



March 31, 2007

KATHLEEN A. AINSWORTH
VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Audit Report – Stamps on Consignment Program
(Report Number DR-AR-07-003)

This report presents the results of our audit of the national Stamps on Consignment (SOC) Program (Project Number 06XG041DR000). The report responds to a request from the Vice President, Delivery and Retail, for audit assistance from the U.S. Postal Service Office of Inspector General (OIG) to evaluate delivery and signature confirmation deficiencies for stamp stock shipped to consignees under the national SOC Program.

Overall, Postal Service officials properly managed the national SOC Program. Specifically, Postal Service officials properly accounted for stamp inventory under consignment with American Banknote Company (ABN). However, ABN deducted some unapproved transactions from their stamp accountability. In addition; delivery personnel did not always confirm proof of delivery of stamp stock to consignees; and some consignees did not always make timely payments for stamp stock received. Our audit identified \$310,608 in questioned costs and \$67,337 in unrecoverable revenue, which we will report in our *Semiannual Report to Congress*.



We recommended that management assess the need to adjust ABN's accountability; request ABN officials to follow key contract provisions; and develop an action plan to approve and process future adjustments to ABN's stamp accountability. We also recommended management request ABN officials to inform consignees of the importance of signing for stamp shipments; explore ideas that will encourage consignees to make timely payments; and request ABN officials to pay the Postal Service for accounts that are past due. In addition, we made recommendations for management to coordinate with area delivery supervisors to ensure delivery scanning, require signature confirmation training for delivery personnel at postal facilities, and train delivery supervisors to monitor proof of delivery errors.

Management agreed with our findings and recommendations, including the \$310,608 in questioned costs and \$67,337 in unrecoverable revenue, and has planned initiatives to address the issues identified in this report. Management's comments and our evaluation of these comments are included in the report.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the

follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

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

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!


Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: All Area Vice Presidents
Janet L. Webster
James Kiser
Deborah A. Kendall

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EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of the national Stamps on Consignment (SOC) Program. Our objective was to determine whether the U.S. Postal Service properly managed the program. The report responds to a request from the Vice President, Delivery and Retail, to review delivery and signature confirmation deficiencies for stamp stock shipped to consignees.

Results in Brief

Overall, Postal Service officials properly managed the national SOC Program. Specifically, Postal Service officials properly accounted for stamp inventory under consignment with American Banknote Company (ABN). However, ABN deducted some unapproved transactions from their stamp accountability. In addition, delivery personnel did not always confirm proof of delivery of stamp stock to consignees and some consignees did not always make timely payments for stamp stock received.

These conditions existed primarily because ABN and Postal Service officials did not fully comply with provisions of the SOC contract to account for lost/missing shipments. Postal Service employees did not follow the prescribed procedures to obtain proof of delivery. Also, consignees have no incentive to make timely payments for stamp stock.

When officials do not follow contract provisions that address accounting for stamp inventory under consignment, they maintain stamp accountability that reflects inaccurate balances. When stamp shipments to consignees do not have proper proof of delivery and the Postal Service is unable to provide proof of delivery, the Postal Service could be liable to reimburse consignees for the value of lost/missing shipments. The longer consignees' past due accounts remain unpaid, the more interest income the Postal Service forfeits. Our audit identified \$310,608 in questioned costs and \$67,337 in unrecoverable revenue, which we will report in our *Semiannual Report to Congress*.

**Summary of
Recommendations**

We recommended the Vice President, Delivery and Retail, direct the Manager, Retail Service Network and Access Management, to assess the need to adjust ABN's accountability for selected transactions and notify the Eagan Accounting Service Center (ASC); request ABN officials to follow key contract provisions; and develop an action plan to timely approve and process future adjustments to ABN's stamp accountability. Further, we recommended the Vice President request ABN officials to inform consignees of the importance of signing for stamp shipments to minimize proof of delivery deficiencies. We also recommended the Vice President direct management to explore ideas that will encourage consignees to make timely payments, and request ABN officials to pay the Postal Service for accounts that have been past due (including the \$187,582 past due) for at least 60 days.

We also recommended the Vice President direct the Manager, Headquarters Delivery Operations, to coordinate with area delivery supervisors to ensure delivery scanning and signature confirmation training is provided for delivery personnel at postal facilities and delivery supervisors are trained in monitoring proof of delivery errors.

**Summary of
Management's
Comments**

Management agreed with our findings and recommendations, including the \$310,608 in questioned costs and \$67,337 in unrecoverable revenue. Management stated that by the end of the third quarter of fiscal year (FY) 2007, they would review the transactions and make appropriate adjustments. Management stated that revisions will be made to prevent future problems and to ensure ABN and Eagan ASC officials completely understand the contract provisions and the actions expected of them.

Management stated that by the end of the third quarter of FY 2007, they would provide training to supervisors and delivery personnel to address proper scanning and signature capture for appropriate products and services. Further, management plans to review consignee communications to improve the timeliness of consignee payments to shipments delivery.

Management also stated that by the end of the third quarter of FY 2007, they would review consignee communications to improve the timeliness of consignee payments and will jointly explore ideas or procedures to improve the timeliness of consignee payments. In addition, management planned to explore implementing more stringent procedures with ABN and consignees to ensure timely payments. Management's comments, in their entirety, are included in Appendix F.

**Overall Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendations. Management's planned actions should correct the issues identified in the findings.

INTRODUCTION

Background

The U.S. Postal Service designed the national Stamps on Consignment (SOC) Program to provide postage stamps to commercial retail outlets and financial institutions for sale to the general public. This includes stamps sold over-the-counter and through Automated Teller Machines. The program provides a convenient method of purchasing stamps to household customers who prefer to combine their stamp purchases with retail shopping and banking. [REDACTED]

The SOC Program is currently under the control of the Retail Service Network Access Management Program Office under the Vice President, Delivery and Retail. The Postal Service has contracted with American Banknote Company (ABN) in Columbia, Tennessee, to act as a representative and provide marketing, customer service, and fulfillment functions for the SOC Program.

ABN distributes stamps to more than [REDACTED] consignees, although Postal Service Headquarters, Delivery and Retail, retains accountability for all stamps and responsibility for monitoring inventory. ABN sends stamp shipments [REDACTED]¹ and shipments [REDACTED]

The SOC Program lets consignees sell stamps to their customers at post office prices in more than [REDACTED] locations. The Postal Service's contract with ABN requires consignees to pay the Postal Service [REDACTED]

[REDACTED] All consignees who receive stamp stock are required to remit payments [REDACTED]

¹ [REDACTED]

² [REDACTED]

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service properly managed the national SOC Program. Specifically, we determined whether: (1) Postal Service officials properly accounted for stamp inventory under consignment with ABN, (2) Postal Service personnel confirmed delivery of stamp stock inventory to consignees, and (3) consignees made timely payments for stamps received.

We conducted a wall-to-wall physical inventory count of stamps at ABN's facility in Columbia, Tennessee, in October 2006, to determine whether Postal Service officials properly accounted for stamp inventory. We reviewed and analyzed inventory receipts, shipments, and adjustments, including returns, refunds and destructions. We interviewed program officials at Postal Service Headquarters and ABN officials in Trevese, Pennsylvania. We also interviewed Postal Service officials at the Eagan Accounting Service Center (ASC) and the Stamp Distribution Center in Kansas City, Missouri.

We obtained and reviewed monthly data regarding proof of delivery errors for stamp stock shipped to consignees to determine whether Postal Service officials confirmed delivery of stamp stock inventory to consignees. ABN prepares its delivery and signature confirmation report from their shipping records and data obtained directly from the Postal Service tracking system.³

We analyzed the delivery and signature confirmation report to determine the areas, districts, and units that had the most proof of delivery errors. The Pacific Area had the highest occurrences of proof of delivery errors. The Great Lakes Area had the 4th highest occurrence of proof of delivery errors. We selected two districts and four units in both the Pacific and Great Lakes areas and interviewed delivery personnel in order to determine the cause of the proof of delivery errors. (See Appendix B.)

³ This information is based on [REDACTED].

For the Pacific Area, we interviewed delivery personnel at the [REDACTED] and [REDACTED] units within the [REDACTED] and the [REDACTED] and [REDACTED] units within the [REDACTED]. For the Great Lakes Area, we interviewed delivery personnel at the [REDACTED] and [REDACTED] units within the [REDACTED] and [REDACTED] and [REDACTED] units within the [REDACTED]. We analyzed proof of delivery errors at the four district offices mentioned above and selected eight delivery units that displayed the highest numbers and values of proof of delivery deficiencies in delivering SOC packages.

To determine whether consignees made timely payments for stamps received, we obtained ABN's monthly aging charts from October 2005 through November 2006. We also interviewed ABN officials regarding timely payments. We calculated forfeited interest on one account⁴ from October 2005 through November 2006. (See Appendix D.)

We conducted this audit from July 2006 through March 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We relied on data obtained from ABN and Postal Service database systems. We did not directly audit the systems, but performed a limited data integrity review to support our data reliance. We discussed our observations and conclusions with management officials on January 22, 2007, and included their comments where appropriate.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) has issued two audit reports related to our audit objectives.

Fiscal Year 2006 Financial Installation Audit (Report Number FF-AR-06-186, dated June 6, 2006). The report identified \$186,303 in interest lost due to uncollected revenue because unit management did not require a consignee to make payment for stamps received in June 2002 (and valued at \$1.9 million) until January 2006. The unit did not require customers to pay for stamps received as a result of a rate change until the next rate

⁴ABN system limitations made it necessary to query each payment individually (some consignees make payments several times per week). However, individual payments were not applied to single invoices. In order to calculate forfeited interest, a separate interest calculation had to be made for each invoice to which the payment was applied.

change occurred. Management agreed with our recommendation to take appropriate action regarding deviations from Postal Service stamp consignment policies and ensure employees follow the procedures outlined in Management Instruction AS-710-1999-2, *Unauthorized Contractual Commitments*.

Stamp Accountability Balances for the American Banknote Company (Report Number FF-AR-04-269, dated August 31, 2004). The report stated that, generally, ABN properly controlled and accounted for stamps in accordance with contract terms and payments to the Postal Service were accurate. However, the report noted that Postal Service accounting records overstated ABN's stamp accountability by approximately \$17 million⁵ because they did not always receive or record accounting transactions when making inventory adjustments to stamp accountability balances.

The report also noted that nine consignees disputed receipt of stamp shipments valued at approximately \$191,000 because receiving documents were either missing signatures or had invalid signatures or there were no records available to verify the consignees received the stamps.

Management agreed with our recommendation to reconcile the accountability difference and make appropriate adjustments. Management stated the Eagan ASC, in coordination with Corporate Accounting, would develop and issue guidance for recording accounting entries for inventory adjustments and develop a reconciliation process for shipments and payments. Management asked the General Counsel's office to determine ABN's liability for the \$191,000 in missing stamp shipments.

⁵ Accounting records at the Stamps Fulfillment Services showed ABN's accountability as \$172 million, but a physical inventory of stamps on hand and a review of accounting records at the contractor's facility showed a total accountability of \$155 million.

AUDIT RESULTS

**Proper Management
of Stamps on
Consignment
Program**

Overall, Postal Service officials properly managed the national SOC Program. Specifically, Postal Service officials properly accounted for stamp inventory under consignment with ABN. However, ABN deducted some unapproved transactions from their stamp accountability. In addition, delivery personnel did not always confirm proof of delivery of stamp stock to consignees and some consignees did not always make timely payments for stamp stock received.

These conditions existed primarily because ABN and Postal Service officials did not fully comply with provisions of the SOC contract because they did not understand the contract modification to account for lost/missing shipments. Additionally, Postal Service employees did not always follow the prescribed procedures to obtain proof of delivery. Finally, consignees had no incentive to make timely payments for stamp stock.

When officials do not follow contract provisions that address accounting for stamp inventory under consignment, they maintain stamp accountability that reflects inaccurate balances. When stamp shipments to consignees do not have proper proof of delivery and the Postal Service is unable to provide proof of delivery, the Postal Service could be liable to reimburse consignees for the value of lost/missing shipments. The longer consignees' past due accounts remain unpaid, the more interest income the Postal Service forfeits.

Stamp Accountability

Postal Service officials properly accounted for stamp inventory under consignment with ABN. However, ABN deducted 44 transactions (totaling \$72,453) from their stamp accountability without proper approval by the SOC Program Manager from February through October 2006. These transactions represent lost/missing, damaged, and short shipments.

In addition, Eagan ASC personnel accepted and processed some of the unapproved deductions when reconciling ABN's stamp accountability in the Postal Service's accounting records. Specifically, Eagan ASC officials expensed \$33,453 of the \$72,453 unapproved deductions without prior approval from the SOC Program Manager.

This occurred because ABN officials, the SOC Program Manager, and Eagan ASC officials did not fully comply with provisions of the SOC contract. ABN and Postal Service officials stated they did not understand the contract requirements to account for lost/missing shipments. ABN did not submit quarterly reports listing lost/missing, damaged, and short shipments to the SOC Program Manager for approval. Instead, ABN deducted the unapproved transactions from their stamp accountability and included the transactions in the monthly inventory reports, which they submitted directly to the Eagan ASC. The Eagan ASC officials expensed the deductions after receiving supporting documentation from ABN, but they did so without SOC Program Manager approval.

During the audit, Eagan ASC officials stopped expensing unapproved deductions pending appropriate guidance from the SOC Program Manager. Eagan ASC officials indicated they will reverse any or all of the previously expensed items, if appropriate, upon receiving direction from the SOC Program Manager.

The SOC contract between the Postal Service and ABN requires ABN to submit – on a quarterly basis – a report that details lost/missing, damaged, and short shipments to the SOC Program Manager. The report should include supporting documentation that indicates the transactions have been fully investigated.

The SOC Program Manager is required to review the report along with supporting documentation and provide a written decision to ABN regarding each transaction within 14 days after receipt. In addition, the SOC Program Manager is required to forward a copy of the written decision to the Eagan ASC. The Eagan ASC is required to use the program manager's written decision to adjust the Postal Service-maintained ABN stamp accountability records and contact ABN to adjust their records, accordingly.

When officials do not follow contract provisions that address accounting for stamp inventory under consignment, their

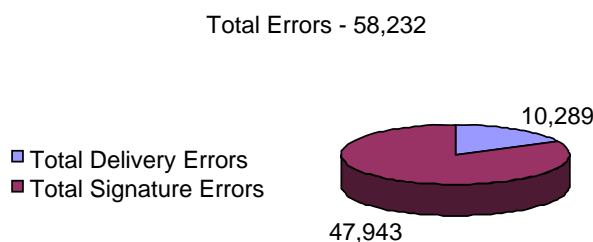
stamp accountability is inaccurate. We consider the entire⁶ \$72,453 in unapproved deductions a questioned cost.

Recommendation	<p>We recommend the Vice President, Delivery and Retail, direct the Manager, Retail Service Network and Access Management, to:</p> <ol style="list-style-type: none"> 1. Review and determine whether American Banknote Company's (ABN) accountability should be adjusted by the 44 transactions (totaling \$72,453) and provide a written decision to ABN and the Eagan Accounting Service Center regarding each transaction.
Management's Comments	<p>Management agreed with our findings, recommendations, and \$7,869 in questioned costs. Management stated that by the end of the third quarter of FY 2007, they would review the transactions and make necessary adjustments and revisions to prevent future problems.</p>
Recommendation	<ol style="list-style-type: none"> 2. Request that American Banknote officials follow contract provisions for approving lost/missing, damaged, and short shipments from their stamp accountability.
Management's Comments	<p>Management agreed with the recommendation and stated that by the end of the third quarter of FY 2007, they would review current processes and make necessary revisions to ensure ABN completely understands contract provisions.</p>
Recommendation	<ol style="list-style-type: none"> 3. Develop an action plan with Eagan Accounting Service Center officials to approve and process future adjustments to American Banknote's stamp accountability.
Management's Comments	<p>Management agreed with the recommendation and stated that by the end of the third quarter of FY 2007, they would review current processes and make necessary revisions to ensure Eagan ASC completely understands contract provisions.</p>

⁶ The unapproved deductions included \$64,584 related to lost/missing shipments that are further discussed and included in the questioned costs in the next section (Delivery and Signature Confirmations) and Appendix C. The remaining unapproved deductions, \$7,869, were related to damaged/short shipments and are separately claimed as unsupported questioned costs as described in Appendix A.

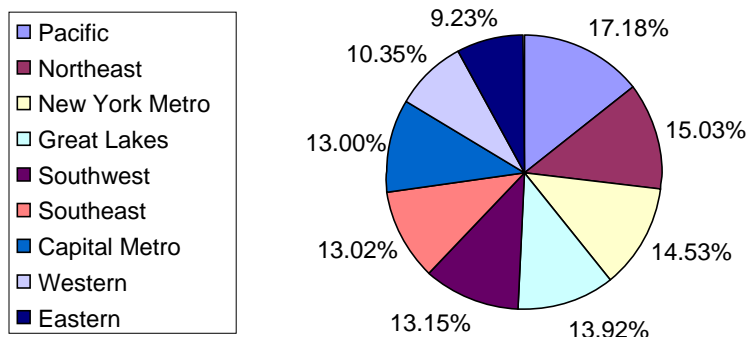
Evaluation of Management's Comments	Management's comments are responsive to recommendations 1, 2, and 3. Management's planned actions should correct the issues identified in the findings.
Delivery and Signature Confirmations	Postal Service delivery personnel did not always obtain proper proof of delivery for stamp stock ABN shipped to consignees. Specifically, delivery personnel did not obtain proof of delivery for 58,232 packages [REDACTED] ABN shipped to consignees in FY 2006. Of these, 10,289 packages [REDACTED] involved not obtaining Delivery Confirmation™, and 47,943 packages [REDACTED] involved not obtaining signature confirmations.

Chart 1. Total Number of Packages with Proof of Delivery Errors



Source: ABN Delivery and Signature Confirmation
FY 2006 Problems Reports

The value of shipments that did not have proper proof of delivery [REDACTED] compared to the value of total stamp shipments to consignees in FY 2006 [REDACTED] was approximately 13.26 percent. Four of the nine area offices had percentages that exceeded the average of 13.26 percent, as shown in chart 2.

Chart 2. Proof of Delivery Errors by Area

Source: ABN Delivery and Signature Confirmation FY 2006 Problems Reports

In September 2006, the Postal Service reimbursed consignees approximately \$247,789 for lost/missing shipments occurring in FYs 2001 through 2005 because there was no proof of delivery. This included \$61,235 for claims filed in FY 2005. In addition, consignees submitted claims totaling \$68,136 for lost/missing shipments from October 1, 2005 through October 31, 2006.

Delivery personnel did not properly enter the recipients' names or obtain signature confirmation because they were not aware of the service requirements and did not scan packages when in a hurry to deliver them. Postal Service delivery personnel at four of the eight units we reviewed stated they did not properly enter the recipients' names or obtain signature confirmation because they were not aware of the service requirements.

Delivery personnel stated they would obtain recipients' signatures for packages, but they were not entering the recipients' names in the scanner. They explained they did not know they were to enter the recipient's name and entered the company's name into the scanner instead. In one instance, a delivery unit manager also stated she was unaware of this requirement.

Delivery personnel also stated they are often asked to wait for someone who is willing to sign for signature confirmation

packages. When this occurs, carriers are delayed and fall behind in their delivery schedules.

Furthermore, delivery personnel at these units indicated they often hurry through deliveries and sometimes forget to perform final delivery scans. Although managers and supervisors at delivery units have the capability to monitor missed delivery scans through the Integrated Intelligent Management System (IIMS),⁷ they do not consistently do so because of time constraints.

The Postal Service could be liable for claims for lost/missing shipments if there is no proof of delivery information provided from their Track and Confirm or Product Tracking System. The national SOC contract between the Postal Service and ABN requires ABN to use the Postal Service exclusively to ship all items to consignees. [REDACTED]

[REDACTED]

8.

⁷ IIMS records missed delivery scans.

⁸ Handbook PO 610, *Signature Capture and Electronic Record Management: Manager's Guide to Standard Operating Procedures*

When stamp shipments to consignees do not have the proper proof of delivery, the Postal Service depends on the honesty of consignees to confirm receipt of delivery. If consignees indicate they did not receive the shipments and the Postal Service is unable to provide proof of delivery, the Postal Service could be liable to reimburse consignees for the value of lost/missing shipments.

As previously stated, [REDACTED] in stamp stock shipped to consignees in FY 2006 did not have proper proof of delivery. Therefore, the Postal Service is at risk to pay claims from consignees if these items are reported lost or stolen.

Consignees submitted claims totaling \$61,235 for lost/missing shipments during FY 2005 and \$68,136 for lost/missing shipments from October 1, 2005 through October 31, 2006. The aggregate cost of \$129,371 is an unrecoverable questioned cost.

If management makes delivery personnel aware of the importance of delivery and signature confirmation and provides additional training, we estimate the Postal Service could avoid \$173,368 in costs for FYs 2007 and 2008 (\$86,684 for each year). The costs the Postal Service can avoid in FYs 2007 and 2008 are recoverable questioned costs. (See Appendix C.)

Recommendation

We recommend the Vice President, Delivery and Retail, direct the Manager, Headquarters Delivery Operations, to:

4. Coordinate with area delivery supervisors to ensure delivery scanning and signature confirmation training is provided to delivery personnel at postal facilities to minimize proof of delivery deficiencies.

**Management's
Comments**

Management agreed with our finding, recommendation, and \$302,739 in questioned costs.⁹ Management stated that by the end of the third quarter of FY 2007, they would provide training to delivery personnel.

⁹ Questioned costs of \$302,739 are comprised of \$129,371 in unrecoverable questioned cost and \$173,368 in recoverable questioned costs.

Recommendation	5. Coordinate with area delivery supervisors to ensure training is provided to delivery supervisors in monitoring proof of delivery errors.
Management's Comments	Management agreed with the recommendation and stated that by the end of the third quarter of FY 2007, they would provide training to supervisors.
Evaluation of Management's Comments	Management's comments are responsive to recommendations 4 and 5. Management's planned actions should correct the issues identified in the finding.
Recommendation	<p>We recommend the Vice President, Delivery and Retail, direct the Manager, Retail Service Network and Access Management, to:</p> <p>6. Request American Banknote officials to inform consignees of the importance of signing for stamp shipments in a timely manner to minimize proof of delivery deficiencies.</p>
Management's Comments	Management agreed with the recommendation and stated that by the end of the third quarter of FY 2007, they would review consignee communications and develop additional communications, if necessary, to improve timely responses.
Evaluation of Management's Comments	Management's comments are responsive to recommendation 6. Management's planned corrective actions should correct the issues identified in the finding.
Payments From Consignees	Consignees did not always make timely payments for stamps received. As of November 30, 2006, 17 accounts were more than 60 days past due, with a combined balance of approximately \$187,582 owed to the Postal Service. These past due accounts represented less than 1 percent (\$77,122,124) of total accounts receivable as of November 30, 2006. However, one of the accounts had a revolving deficient balance that was at least 60 days past due each month beginning in October 2005. The past due accounts remain active and the consignees continue to order stamps from the Postal Service through ABN. (See Appendix E.)

According to ABN officials, some consignees paid late without any reasonable explanation. Others claimed they did not receive stamp shipments, were waiting for a credit to be applied to their account, or were in the process of returning stamp stock. Since the SOC contract does not provide for the collection of interest on late payments, if a consignee chooses to pay late, the Postal Service must forfeit any interest that would have accumulated on late payments.

[REDACTED]

¹⁰ ABN officials stated that consignees generally do pay their account balances. However, payments are not always timely and one consignee in particular chronically pays late. Although ABN officials actively pursue payment once an account is over 30 days past due (including calling and faxing the consignee and filing claims forms), consignees do not have an incentive to pay on time. ABN stated that, ultimately, the only advantage they possess is the option of dropping the late-paying consignee from the program. This, however, would result in the loss of an alternate access channel for the Postal Service to sell its products.

The longer consignees' past due accounts remain unpaid, the more interest income the Postal Service forfeits. We computed forfeited interest in the amount of \$67,337 between October 1, 2005, and November 30, 2006, for the account that maintained a revolving deficient balance. The \$67,337 forfeited interest is unrecoverable revenue. (See Appendix D.)

Recommendation

We recommend the Vice President, Delivery and Retail, direct the Manager, Retail Service Network and Access Management, to:

7. Explore ideas for developing procedures that ensure consignees make timely payments.

¹⁰ [REDACTED]

Management's Comments	Management agreed with our findings, recommendations, and \$67,337 in unrecoverable revenue. Management stated that by the end of the third quarter of FY 2007, they would explore and evaluate new ideas or procedures which could be implemented to improve the timeliness of consignee payments.
Recommendation	8. Request American Banknote officials pay the Postal Service for accounts that have been past due for at least 60 days, including the past due \$187,582.
Management's Comments	Management agreed with the recommendation and stated that by the end of the third quarter of FY 2007, they would take action that is appropriate for each individual situation and explore the possibility of more stringent procedures to ensure timely payments.
Evaluation of Management's Comments	Management's comments are responsive to recommendations 7 and 8. Management's planned corrective actions should address the issues identified in the findings.

APPENDIX A**CALCULATION OF UNSUPPORTED QUESTIONED COSTS**

Number of Transactions	Description	Amount
4	Delivered Damaged and Short	\$ 7,869.00
40	Undelivered Lost	64,584.00
44	TOTAL	\$72,453.00

The OIG determined ABN deducted 44 transactions (totaling \$72,453) from their stamp accountability without proper approval by the SOC Program Manager between February and October 2006. These transactions represent lost/missing, damaged, and short shipments.

Of the total, lost/missing shipments accounted for \$64,584 (which are unrecoverable questioned costs and are addressed in the Delivery and Signature Confirmations section of this audit report and Appendix C) and \$7,869 was for damaged shipments. ABN and Eagan Postal Service officials did not follow contract reporting provisions to process transactions for stamp accountability records. We consider the unapproved deductions totaling \$7,869 unsupported questioned costs.

We will report \$7,869 as unsupported questioned costs in our *Semiannual Report to Congress*.

[illegible]

[illegible]

APPENDIX C

CALCULATION OF UNRECOVERABLE AND RECOVERABLE QUESTIONED COSTS

The OIG identified consignee claims totaling \$61,235 for lost/missing shipments during FY 2005 and \$68,136 for lost/missing shipments from October 1, 2005, through October 31, 2006. The aggregate costs of \$129,371¹¹ are unrecoverable questioned costs.

If management provides delivery personnel additional training, we estimated the Postal Service would avoid \$173,368 in costs for FYs 2007 and 2008 (\$86,684 for each year), which are recoverable questioned costs.

The OIG limited its consignee claims calculation to the last 2 fiscal years and projected estimated claims 2 fiscal years forward.

The OIG made the following assumptions in their calculation:

- The calculations included consignee claims that were identified as lost or missing and unrelated to thefts.
- The calculated percentage of total lost/missing shipments was estimated using the Postal Service forecasts for both FYs 2007 and 2008.
- The percentage of lost shipments was estimated using average rate of .0075 percent from FYs 2002 through 2006 to forecast FYs 2007 and 2008.

We will report \$129,371 of unrecoverable questioned costs and \$173,368 of recoverable questioned costs in our *Semiannual Report to Congress*.

¹¹ Of this amount, \$64,584 was previously discussed in the Stamp Accountability finding and in Appendix A.

APPENDIX D

CALCULATION OF UNRECOVERABLE REVENUE

The OIG identified \$67,337 in unrecoverable revenue in the form of forfeited interest attributable to a single consignee between October 1, 2005, and November 30, 2006. The OIG limited its forfeited interest calculation to a single consignee because the design of ABN's tracking system made it necessary to query each payment individually (some consignees make payments several times per week). However, individual payments are not applied to single invoices. In order to calculate forfeited interest, a separate interest calculation had to be made for each invoice to which the payment was applied.

The OIG made the following assumptions in their calculation:

- Payments that were made to the Postal Service and past their due dates resulted in forfeited interest.
- The Postal Service's cost of borrowing between October 1, 2005, and November 30, 2006, was 5.25 percent.
- Forfeited interest was calculated using the formula " $1.0525^{(x/365)} * \text{payment amount} - \text{payment amount}$," where "x" was the number of days the payment was late. E.g., if an invoice listed a due date of October 1, 2005, and a \$1000 payment was made toward that invoice on October 6, 2005, the forfeited interest calculation would be " $1.0525^{(5/365)} * 1000 - 1000$."
- A payment was late if the transaction date for the payment was greater than the due date listed on the invoice.
- The forfeited interest calculation was applied to every late payment amount allocated to an invoice between October 1, 2005, and November 30, 2006.

We will report \$67,337 in unrecoverable revenue in our *Semiannual Report to Congress*.

APPENDIX E

CONSIGNEE ACCOUNTS PAST DUE
FOR OVER 60 DAYS

Consignee by Number	Account Number	Over 60 Days	Over 90 Days	Total Amount Owed to Postal Service
1	██████	\$56,884.80	\$53,094.00	\$109,978.80
2	██████	42,900.00	(8,093.28)	34,806.72
3	██████	21,090.00	2,200.00	23,290.00
4	██████	15,795.00	(7,669.30)	8,125.70
5	██████	0.00	1,601.00	1,601.00
6	██████	0.00	1,503.00	1,503.00
7	██████	1,404.00	0.00	1,404.00
8	██████	1,404.00	(159.84)	1,244.16
9	██████	975.00	0.00	975.00
10	██████	0.00	900.00	900.00
11	██████	0.00	780.00	780.00
12	██████	780.00	0.00	780.00
13	██████	780.00	0.00	780.00
14	██████	780.00	0.00	780.00
15	██████	0.00	491.40	491.40
16	██████	0.00	82.51	82.51
17	██████	0.00	59.94	59.94
Total		\$142,792.80	\$44,789.43	\$187,582.23

Source: ABN Aging Chart for November 2006

APPENDIX F. MANAGEMENT'S COMMENTS

KATHY AINSWORTH
VICE PRESIDENT, DELIVERY AND RETAIL



March 30, 2007

COLLEEN A. MCANTEE

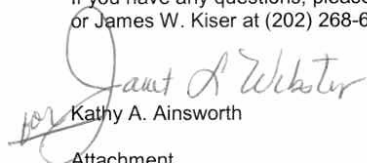
SUBJECT: Transmittal of Draft Audit Report - Stamps on Consignment Program
(Report Number DR-AR-07-DRAFT)

This is a revised cover letter to our response dated March 26. In response to the March 13 memorandum referenced above, attached please find our comments on the specific findings. We request that anything dealing with revenue and specific business processes that could be used by the competitors to provide similar services be redacted from the report before posting on the Web page.

Management agrees with:

- OIG finding number 1, \$7,869 of unsupported questioned cost
- OIG finding number 2, \$129,371 of unrecoverable questioned costs and \$173,368 of recoverable questioned costs
- OIG finding number 3, \$67,337 in unrecoverable revenue

If you have any questions, please feel free to contact either Janet L. Webster at (202) 268-5091 or James W. Kiser at (202) 268-6853.



Janet L. Webster
Kathy A. Ainsworth

Attachment

cc: Area Vice Presidents
Vice President, Controller

475 L'ENFANT PLAZA SW ROOM 7017
WASHINGTON DC 20260-1600
202-268-6500
FAX: 202-268-3331
WWW.USPS.COM

bcc: Janet L. Webster
James W. Kiser
Deborah A. Kendall
Phillip F. Knoll
Susan T. McKeen
Mark P. Nepi
Caroline Z. Boyle
Kathleen M. Hamilton
Royce A. Brown
Sheryl L. Stone
John L. Foley
Roger A. Nord
Gladys E. Zamora
John S. Sisak

Management Response to the Office of Inspector General Audit Report
Stamps on Consignment
Report Number DR-AR-07-Draft

We recommend the Vice President, Delivery and Retail, direct the Manager, Retail Service Network and Access Management, to:

1. Review and determine whether American Bank Note Company's (ABN) accountability should be adjusted by the 44 transactions (totaling \$72,453) and provide a written decision to ABN and the Eagan Accounting Service Center regarding each transaction.

Management agrees with this recommendation.

The Program Office will jointly review with ABN and the Eagan ASC, the current processes in Modification 24, Procedures for ABN and Eagan ASC to Reconcile ABN Accountability, Damaged/Short Shipments and Lost/Missing shipments. Necessary revisions will be made to ensure that future problems do not occur. The 44 transactions will be individually evaluated based on the established criteria, and appropriate adjustments will occur if necessary.

This action is targeted for completion at the end of Quarter III, FY 2007.

2. Request that ABN officials follow contract provisions for approving lost/missing, damaged, and short shipments from their stamp accountability.

Management agrees with this recommendation.

The Program Office will jointly review with ABN the current processes in Modification 24, Procedures for ABN and Eagan ASC to Reconcile ABN Accountability, Damaged/Short Shipments and Lost/Missing shipments. Necessary revisions will be made to the modification to ensure that ABN has a clear and concise understanding of the contract provisions and what actions they will need to take in the future.

This action is targeted for completion at the end of Quarter III, FY 2007.

3. Develop an action plan with Eagan Accounting Service Center officials to approve and process future adjustments to ABN's stamp accountability.

Management agrees with this recommendation.

The Program Office will jointly review with Eagan ASC the current processes in Modification 24, Procedures for ABN and Eagan ASC to Reconcile ABN Accountability, Damaged/Short Shipments and Lost/Missing shipments. Necessary revisions will be made to the modification to ensure that Eagan ASC has a clear and concise understanding of the contract provisions and what actions they will need to take in the future.

This action is targeted for completion at the end of Quarter III, FY 2007.

We recommend the Vice President, Delivery and Retail, direct the Manager, Headquarters Delivery Operations, to:

4. Coordinate with the area delivery supervisors to ensure delivery scanning and signature confirmation training is provided to delivery personnel at postal facilities to minimize proof of delivery deficiencies.

Management agrees with this recommendation.

Delivery Operations at Headquarters plans to develop an extensive carrier and supervisor training effort to address proper procedures for scanning and capturing appropriate signatures for those products requiring such action.

This training program is expected to be completed and disseminated to area delivery managers in June, 2007.

5. Coordinate with area delivery supervisors to ensure training is provided to delivery supervisors in monitoring proof of delivery errors.

Management agrees with this recommendation.

Delivery Operations at Headquarters plans to develop an extensive carrier and supervisor training effort to address proper procedures for scanning and capturing appropriate signatures as well as monitoring for those products requiring such action.

This training program is expected to be completed and disseminated to area delivery managers in June.

We recommend the Vice President, Delivery and Retail, direct the Manager, Retail Service Network and Access Management, to:

6. Request American Bank Note officials to inform consignees of the importance of signing for stamp shipments in a timely manner to minimize proof of delivery deficiencies.

Management agrees with this recommendation.

The Program Office and the ABN officials will review current consignee communications as they pertain to the process of making consignees aware of the importance of signing for shipments at the time of delivery. If necessary, additional communications may be developed to improve consignee awareness and timely response to shipment delivery.

This action is targeted for completion at the end of Quarter III, FY 2007.

7. Explore ideas for developing procedures that ensure consignees make timely payments.

Management agrees with this recommendation.

The Program Office and ABN officials will review current consignee communications and consignee agreements as they pertain to the process of making on-time payments to the USPS. We will also jointly explore and evaluate new ideas or procedures which could be implemented to improve the timeliness of consignee payments.

This action is targeted for completion at the end of Quarter III, FY 2007.

8. Request American Bank Note officials pay the Postal Service for accounts that have been past due for at least 60 days, including the past due \$187, 582.

Management agrees to review this recommendation and take action that is appropriate for each individual situation.

The specific past due amount of \$187,582 was a snapshot in time of the amount owed to USPS at the time of the audit. This amount changes on a daily basis and will not be collected from ABN. The Program Office will explore the possibilities of placing more stringent procedures in place with both the supplier and the consignees to ensure payments are made timely and to mitigate the potential financial loss to the USPS while maintaining effective working relationships with both American Bank Note Company and our consignees.

This action is targeted for completion at the end of Quarter III, FY 2007.