes and/or service impacts that may have occurred as a result of the pandemic.

Background

We issued a series of reports between September 2016 and June 2017 on segmented inventory accountability (SIA)² at post offices in the Seattle, Northland, Triboro, Houston, Mid-Carolinas, Dallas, New York, Nevada-Sierra, Chicago, and Bay-Valley districts. To determine the validity of the reported inventory counts, we conducted unannounced counts of the inventory segments,

evaluated the segmented inventory process, and interviewed unit management and other personnel responsible for oversight of the process. We found that at all 10 locations, the accounting records for segmented inventory were not always accurately presented and internal controls needed improvement. In the retail floor stock counts we conducted, we identified shortages at six units and overages at four units.

In April 2018, we performed a nationwide audit of the design and effectiveness of internal controls over stamp stock accountabilities used by the Controller to reduce financial control risks at Postal Service locations.³ During the audit, we analyzed the stamp stock accountability losses from retail floor stock nationwide from FY 2015 to FY 2017 and found a 21 percent improvement from FY 2016. We also found perfect counts of the retail floor stock had reduced significantly since our SIA audits in FY 2016, Q4. Specifically, from FY 2016, Q2, to FY 2017, Q4, the number of post offices on the OIG's Perfect Count Tripwire decreased from 31 to seven. During the audit, we learned there were three control activities undertaken to address control deficiencies identified during the SIA audits:

- The Controller Council National Scorecard analyzed financial control risks at post offices. During monthly meetings with area personnel, the Controller discussed the results of the scorecard and the cause for offices not meeting organizational goals.
- The Revenue and Field Accounting organization developed facility reviews of financial controls, and each area was responsible for conducting these reviews and immediately remediating any findings. The reviews included seven field controls, including a control for stamp stock accountability.
- The Retail organization implemented an online certification process that required field offices to be certified in managing controls over stamp stock accountabilities and shipments.

¹ Postal Service Q1 is October 1 through December 31; Q2 is January 1 through March 31; Q3 is April 1 through June 30; and Q4 is July 1 through September 30.

² SIA consists of retail floor stock (stamps sold on the retail floor), unit reserve stamp stock (stamps used to replenish those sold on the retail floor), cash, money orders, and stamps assigned to retail associates.

³ *Stamp Stock Accountability Controls* (Report Number [FCS-FM-18-013](#), dated April 17, 2018). This report also discussed the 10 unit reports noted above.

Finding #1: Retail Floor Stock Counts

Nationwide, the number of perfect counts decreased by 14 percent (128 counts) from FY 2018, Q1, to FY 2019, Q4, but the number of near perfect counts increased by 2 percent (73 counts) during that same period (see Table 1).

Table 1. Number of Perfect and Near Perfect Counts by Quarter, FY 2018 to FY 2019

Count Result	FY 2018 Q1	FY 2018 Q2	FY 2018 Q3	FY 2018 Q4	FY 2019 Q1	FY 2019 Q2	FY 2019 Q3	FY 2019 Q4	Increase/ Decrease
Perfect Counts	918	683	779	769	787	689	746	790	-14%
Near Perfect Counts	3,814	3,216	3,631	3,799	3,766	3,161	3,824	3,887	2%

Source: Postal Service Enterprise Data Warehouse (EDW)⁴ and OIG analysis.

Further, the number of Postal Service retail units⁵ across the nation which reported perfect counts of retail floor stock decreased by 12 percent (103 units) from FY 2018, Q1, to FY 2019, Q4. However, the number that reported near perfect counts increased by 2 percent (77 units) during that same period (see

Table 2). A reduction in the perfect counts indicates the risk of inaccurate financial reporting or ineffective internal controls over the stock count process has declined.

Table 2. Number of Units Reporting Retail Floor Stock Counts by Quarter, FY 2018 to FY 2019

Count Result	FY 2018 Q1	FY 2018 Q2	FY 2018 Q3	FY 2018 Q4	FY 2019 Q1	FY 2019 Q2	FY 2019 Q3	FY 2019 Q4	Increase/ Decrease
Perfect Counts	863	632	728	729	749	657	707	760	-12%
Near Perfect Counts	3,764	3,157	3,564	3,746	3,696	3,103	3,757	3,841	2%
All Other Results	12,585	12,966	12,382	12,204	12,224	12,983	12,477	12,151	
Total	17,212	16,755	16,674	16,679	16,669	16,743	16,941	16,752	

Source: Postal Service EDW and OIG analysis.

⁴ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission critical information comes to the EDW from transactions that occur across the mail delivery systems, points-of-sale, and other sources.

⁵ Includes retail units that are considered SIA units.

We also found that perfect counts were no more than 5 percent of the total counts and near perfect counts were 23 percent or less of the total counts performed by all units in any one quarter (see Table 3).

Table 3. Percentage of Units Reporting Retail Floor Stock Counts by Quarter, FY 2018 to FY 2019

Count Result	FY 2018 Q1	FY 2018 Q2	FY 2018 Q3	FY 2018 Q4	FY 2019 Q1	FY 2019 Q2	FY 2019 Q3	FY 2019 Q4
Perfect Counts	5%	4%	4%	4%	4%	4%	4%	5%
Near Perfect Counts	22%	19%	21%	22%	22%	19%	22%	23%
All Other Results	73%	77%	74%	73%	73%	78%	74%	73%

Source: Postal Service EDW and OIG analysis.

In addition, we reviewed the units from the previous audits and identified none of the 10 units reported perfect counts, but four units reported five near perfect counts during the scope period (see Table 4).

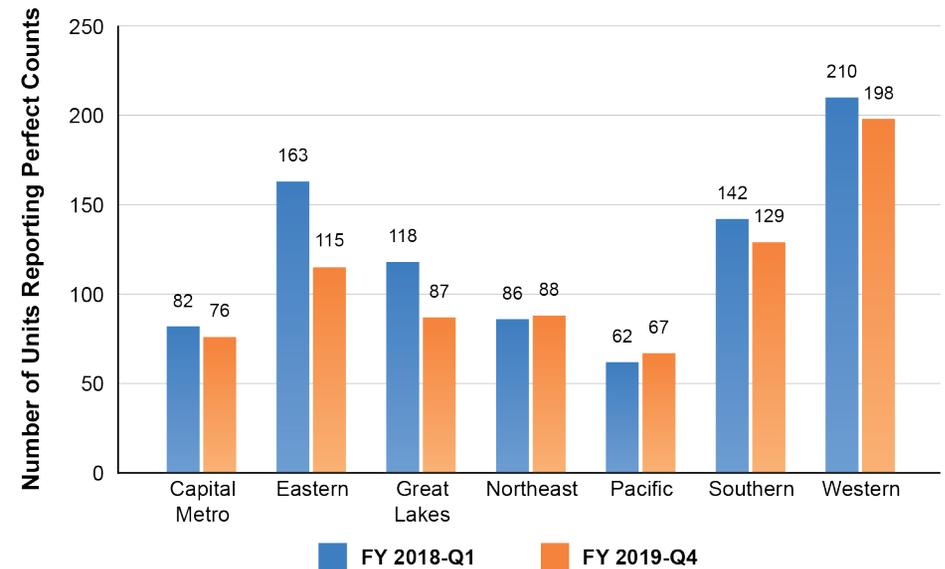
Table 4. Previously Audited Units Reporting Near Perfect Counts, FY 2018 to FY 2019

Unit Name	Near Perfect Count Date	Near Perfect Count Result
Bayport, MN Post Office	4/10/2018	(\$0.72)
Carrollton, TX Main Office	4/7/2018	(\$4.09)
	10/18/2018	(\$1.77)
Chicago, IL - Mt. Greenwood Station	4/30/2018	\$2.48
Laughlin, NV Post Office	4/16/2019	(\$2.72)

Source: Postal Service EDW and OIG analysis.

When analyzing the data by area and district, we found regions where the units with perfect or near perfect counts increased significantly more than others. For example, the number of units reporting perfect counts in the Eastern and Great Lakes areas decreased by more than 25 percent; however, in the Pacific Area, perfect counts increased by 8 percent (see Figure 1).

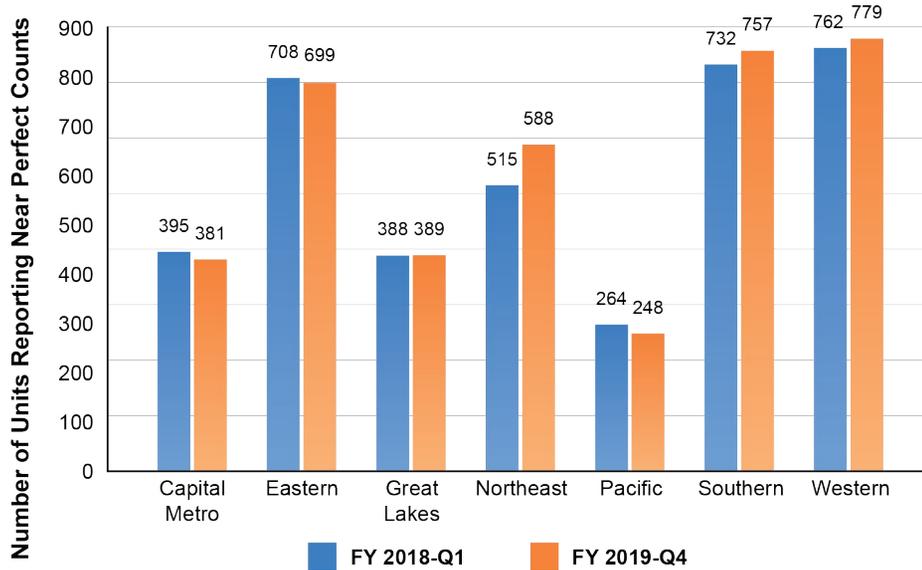
Figure 1. Number of Units Reporting Perfect Counts by Quarter, FY 2018 to FY 2019



Source: Postal Service EDW and OIG analysis.

Likewise, units reporting near perfect counts in the Northeast Area increased 14 percent from FY 2018 to FY 2019, a larger increase than the other areas (see Figure 2).

Figure 2. Number of Units Reporting Near Perfect Counts by Quarter, FY 2018 to FY 2019



Source: Postal Service EDW and OIG analysis.

We identified 10 districts in four areas that exceeded the average percentage for perfect and near perfect counts by 3 and 5 percentage points, respectively (see Table 5)⁶ We referred this issue to the OIG’s Office of Investigations.

Table 5. Districts Notably Exceeding the Average Percentage of Units Reporting Perfect and Near Perfect Counts

Area	District	Perfect Counts as % of Retail Floor Stock Counts	Near Perfect Counts as % of Retail Floor Stock Counts
Northeast	Caribbean	—	28%
Pacific	Honolulu	—	28%
Southern	Fort Worth	7%	30%
	Oklahoma	—	28%
	Rio Grande	7%	28%
	Alaska	13%	32%
Western	Arizona	7%	—
	Central Plains	10%	30%
	Dakotas	8%	28%
	Hawkeye	7%	27%

Source: Postal Service EDW and OIG analysis.

We determined that district, area, and headquarters management who we spoke with, do not analyze perfect or near perfect counts of retail floor stock to identify financial or internal control risks. However, several areas and one district perform analysis of other stamp stock results:

⁶ We totaled the units reporting perfect and near perfect counts for each district and calculated the respective average percentage of the universe total: 4 percent for perfect counts and 21 percent for near perfect counts. We then calculated the average percentage of all districts and identified the districts that exceeded that average by 3 and 5 percentage points for perfect counts and near perfect counts, respectively.

- The Northeast Area uses perfect counts as an indicator when identifying sites for postal retail unit (PRU) reviews. In addition, management also reviews retail floor stock shortages weekly.
- The Eastern Area tracks count results but looks for significant losses.
- The Rio Grande District performs a quarterly analysis that focuses on out-of-tolerance⁷ counts.

In addition, headquarters officials are developing a new report (estimated for July 2020) that would identify stock counts with high dollar variances and units with a high frequency of counts.

Based on the audit results, we are not making a recommendation at this time. We will continue to analyze this activity and may perform additional work in the future.

Management's Comments

Management agreed with our finding and stated that the areas with improvement have conducted PRU reviews, and the on-site presence contributed to the improvement. Management added that in November 2019, a change was implemented to automate reporting discrepancies greater than \$100 to the OIG. Before finalizing the count, if a discrepancy of \$100 or more is identified, the system will require comments to be entered. Those comments are transmitted to the OIG, eliminating the need to manually complete PS Form 571.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the finding in the report.

⁷ The Postal Service has set a limit for discrepancies (a tolerance) based on the type of count conducted. This tolerance applies to unit reserve stock, which is the stamps, stamped paper, and philatelic products that have not been consigned to a retail associate. The tolerance amount is based on the total value of the stamp stock and are set amounts between \$50 and \$150. An out-of-tolerance count would be a result that falls outside the tolerance level.

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Appendix A: Additional Information

Scope and Methodology

To determine whether perfect and near perfect counts decreased from FY 2018 to FY 2019, we extracted and analyzed EDW system data for retail floor stock counts recorded between October 1, 2017, and September 30, 2019 and reviewed the OIG’s Perfect Count Tripwire report.⁸ Our analysis did not trend perfect or near perfect counts at retail units over a period of time; rather, we aggregated individual count results for the scope period.

We interviewed personnel at Postal Service Headquarters. We also judgmentally selected locations for conducting interviews of local Postal Service management. The perfect count data we generated from EDW showed the Western and Southern areas, as well as the Central Plains and Rio Grande districts, had the highest number of perfect counts during our scope period (see Tables 6 and 7).

Table 6. Number of Perfect Counts by Area

Area	Total Number of Counts
Western	1,549
Southern	1,077
Eastern	999
Great Lakes	743
Northeast	720
Capital Metro	606
Pacific	467

Source: Postal Service EDW and OIG analysis.

Table 7. District in Each Area with the Highest Number of Perfect Counts

District	Area	Total Number of Counts
Central Plains	Western	256
Rio Grande	Southern	201
Gateway	Great Lakes	158
Central Pennsylvania	Eastern	150
Connecticut Valley	Northeast	132
San Diego	Pacific	129
Mid-Carolinas	Capital Metro	113

Source: Postal Service EDW and OIG analysis.

The near perfect count data we generated from EDW showed the Eastern and Northeast areas had the third and fourth highest number of near perfect counts during our scope period, but were the highest of the areas that had not been selected from the perfect count data. We selected the Central Pennsylvania and Northern New England districts, as these were the districts in the Eastern and Northeast areas with the highest number of near perfect counts during our scope period (see Tables 8 and 9).

⁸ This data may inadvertently include cash drawer count results. In order to capture all retail floor stock count results, we included all counts identified as “retail floor.” However, some counts did not indicate whether it was a retail floor stock count or a cash drawer count, so we were unable to exclude these items.

Table 8. Number of Near Perfect Counts by Area

Area	Total Number of Counts
Western	6,056
Southern	5,880
Eastern	5,182
Northeast	4,245
Great Lakes	3,055
Capital Metro	2,842
Pacific	1,990

Source: Postal Service EDW and OIG analysis.

Table 9. District in Each Area with the Highest Number of Near Perfect Counts

District	Area	Total Number of Counts
Northern New England	Northeast	915
Central Plains	Western	769
Rio Grande	Southern	753
Central Pennsylvania	Eastern	738
Gateway	Great Lakes	656
Richmond	Capital Metro	509
Sacramento	Pacific	497

Source: Postal Service EDW and OIG analysis.

We conducted this performance audit from January through June 2020 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on May 15, 2020, and included their comments where appropriate.

We relied on computer-generated data from the EDW. We did not test the validity of controls over this system; however, we verified the accuracy and completeness of the data by conducting several database tests. We determined the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Stamp Stock Accountability Controls</i>	The objective of the audit was to review the design and effectiveness of internal controls over stamp stock accountabilities used by the Controller to reduce financial control risks at U.S. Postal Service locations.	FCS-FM-18-013	April 17, 2018	\$0
<i>Internal Controls Over Segmented Inventory — El Cerrito, CA, Main Post Office</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the El Cerrito, CA, Main Post Office were accurately presented and whether internal controls were in place and effective.	FT-FM-17-022	June 20, 2017	\$2,860
<i>Internal Controls Over Segmented Inventory — Chicago-Mt. Greenwood Station, Chicago, IL</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Mount Greenwood Station were accurately presented and whether internal controls were in place and effective.	FT-FM-17-016	April 6, 2017	\$45,752
<i>Internal Controls Over Segmented Inventory — Laughlin Post Office, Laughlin, NV</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Laughlin Post Office were accurately presented and whether internal controls were in place and effective.	FT-FM-17-006	December 20, 2016	\$0
<i>Internal Controls Over Segmented Inventory — Bronx Hillside Finance Station, Bronx, NY</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Bronx Hillside Station were accurately presented and whether internal controls were in place and effective.	FT-FM-17-005	December 7, 2016	\$0
<i>Internal Controls Over Segmented Inventory — Carrollton Main Office, Carrollton, TX</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Carrollton Main Office were accurately presented and whether internal controls were in place and effective.	FT-FM-17-004	November 23, 2016	\$0

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Internal Controls Over Segmented Inventory — Jacksonville Main Post Office, Jacksonville, NC</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Jacksonville Main Office were accurately presented and whether internal controls were in place and effective.	FT-FM-17-003	November 22, 2016	\$0
<i>Internal Controls Over Segmented Inventory — Long Point Station, Houston, TX</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Houston Long Point Station were accurately presented and whether internal controls were in place and effective.	FT-FM-17-002	October 18, 2016	\$60,499
<i>Internal Controls Over Segmented Inventory — Brooklyn-Greenpoint Station, Brooklyn, NY</i>	The objectives of this audit were to determine whether financial transactions for segmented inventory at the Brooklyn Greenpoint Station were accurately presented in the accounting records and whether internal controls were in place and effective.	FT-FM-17-001	October 6, 2016	\$0
<i>Internal Controls Over Segmented Inventory — Bayport Post Office, Bayport, MN</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Bayport Post Office were accurately presented and whether internal controls were in place and effective.	FT-FM-16-007	September 26, 2016	\$0
<i>Internal Controls Over Segmented Inventory — Orting Main Office, Orting, WA</i>	The objectives of this audit were to determine whether accounting records for segmented inventory at the Orting Main Office were accurately presented and whether internal controls were in place and effective.	FT-FM-16-006	September 26, 2016	\$0

Appendix B: Management's Comments



June 3, 2020

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: **Stamp Count Analysis**
(Project Number: 20-124)

Management agrees with the OIG's finding, and there was no recommendation.

Finding #1: Retail Floor Stock Counts

Nationwide, the number of perfect counts decreased by 14 percent (128 counts) from FY 2018, Q1, to FY 2019, Q4, but the number of near perfect counts increased by 2 percent (73 counts) during that same period.

Management Response/Action Plan:

Management agrees with the OIG's finding.

There were no recommendations made in this audit. The finding was primarily a positive improvement from previous audits. The Areas with improvement have conducted Postal Retail Unit reviews and the on-site presence contributed in part to the improvement.

For clarity on the reference to PS Form 571 in the audit report:

"If the count results in a variance greater than \$100, the unit must complete and submit Postal Service (PS) Form 571, *Discrepancy of \$100 or More in Financial Responsibility*, to the appropriate U.S. Postal Service Office of Inspector General (OIG) office".

In November 2019 we implemented a change that automated the communication of discrepancies greater than \$100 to the OIG. The change requires comments to be entered prior to the finalization of the count, when a discrepancy of \$100 or more is identified. The comments are automatically transmitted to the OIG, eliminating the need to manually complete a PS Form 571.

Cara M. Greene
Digitally signed by Cara M. Greene
DN: cn=Cara M. Greene, o=USPS,
ou=Corporate Accounting,
email=Cara.M.Greene@usps.gov, c=US
Date: 2020.06.03 14:44:47 -0400

Cara M Greene
Vice President, Controller

cc: Manager, Corporate Audit Response Management
Kevin L. McAdams, Vice President, Delivery & Retail Operations

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