



March 2, 2005

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VICE PRESIDENT, FINANCE, CONTROLLER

RALPH J. MODEN  
SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS

SUBJECT: Audit Report - Fiscal Year 2004 Financial Installation Audit – Stamp  
Distribution Offices (Report Number FF-AR-05-074)

This report presents the results of our financial installation audit of 15 statistically selected stamp distribution offices for fiscal year 2004 (Project Number 04XD004FF000). We conducted this audit in support of the audit of the Postal Service financial statements.

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective. However, stamp accountability procedures were not always followed, and controls over stamp stock destruction needed strengthening.

We recommended management reinforce the importance of limiting stamp stock destruction committee term lengths and appointing an observer for committee activities.

Management agreed with our recommendation and took actions addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, or need additional information, please contact Linda Libician-Welch, Director, Field Operations, West, or me at (703) 248-2300.

*(John M. Seeba for)*

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## EXECUTIVE SUMMARY

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### Introduction

This report summarizes the results of our audits of 15 statistically selected stamp distribution offices for fiscal year 2004. The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. We conducted these audits in support of the audit of the Postal Service financial statements. The audit at each stamp distribution office was unannounced.

The overall objectives of our audits were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records and whether internal controls were in place and effective.

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### Results in Brief

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective. However, stamp accountability procedures were not always followed, and controls over stamp stock destruction needed strengthening.

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### Summary of Recommendations

We recommend management reinforce the importance of limiting the stamp stock destruction committee term lengths and appointing an observer of committee activities.

We did not make recommendations related to some of the stamp accountability and stamp stock destruction issues since we recently made recommendations addressing these issues in our Fiscal Year 2003 Financial Installation Audit, Stamp Distribution and District Accounting Offices (Report Number FF-AR-04-149, dated May 6, 2004). Management issued a memorandum dated September 15, 2004, to the Vice Presidents, Area Operations, advising them of the audit findings and requesting field management enforce existing policy and procedures.

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### Summary of Management's Comments

Management agreed with our recommendation. A memorandum was issued on February 22, 2005, reinforcing the stamp stock destruction committee policy. Management's comments, in their entirety, are included in Appendix B of this report.

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**Overall Evaluation of  
Management's  
Comments**

Management's actions taken are responsive to our recommendation and should address the issues identified in the finding.

## INTRODUCTION

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### Background

Beginning with fiscal year (FY) 2001, the Office of Inspector General (OIG) began conducting financial audits at financial installations, consisting of revenue generating units<sup>1</sup> and stamp distribution offices. We conduct these audits in support of the overall audit of the Postal Service financial statements.

Stamp distribution offices receive and ship stamps, Postal Service stationery, philatelic products, and money orders. They provide stamps and stamp products for all post offices, branches, and stations within their service area. An employee of the stamp distribution office also serves on the stamp stock destruction committee, which performs stamp destruction services. A district may have more than one stamp distribution office. The District Marketing Manager is responsible for the overall operations of the stamp distribution office. The supervisor of accountable paper is responsible for the day-to-day management of the stamp distribution office.

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### Objectives, Scope, and Methodology

The overall objectives of our audit were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records, and whether internal controls were in place and effective.

To accomplish our objectives, we conducted fieldwork during FY 2004. The audits at each stamp distribution office were unannounced. We statistically selected 15 stamp distribution offices from a population of 96, for review. (Appendix A lists the sites we visited). We reviewed financial transactions and internal controls related to stamp stock accountability, replenishment, order fulfillment and dispatch, and destruction. We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We evaluated whether the internal control structure over the financial reporting and safeguarding of assets was implemented and functioning as designed. We also interviewed employees and observed operations at stamp distribution offices.

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<sup>1</sup> Includes post offices, contract postal units, self-service postal centers, and business mail entry units.

We conducted this audit from October 2003 through March 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate. We issued individual reports to Postal Service management at each statistically selected site.

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**Prior Audit Coverage**

The Postal Inspection Service conducted financial installation audits prior to FY 2001. We evaluated all findings reported by the Postal Inspection Service in individual site reports from FYs 1999 through 2000 and by the OIG in FYs 2001 through 2003, and we reported the status of recommendations in the individual site reports to the applicable District Managers.

In our summary report on stamp distribution offices for FY 2003,<sup>2</sup> we reported management could strengthen its controls over stamp accountability and stamp stock destruction committees. Management issued a memorandum dated September 15, 2004, to the Vice Presidents, Area Operations, advising them of the audit findings and requesting field management enforce existing policy and procedures. Because we completed our FY 2004 audits before management issued the September 15, 2004, memorandum, management's actions did not impact the stamp distribution offices we audited. As such, we have not determined if management's actions were effective in addressing the issues identified in our FY 2003 report.

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<sup>2</sup> Fiscal Year 2003 Financial Installation Audit, Stamp Distribution and District Accounting Offices (Report Number FF-AR-04-149, dated May 6, 2004).

## AUDIT RESULTS

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### Stamp Accountability Procedures Were Not Always Followed

Stamp distribution offices did not always adhere to the Postal Service's prescribed procedures for stamp accountability at 9 of the 15 stamp distribution offices we reviewed. Units did not always enter discrepancies into the Stamp Service System and adequately safeguard stamp stock. Consequently, there was reduced assurance the inventory balance in the accounting records was accurate. Until these controls are functioning as prescribed, the Postal Service has an increased risk of loss of assets.

We also noted employees at stamp distribution offices did not reconcile unit accountability balances to the Stock Ledger maintained by the St. Louis Information Technology and Accounting Service Center (IT/ASC). Postal Service employees at the units did not know how to reconcile the two balances or why the differences occurred. Through discussions with the stamp distribution office and St. Louis IT/ASC management, it was noted that no procedures were issued to direct or provide instruction on the reconciliation of the two inventory systems. This issue will be addressed in our audit report of the FY 2004 Postal Service Financial Statements Audit - St. Louis IT/ASC. Consequently, we are not making a recommendation in this report.

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### Discrepancies Not Recorded into Stamp Service System

Personnel at two stamp distribution offices did not record discrepancies in the Stamp Service System as required by Handbook F-1, Post Office Accounting Procedures, Section 436.1, November 1996 (updated with Postal Bulletin revisions through October 30, 2003). The supervisors at both locations stated they were not trained on how to make the entries.

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### Stamp Stock Not Adequately Secured

At three stamp distribution offices, management did not adequately secure stamp stock. Handbook F-1, Section 151, requires all accountable paper to be controlled. Specifically, we noted:

- At two offices, [REDACTED] when the supervisors were reassigned because they did not believe it was necessary (*repeat finding*).
- One office did not store stamps and blank money orders [REDACTED] making them accessible to individuals entering the office. Personnel stated the unit did not have adequate room to store all accountable items (*repeat finding*).
- At one office, three vaults were left open during business hours. One of the three vaults contained a refrigerator, microwave, and bottled water dispenser and was used by employees as a break room. According to the Acting Supervisor, doors were usually kept locked, but were left open because of the OIG audit team's presence and the training of a new supervisor (*repeat finding*).

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**Controls Over Stamp  
Stock Destruction  
Needed Strengthening**

At six offices, personnel did not always adhere to Postal Service procedures for stamp stock destruction. Without adequately forming and maintaining the stock destruction committee and following stock destruction procedures, there is an increased risk of error and loss in destruction. Specifically:

- At three offices, members remained on the stock destruction committee for over three years without authorization. Handbook F-1, Section 453.3, states that members may serve longer than three years only with approval from the Postal Inspection Service. This occurred because management was unaware of the three-year limit or did not know the three-year term had expired.
- At three offices, the district had not designated a Manager to observe activities of the committee as required by Handbook F-1, Section 451.1. This occurred because district management either overlooked or was unaware of the requirement.
- Stock destruction committees in five offices did not follow the required procedures for the destruction of stamp stock. Handbook F-1, Section 453.5, lists the responsibilities of the stock destruction committee, including preparation of Postal Service (PS) Form 17, Stock Requisition, and recording destruction information on a spreadsheet. For example, committees did not complete and or sign PS Forms 17 because they were unaware of the proper procedures. Also, committees did not record complete destruction information on a spreadsheet because they were unaware of the requirement or did not know how to complete the spreadsheet (*repeat finding*).

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<b>Recommendation</b>	We recommend the Vice President, Finance, Controller, and the Senior Vice President, Government Relations:  1. Reinforce the importance of adhering to term lengths for stamp stock destruction committee members and having districts appoint observers for the activities of stock destruction committees.
<b>Management's Comments</b>	Management agreed with the recommendation and issued a memorandum on February 22, 2005, reinforcing the stamp stock committee policy.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to our recommendation and actions taken should address the issues identified in the finding.

### APPENDIX A. SITES VISITED

Stamp Distribution Offices	Location
██████████	██████████, Indiana
██████████	██████████, Florida
██████████	██████████, Georgia
██████████	██████████, Washington
██████████	██████████, Utah
██████████	██████████, Tennessee
██████████	██████████, Louisiana
██████████	██████████, Indiana
██████████	██████████, Ohio
██████████	██████████, Pennsylvania
██████████	██████████, Nevada
██████████	██████████, Ohio
██████████	██████████, New Hampshire
██████████	██████████, Hawaii
██████████	██████████, Florida

## APPENDIX B. MANAGEMENT'S COMMENTS



February 22, 2005

COLLEEN A. MCANTEE

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2004 Financial Installation Audits  
Stamp Distribution Offices (Report Number FF-AR-05-DRAFT)

This is in response to the January 21 memorandum and subject audit report. Attached are  
comments on the stock destruction committee finding.

The report, nor the management's response contains proprietary or other business information  
that may be exempt from disclosure under the Freedom of Information Act (FOIA).

If you have any questions, please call Gladys Zamora at (202) 268-3262.

Thank you for providing this report.

  
Lynn Malcolm  
(A) Vice President  
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**Management Response to Office of Inspector General Audit Report  
Fiscal Year 2004 Financial Installation Audits  
Stamp Distribution Offices  
(Report Number FF-AR-05-DRAFT)**

**Stamp Destruction Committees**

**We recommend the Acting Vice President, Finance, Controller, and the Senior Vice President, Government Relations:**

- **Reinforce the importance of adhering to term lengths for stamp stock destruction committee members and having districts appoint observers for the activities of stock destruction committees.**

Management agrees with the recommendation. A memorandum dated February 22, 2005, was issued which reinforces the stamp stock destruction committee policy. That memo was jointly signed by the Acting Vice President, Finance, Controller, and the Senior Vice President, Government Relations. The memorandum reinforces adherence to these established procedures and refers to Handbook F-1 as the source of financial policy on stamp stock destruction and the stamp stock destruction committee. We have attached a copy of the memorandum for your convenience.