



AUDIT REPORT

Internal Controls Over Stamp Stock Shipments - San Juan, PR

November 7, 2017



Report Number FCS-FM-18-002



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Shipments – San Juan, PR**
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BACKGROUND:

The U.S. Postal Service Office of Inspector General (OIG) used data analytics to identify locations with lost or stolen stamp stock shipments. We identified expenses related to lost or stolen stamp stock shipments for the San Juan Stamp Office (SJSO); Fernandez Juncos Station; and Amelia, Bayamon, and Condado Contract Postal Units (CPU) between May 1, 2016, and April 30, 2017.

The SJSO primarily fills emergency stamp orders and occasionally fills non-emergency orders and performs the stamp destruction process for postal retail units in San Juan, PR. The Fernandez Juncos Station is a postal unit within the SJSO stamp stock service area.

The Amelia, Condado and Bayamon CPUs are also located in the SJSO stamp stock service area. A CPU is a retail unit located inside a private business under contract with the Postal Service. It provides postal services to the public and is operated by non-postal employees.

Stamp Fulfillment Services, Kansas City, MO, fulfills stamp orders from postal retail units. Retail units are responsible for identifying and locating missing stamp stock shipments. When retail units do not resolve discrepancies timely, Accounting Services in St. Louis, MO, records an expense to the units for differences.

Management advised that they are strengthening overall stamp accountability and upgrading financial controls, including:

- Daily financial accountability reconciliations and semi-annual stamp counts at Stamp Fulfillment Services.
- Enhancements to tracking stamp movement and in-transits at Stamp Fulfillment Services; and stamp shipments to individual post offices.
- A new tracking process and centralized review of all missing stamp stock shipments, including orders sent to the wrong unit.
- A new stamp destruction process that better aligns and tracks inventory discrepancies.

Our objective was to determine whether internal controls over stamp stock shipments were in place and effective at the SJSO; Fernandez Juncos Station; and Amelia, Bayamon, and Condado CPUs.

WHAT THE OIG FOUND:

Internal controls over stamp stock shipments at the SJSO; Fernandez Juncos Station; and Amelia, Bayamon, and Condado CPU's needed improvement. Specifically:

- The SJSO did not always ensure stamp stock shipped from postal retail units in San Juan to the SJSO for destruction was accurately recorded. Due to retail system limitations, the supervisor had to contact Accounting Services to manually change the recipient unit finance number from Stamp Fulfillment Services to SJSO after the stamp destruction process was complete. During our scope period, the supervisor forgot to request the change.
- The SJSO fulfilled two stamp stock orders for CPUs without the responsible post office authorizing the transaction. The SJSO supervisor stated she was not aware they were not approved.
- The manager of the post office responsible for overseeing the Condado CPU did not comply with Postal Service policy when transferring stamps to the CPU. District management overseeing these procedures was not aware the manager implemented his own procedures that circumvented policy.
- The managers of post offices overseeing the CPUs did not always research and resolve stock discrepancies; complete the claims for loss process; or notify the OIG for lost or stolen shipments. They did not have proper systems access to review and monitor stamp stock activities, so they were not aware when Accounting Services expensed the units.

If controls over stamp stock shipments are not followed, there is increased risk

theft could occur without detection and financial records could be misstated.

As a result of this audit, district management instructed the SJSO not to fill any CPU stamp stock orders without the approval from the responsible post office manager; therefore, we are not making a recommendation on that issue.

We referred the issue of filling stamp orders without proper approval to the OIG's Office of Investigations for further review.

WHAT THE OIG RECOMMENDED:

We recommended district management:

- Enhance the retail system to include the unit finance number for the specific location where stamp stock destruction is performed.
- Include the supervisor, SJSO, on the distribution of reports showing expensed items.
- Reiterate the requirement to follow established policy for ordering, shipping, and securing stamp stock; researching and timely resolving financial differences; completing the claim for loss process; and notifying the OIG, when applicable.
- Provide managers access to all resources necessary to monitor stamp stock activities for the units they oversee.

[*Link to review the entire report*](#)



November 7, 2017

MEMORANDUM FOR: LISA OJEDA
MANAGER, CARIBBEAN DISTRICT



FROM: *for*
Michelle Lindquist
Director, Financial Controls

SUBJECT: Draft Audit Report – Internal Controls Over Stamp Stock
Shipments – San Juan, PR
(Report Number FCS-FM-18-002)

This report presents the results of our audit of the Internal Controls Over Stamp Stock Shipments – San Juan, PR (Project Number 17BFM019FT000).

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

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our self-initiated audit of Internal Controls Over Stamp Stock Shipments at the San Juan Stamp Office (SJSO), Fernandez Juncos Station; and Amelia, Bayamon, and Condado Contract Postal Units (CPU),¹ San Juan, PR (Project Number 17BFM019FT000). The SJSO is located in the Caribbean District of the Northeast Area. This audit was designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

The SJSO serves as a stamp fulfillment service² and stamp redemption and destruction center for postal units within San Juan, PR. The Fernandez Juncos Station and the Amelia, Bayamon, and Condado CPUs are within the SJSO stamp stock service area.

To determine whether internal controls over stamp stock shipments were in place and effective, we interviewed Postal Service managers and CPU owners and conducted walkthroughs of the stamp stock process. We also analyzed stamp stock financial differences identified between May 1, 2016, and April 30, 2017, and examined the units' supporting documentation.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).³ We did not test the validity of controls over this system; however, we verified the accuracy of the data by reviewing related documentation and internal controls, interviewing knowledgeable Postal Service personnel, and tracing selected information to supporting source records. We determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from June through November 2017, in accordance with generally accepted government auditing standards. 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 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 June 20, 2017, and included their comments where appropriate.

¹ A retail unit that is operated for the Postal Service by an individual or company in the private sector to provide nearly all retail services to postal customers.

² The SJSO primarily fills emergency stamp orders and occasionally fills non-emergency stamp orders. Retail units are allowed three items per emergency order and only one emergency order per quarter.

³ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes from the EDW from transactions that occur across the mail delivery system, points-of-sale, and other sources.

Stamp Stock Controls

Internal controls over stamp stock shipments at the SJSO; Fernandez Juncos Station; and Amelia, Bayamon, and Condado CPUs needed improvement. Specifically:

- The SJSO did not always ensure stamp stock shipped from postal retail units (PRU) in San Juan to the SJSO for destruction was accurately recorded.
- The SJSO filled two stamp stock orders without proper authorization.
- The host post office manager⁴ for the Condado CPU did not always follow procedures for shipping, securing, or recording stamp stock transferred to the Condado CPU.
- Three host post office managers did not always properly research and resolve stamp stock financial differences.

If controls over stamp stock shipments are not followed, there is an increased risk of undetected theft of stamp stock. Further, there is an increased risk the financial records could be misstated, and the Postal Service cannot ensure that financial differences are not a result of theft or fraud.

Recording Stamp Stock Shipped for Destruction

The SJSO did not always ensure stamp stock shipped from PRUs in San Juan to the SJSO for destruction was accurately recorded. When clerks enter information into Retail Systems Software (RSS)⁵ for redeemed stamp stock that is sent to the to the SJSO for destruction, they select Stamp Fulfillment Services (SFS)⁶ as the recipient finance number even though the SJSO performs the entire destruction process for all PRUs in San Juan. RSS does not provide the option to enter SJSO as the recipient's unit finance number. The SJSO supervisor contacts Accounting Services⁷ to manually change the recipient unit finance number from SFS to SJSO after the stamp destruction process is complete. During our scope period, the supervisor forgot to contact Accounting Services to request the unit finance numbers be changed from SFS to SJSO for 19 stamp stock destruction transactions totaling \$28,697;⁸ therefore, Accounting Services recorded expenses to the unit for the discrepancies.

⁴ Contract postal units are operated by a contractor under the jurisdiction of a host post office, also referred to as host office.

⁵ RSS was deployed in February 2016 and replaced the Point of Service (POS) System, which is the primary hardware and software system used to conduct retail sales transactions in post offices.

⁶ Located in Kansas City, MO, SFS is the sole order fulfillment center for the Postal Service's stamps and products.

⁷ St. Louis, MO, Accounting Services, Field Sales Branch, supports the field by processing the PS Form 1412, *Daily Financial Report*, and exports the data to the General Ledger and the Accounting Data Mart.

⁸ We did not determine the total number of stamp stock destruction transactions during our scope period.

The supervisor at SJSO was not aware of the financial adjustment made to the unit's finance number because she did not receive the *Narrowcast Report*⁹ and, therefore, was not notified of the pending transactions prior to the adjustments being made. Postal Service policy requires controls to be in place for maintaining an accurate inventory for all accountable paper.¹⁰

These 19 transactions, valued at \$28,697, that were not accurately recorded as of June 8, 2017, could affect the integrity of the Postal Service's financial records.¹¹

Stamp Requisition Authorization

The SJSO fulfilled two Condado CPU stamp stock orders without proper authorization. Specifically, the CPU owner placed the stamp requisitions through fax and in-person directly to the SJSO without the host post office manager's knowledge or approval as required. The CPU owner stated these were emergency stamp orders;¹² however, the two stamp requisition forms indicated these were scheduled stamp orders.¹³

The supervisor at SJSO stated she was not aware the stamp requisitions were not authorized prior to filling the orders. Postal Service policy states the CPU must provide the stamp requisition form to the host office in order to submit the stamp order.¹⁴ On June 9, 2017, the manager, Marketing, Caribbean District,¹⁵ took immediate corrective action by instructing the SJSO to not fulfill any CPU stamp stock orders without obtaining approval from the host office manager. We referred this to the OIG's Office of Investigations for further review.

Shipping, Securing, and Recording Stamp Stock

The host post office manager for the Condado Station did not always follow procedures for shipping, securing, or recording stamp stock transferred to the Condado CPU. Specifically, the manager did not include a system-generated shipment number on the stamp requisition form or require a signature confirmation from the CPU owner when shipping stamp stock to the Condado CPU. Further, the stamps awaiting shipment were placed in a white envelope with tape around it and left unsecured on a desk in the supervisor's office until the carrier retrieved it for daily delivery. Finally, the manager did not record in RSS stamp inventory removed from the host office's main stock to be

⁹ The EDW *Narrowcast Report* is generated for expensed items greater than \$500. This report is e-mailed to the PRU, the District Finance Manager, Area Accounting Manager, and Area Finance Manager.

¹⁰ Handbook F-101, *Field Accounting Procedures*, Section 11-3.1, dated August 2015 and updated June 2016.

¹¹ Data Integrity - Validation of the consistency, accuracy, and completeness of data used by the Postal Service. Data used to support management decisions that are not fully supported or completely accurate. This can be the result of flawed methodology; procedural errors; or missing or unsupported facts, assumptions, or conclusions.

¹² In emergency situations, a CPU may order stamp stock from other offices by following local policy.

¹³ The U.S. Postal Service Office of Inspector General (OIG) could not verify they were emergency stamp orders.

¹⁴ *Daily Financial Report Toolkit, Host Office for CPU Job Aid, Ordering, Receiving and Returning Stamp Stock and Money Orders*, May 2017.

¹⁵ The Manager, Marketing, Caribbean District, oversees the SJSO supervisor and the host post office manager for stamp fulfillment procedures.

shipped to the Condado CPU. He also did not record in RSS the type and volume of stamp inventory placed back into inventory when it was returned.

The manager stated this was a local procedure he implemented to better manage the CPU's stamp stock ordering activities. The manager, Marketing, Caribbean District, was unaware the host post office manager was circumventing requirements and instead performing his own procedures for fulfilling some of Condado's stamp requisitions. Postal Service policy requires postal retail units to follow the procedures for shipping stamp stock to other units.¹⁶

Financial Differences Resolution

Three host post office managers did not always properly research and resolve stamp stock financial differences, did not complete the claim for loss process, or notify the OIG about potential lost or stolen stamp stock shipments. They were not aware the units had financial differences related to stamp stock, so they were unable to explain them or state if the differences were related to lost, stolen or missing stamp stock shipments. Two of the three managers stated they did not have access to the SFS website to review and monitor stamp stock activities for the units they oversee. Further, all three managers stated only the requestor, which is usually a supervisor at the host post office, is provided with stamp stock shipment status updates.¹⁷

Postal Service policy requires the host post office managers to research, make adjustments, and timely resolve financial differences related to stamp stock transactions expensed to the unit.¹⁸ Postal Service policy also requires management to complete the claim for loss process to report financial loss related to lost or stolen stamp stock shipments,¹⁹ and contact the OIG via email when the entire shipment is missing.²⁰

Recommendations

We recommend the manager, Caribbean District:

1. Enhance the Retail Systems Software to include the unit finance number for the specific locations where stamp stock destruction is performed.
2. Include the supervisor, San Juan Stamp Office, as a point of contact on the *Narrowcast Report*.

¹⁶ Handbook F-101, Sections 11-10.3.1.

¹⁷ The SFS website sends notifications to all points of contact listed in the CPU profile for that location. We reviewed the website and found that up to three additional names could be added as points of contact using the CPU profile link.

¹⁸ Handbook F-101, Section 13-6.3.1.c, 5-6.4, and 8-6.1.c.

¹⁹ Handbook F-101, Section 8-7.

²⁰ Standard Operating Procedures (SOP), *Stamp Stock Discrepancies and Lost/Stolen Shipments Originating from Stamp Fulfillment Services*, August 18, 2016, page 5.

3. Reiterate the requirement for management and owners at contract postal units to follow established policy for ordering, shipping, and securing stamp stock.
4. Reiterate the requirement for management to research, make adjustments and timely resolve financial differences expensed to the unit, complete the claim for loss process, and notify the U.S. Postal Service Office of Inspector General, when applicable.
5. Provide managers access to all resources necessary to monitor stamp stock activities for the units they oversee.

Management's Comments

Management agreed the findings and recommendations. They also noted that Hurricanes Irma and Maria caused widespread damage to the Caribbean District and they still have widespread connectivity and power issues.

Regarding recommendation 1, management enhanced RSS to include the functionality for the stock custodian to return stamps to another unit finance number. This functionality became available on August 14, 2017.

Regarding recommendation 2, management added the Supervisor, Accountable Paper, San Juan Stamp Office, to the list of contacts in the unit profile on the SFS website and to the appropriate distribution list to receive *Narrowcast* reports.

Regarding recommendation 3, management reissued the SOP for stamp ordering for the Caribbean District CPUs and posted it to the Caribbean District Finance page. Management also disseminated the policy regarding security requirements for protecting accountable paper to all CPUs and their host offices.

Regarding recommendation 4, management issued the following SOPs to all units and posted them on the Caribbean Finance Blue Page under Policies and SOPs: Discrepancies of \$100 or More; Financial Differences Account Identifier Code (AIC) 247/647 SOP and Log; and Stamp Stock Discrepancies and Lost Stolen Shipments SOP including the Claim for Loss procedure.

Regarding recommendation 5, management instructed all personnel in charge of host post offices with a CPU to obtain access to the unit finance number of their CPU in the SFS web application, and instructions have been posted on the Caribbean District Finance page. This will provide managers with access to the necessary resources to monitor stamp stock activities for the contract stations they manage. The Marketing Manager also obtained read-only access to the SFS web application to provide oversight.

Management disagreed with what they considered monetary impact of \$28,697 because the expenses were recording errors not actual monetary discrepancies. They also noted that they corrected the errors.

In separate correspondence, management provided documentation to support implementation of the actions taken.

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 in the report. Regarding the 19 stamp stock destruction transactions valued at \$28,697, we agree that these transactions were recording errors and not monetary discrepancies and appropriately considered them at risk, not monetary impact as management stated. Since the supervisor at SJSO was not aware of the discrepancies prior to the time Accounting Services recorded expenses to the unit for them, these occurrences could affect the integrity of the Postal Service's financial records.

We reviewed management's separate documentation and found it is adequate to support the actions taken. We consider the recommendations closed with the issuance of this report.

NORTHEAST AREA OFFICE



November 3, 2017

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – FT-FM-17-Draft, Internal Controls
over Stamp Stock Shipments – San Juan, PR

Thank you for the opportunity to respond to the OIG Audit over Stamp Stock Shipments – San Juan, PR. The Caribbean District agrees controls over Stamp Stock shipments needs improvement at the San Juan Stamp Office and at Contract Postal Units (CPU). The District does not agree with the monetary impact of \$28,697; these expenses were not actual monetary discrepancies but errors in recording to the appropriate finance number. The stamp destruction expenses were corrected using the Journal Entry Voucher process and the \$28,697 has been offset.

It should be noted that we requested this response be suspended until the District had enough time to recover from the damage caused by Hurricane Irma and Hurricane Maria. The Caribbean District still has widespread power and connectivity issues. As of 11/2/2017, the Caribbean District still has 81 Offices without internet connectivity and power has not been restored; our offices are running on generators which breakdown frequently and are dependent on fuel which is extremely limited.

Recommendation #1:

Enhance the retail system to include the Unit Finance Number for the specific locations where the stamp stock destruction is performed.

Management Response/Action Plan:

Caribbean District agrees with this recommendation. RSS was enhanced to include the functionality for the Stock Custodian to return stamps to another Unit Finance Number. This enhancement was part of the R113 RSS Update.

Target Implementation Date:

Completed. The functionality became available in RSS with the R113 Update dated 8/14/2017.

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Responsible Official:

RAFA and Retail OPS together added requirements/functionality as part of the SDA development.

Recommendation #2:

Include the Supervisor, San Juan Stamp Office, as a point of contact on the Narrowcast Report.

Management Response/Action Plan:

Caribbean District agrees with this recommendation. The Supervisor Accountable Paper, San Juan Stamp Office has been added to the list of contacts in the Unit's profile on the SFS website and to the appropriate Distribution List to receive Narrowcast Reports.

Target Implementation Date:

Completed

Responsible Official:

District Marketing Manager

Recommendation #3:

Reiterate the requirement for management and owners at contract postal units to follow established policy for ordering, shipping and securing stamp stock.

Management Response/Action Plan:

Caribbean District agrees with this recommendation. The SOP for stamp ordering for the Caribbean District contract postal units has been reissued and posted on the Caribbean District Finance page. The policy regarding security requirements for protecting accountable paper, Section 3-3.2 Handbook F-101, Field Account Procedures, has been disseminated to all contract postal units and their host offices.

Target Implementation Date:

Completed

Responsible Official:

District Marketing Manager

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Recommendation #4:

Reiterate the requirement for management to research, make adjustments and timely resolve financial differences expensed to the unit, complete the claim for loss process, and notify the US Postal Service Office of the Inspector General, when applicable.

Management Response/Action Plan:

Caribbean District agrees with this recommendation. The following SOPs have been issued to all Units and posted on the Caribbean Finance Blue Page under Policies and SOPs: Discrepancies of \$100 or More; Financial Differences AIC 247/647 SOP and Log; and Stamp Stock Discrepancies and Lost Stolen Shipments SOP including the Claim for Loss procedure.

Target Implementation Date:

Completed

Responsible Official:

District Finance Manager

Recommendation #5:

Provide managers access to all resources necessary to monitor stamp stock activities for the units they oversee.

Management Response/Action Plan:

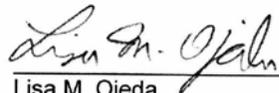
Caribbean District agrees with this recommendation. All Postmasters and Officers-in-Charge of Host Post Offices with a Contract Postal Unit (CPU) have been instructed to obtain access to the Unit Finance Number of their Contract Postal Unit in the Stamp Fulfillment Services (SFS) web application and instructions have been posted on the Caribbean District Finance page; including instructions to update their SFS Profile. This will provide Managers with access to the necessary resources to monitor stamp stock activities for the contract stations they manage. The Marketing Manager has obtained read-only access to the SFS web application to provide oversight.

Target Implementation Date:

Completed.

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Responsible Official:
District Marketing Manager



Lisa M. Ojeda
District Manager
Caribbean District

cc: VP Controller
VP Retail and Customer Service
VP Northeast Area
Elizabeth Doell, Controller
Juan Paz, District Finance Manager
Martin Caballero, District Marketing Manager
Yvonne Rodriguez, Supervisor Accountable Paper
David Carvajal, Manager Post Office Operations
Jose Marengo, Manager Post Office Operations
Manager, Corporate Audit Response Management