



Office of Inspector General | United States Postal Service

## Audit Report

# Stamp Stock Accountability

Report Number FT-AR-19-008 | August 20, 2019



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# Highlights

## Objective

Our objective was to determine whether controls over unit reserve stamp stock accountability were adequately designed and operating effectively.

We received a hotline allegation regarding suspicious fraudulent transactions involving stolen stamps from the North Kenner, LA, Station. An initial investigation confirmed that a U.S. Postal Service unit manager had access to large quantities of postage stamp inventory. Further, the manager circumvented controls and manipulated data records for unit reserve stock and sold stamps on eBay® at reduced prices. Unit reserve stock consists of all stamps, stamped paper, and philatelic products in a postal retail unit that has not been assigned to other areas within the unit.

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***“Because of his position, preventive controls that were circumvented, and inadequate monitoring of stamp stock, the manager was able to manipulate data records to avoid detection of the improper activity.”***

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The unit reserve stock at this retail unit fluctuated from just over \$50,000 in April 2017 to over \$630,000 by September 2018. The growth of this unit’s stamp stock reserve was inconsistent with normal post office operations as it indicated ordering of large volumes of stamps disproportionate with the sale of those stamps. Because of his position, preventive controls that were circumvented, and inadequate monitoring of stamp stock, the manager was able to manipulate data records to avoid detection of the improper activity.

Due to the issues identified at this unit, we evaluated whether controls designed to address unit reserve stamp stock accountability for all the nearly 35,000 postal retail units were appropriate to reduce the risk of improper activity, and whether control gaps existed.

## What the OIG Found

Controls over unit reserve stamp stock accountability were not always adequately designed and operating effectively. We found management did not:

- Monitor and manage through to resolution, units with excess (stamp stock greater than the unit’s authorized stock limit) and excludable (Christmas, philatelic, unsaleable and redeemed) stamp stock.
- Review orders that exceeded authorized stock limits as required.
- Monitor units that placed more than the maximum allowed of three stock orders per month.

This occurred because controls were not established to require these actions. In addition, from January 2017 to September 2018, we found the manager at the North Kenner Station:

- Accepted stock shipments without a witness to confirm receipt of the stamp stock as required. This occurred because management was not required to review the stock shipment forms to verify they included witness signatures.
- Conducted 27 unit reserve stock counts between April 27, 2017, and September 21, 2018, when only one count was required annually. Further, these counts were conducted without a second individual as required. This occurred because a supervisor shared his password with the manager, who used it inappropriately to falsify count verifications.

As a result, the manager at the North Kenner, LA, Station knowingly and willfully converted, for his own use, postage stamps valued at more than \$636,000. The manager pleaded guilty to misappropriation of postal funds. He was sentenced to 30 months imprisonment and ordered to pay over \$600,000 in restitution to the Postal Service.

We evaluated Postal Service stamp stock records to determine whether there were other units with questionable stamp stock levels. The data identified 17 additional postal retail units with \$2.5 million in excess stamp stock, and nine additional units with \$1.7 million of questionable levels of excludable stamp stock. Although we did not validate the data for these 26 sites, the additional inventory provides an opportunity for theft to occur without raising suspicion or detection.

In October 2018, Postal Service management researched how the manager manipulated controls over unit reserve stamp stock and continues to evaluate options to address identified control gaps. They started monitoring units with excludable stamp stock while exploring other initiatives, including elimination of the unit reserve excludable stamp stock category from stamp stock reports. Effective May 15, 2019, management implemented a follow-up process for units with questionable levels of excess or excludable stamp stock. Additionally, they began developing a control to review and approve stock orders that exceed authorized limits.

While their initial actions start to address the missing policies over unit reserve stamp stock, additional opportunities exist for management to enhance controls.

## What the OIG Recommended

We recommended management:

- Periodically evaluate the effectiveness of the newly implemented procedures for excess and excludable stamp stock and implement additional changes as necessary.
- Implement controls to require approvals for stamp stock orders that exceed authorized dollar and number limits.
- Establish a control to require management outside the unit's stock accountability process to monitor that stock shipments are verified with a witness.
- Monitor and determine reasonableness of units that conduct excessive stock counts and notify the U.S. Postal Service Office of Inspector General when appropriate to investigate potential fraud, waste, and abuse.
- Define in Handbook F-101, *Field Accounting Procedures*, how retail employees are held accountable for password sharing and communicate it to all employees with retail responsibilities.

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***“Effective May 15, 2019, management implemented a follow-up process for units with questionable levels of excess or excludable stamp stock.”***

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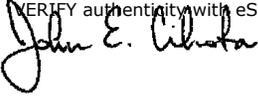
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

August 20, 2019

**MEMORANDUM FOR:** CARA M. GREENE  
VICE PRESIDENT, CONTROLLER  
  
STEVEN W. MONTEITH  
VICE PRESIDENT, MARKETING

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 Stock Accountability  
(Report Number FT-AR-19-008)

This report presents the results of our audit of the Stamp Stock Accountability (Project Number 19BFM008FCS000).

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

Attachment

cc: Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Stamp Stock Accountability (Project Number 19BFM008FCS000). The objective of this audit was to determine whether controls over unit reserve stamp stock accountability were adequately designed and operating effectively.

## Background

In August 2018, the U.S. Postal Service Office of Inspector General (OIG) received information through our hotline regarding the alleged sale of stolen postage stamps on eBay®. The OIG Office of Investigations identified the alleged seller as the unit manager at the North Kenner, LA, Station. As the manager, he had access to all the unit's stamp stock accountability<sup>1</sup> and was responsible for maintaining enough stamp stock to meet customer needs. The manager also served as the unit reserve stock<sup>2</sup> custodian. As the custodian, he was responsible for:

- Placing stock orders in the online stock ordering system, Stamps Fulfillment Services Web (SFS Web).<sup>3</sup>
- Accepting stamp stock shipments with a witness.
- Conducting inventory counts with a witness.
- Maintaining stock-on-hand<sup>4</sup> volume within the unit's authorized stock limit.<sup>5</sup>
- Ensuring transactions are recorded accurately and timely in Retail Systems Software (RSS).<sup>6</sup>

The investigation revealed the value of the reserve stock held at this unit fluctuated from just over \$50,000 in April 2017 to over \$630,000 by

September 2018 (see [Chart 1](#)). The growth of this unit reserve stock was inconsistent with the unit's revenue and sales volume and greatly exceeded the unit's authorized stock limit. The manager ordered stamps well over the unit's authorized stock limit and accepted the stock shipments without a witness to verify receipt. He used his administrator role in RSS and another supervisor's password to record count examinations. While conducting the counts, the manager reclassified regular stamps as Christmas stock to conceal the excessive inventory.

Christmas stock is classified as excludable stamp stock, is not included in the stock-on-hand calculation, and is not monitored.

Postal Service management routinely monitored units with excess stamp stock, but they did not monitor the excludable stamp stock category. This category of stock was developed to help reduce the time spent monitoring and messaging offices that previously encountered excess stamp stock issues, especially during Quarter 2, after the holiday season. Postal Service management stated this process was designed to allow PRUs to carry more saleable stock. However, this provided the perfect avenue for the manager's illicit activities, "virtually" moving stamp stock currently on sale to the excludable stamp stock category in RSS, then physically stealing the stamps without triggering red flags or internal control alerts. The manager pleaded guilty to misappropriation of postal funds. He was sentenced to 30 months imprisonment and ordered to pay restitution of \$636,475 to the Postal Service.

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***“The growth of this unit reserve stock was inconsistent with the unit's revenue and sales volume and greatly exceeded the unit's authorized stock limit.”***

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1 Paper in a postal facility that holds monetary value and must be accounted for. Paper includes postage stock, philatelic products, blank Postal Money Order forms, and items awaiting destruction.

2 Unit reserve stock consists of all stamps, stamped paper, and philatelic products in a Postal Retail Unit (PRU) that has not been assigned to other areas within the unit.

3 Stamps Fulfillment Services Web is a web-based application for PRUs to submit stamp orders, search inventory, set stamp reorder points, adjust allocation for new stamp releases, and view order history and profile information.

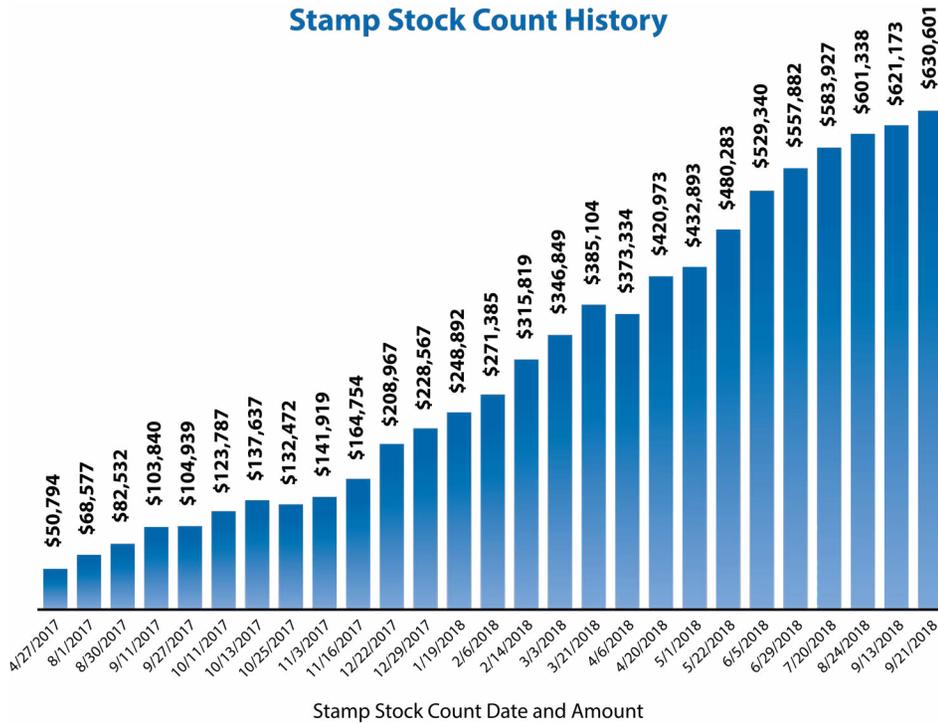
4 Stock available for sale. Excluded from the stock-on-hand calculation are Christmas stock, philatelic stock, unsaleable stock, and redeemed stock.

5 The stock authorized limit is calculated by dividing prior fiscal year (FY) sales for Quarters 1 through 4 by four.

6 The primary hardware and software system used to conduct retail sales transactions at post offices.

Chart 1. Growth of Unit Reserve Stock at the Unit

Stamp Stock Count History



Source: Postal Service Enterprise Data Warehouse (EDW)<sup>7</sup> Unit Reserve Stock Count Report data, unit documentation, and auditor analysis.

Due to the issues identified at this unit, we evaluated whether controls designed to address unit reserve stamp stock accountability for all PRUs were appropriate to reduce the risk of improper activity, and whether control gaps existed that increased the risk of mismanagement.

Finding #1: Excess and Excludable Stamp Stock

Management monitored excess stamp stock administratively but did not monitor corrective actions through resolution. Specifically, Postal Service Headquarters management sent excess stamp stock reports<sup>8</sup> to PRUs, district finance offices, and area accounting managers with guidance on how to resolve issues. However, headquarters management did not follow up to confirm actions were taken by local personnel. This occurred because the Postal Service did not have a policy to require follow-up actions to understand why PRUs exceeded their authorized stock limit and whether they resolved the issue. Management stated they did not realize there was not anyone assigned to follow the issue through to resolution.

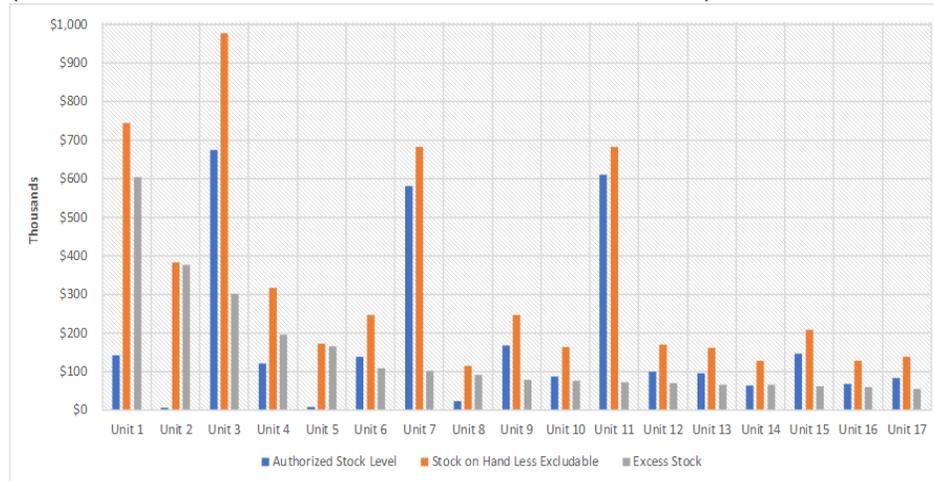
Further, management did not monitor excludable stamp stock maintained at PRUs. The excludable stamp stock category is not included in stock-on-hand calculations that determine whether a unit has excess stock. The policy<sup>9</sup> to omit excludable stamp stock from stock-on-hand calculations was designed to allow PRUs to carry more current saleable stock without being penalized for exceeding their stock limits. Management stated they anticipated PRUs would have excludable stamp stock in their inventory because units were required to retain these stamp stock items onsite. However, they did not have policies in place to monitor and manage this category of stamp stock.

Excessive inventory levels combined with control gaps over excess and excludable stamp stock provide an opportunity for theft to occur without detection. We evaluated stamp stock records to determine whether there were other units with questionable stamp stock levels. Our analysis identified 17 PRUs with \$2.5 million in questionable levels of excess stamp stock<sup>10</sup> (see [Chart 2](#)) and nine PRUs with \$1.7 million in questionable levels of excludable stamp stock<sup>11</sup> (see [Chart 3](#)) on February 6, 2019.<sup>12</sup>

7 The 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 system, points-of-sales, and other sources.  
 8 The excess stamp stock report displays the unit name, authorized stock limit, stock on hand, unit reserve Christmas, unit reserve philatelic, unit reserve unsaleable, and unit reserve redeemed, excess stock and percentage of excess stock.  
 9 *Controller Update, Revenue and Field Accounting Volume 4, Issue 1*, dated September/October 2013.  
 10 We consider PRUs with excess stamp stock greater than \$50,000 of the unit's authorized stock limit questionable.  
 11 We consider PRUs with excludable stamp stock more than \$50,000 and the amount greater than 50 percent of the unit's on-hand stock questionable.  
 12 The North Kenner, LA, Station was not included in this data.

## Chart 2. Units with Excess Stamp Stock

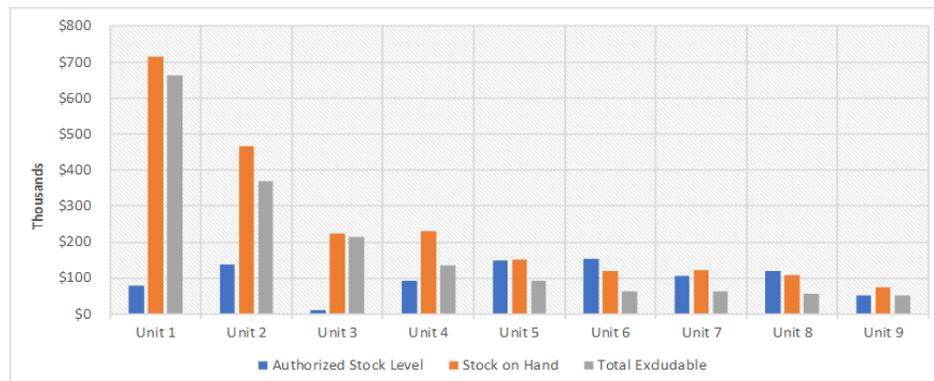
(Authorized Versus Stock On Hand Less Excludable Amount)



Source: Postal Service EDW *Excess Stamp Stock Report* data as of February 6, 2019, and auditor analysis.

## Chart 3. Units with Excludable Stamp Stock

(Total Excludable is more than \$50,000 of the Stock on Hand)



Source: Postal Service EDW *Excess Stamp Stock Report* data as of February 6, 2019, and auditor analysis.

In October 2018, Postal Service management initiated research into how the manager manipulated established controls over unit reserve stamp stock and continue evaluating options to address identified control gaps. They started monitoring units with excludable stamp stock while exploring other initiatives, such as eliminating the unit reserve excludable stamp stock category. Effective May 15, 2019, management implemented a follow-up process for managing units with excess or excludable stamp stock.<sup>13</sup>

### Recommendation #1:

**We recommend the Vice President, Controller,** periodically evaluate the effectiveness of the newly implemented procedures for excess and excludable stamp stock and implement additional changes, as necessary.

### Finding #2: Authorized Limits

Management did not review and approve stock orders that would cause PRUs to exceed their authorized stamp stock accountability threshold. Further, they did not monitor units that placed more than the maximum three stock orders per month.

Postal Service policy states that if an order is placed that exceeds the dollar amount shown in the PRU profile it will be reviewed and approved by Stamp Fulfillment Services (SFS)<sup>14</sup> before the order is fulfilled.<sup>15</sup> SFS Web alerts requestors that their order would cause them to exceed the accountability threshold. However, the alert does not prevent them from placing the order. Instead the requestor can either modify the order or select the “Continue” button to proceed with the order.

Additionally, policy states that order constraints have been designed to allow each PRU to place one order per month. Two additional orders are allowed to either accommodate an unanticipated demand from the unit or to ensure the unit can order new stamps released throughout the month. Upon reaching the limit of three orders during the month, the unit will no longer have access to place any

13 The Field Sales Branch notifies the unit on Mondays via automated email. They then notify the unit on Wednesdays via automated email and follow-up with a phone call. On Friday, if no action has been taken, they notify the unit, district finance managers, and area accounting managers via automated email.  
 14 SFS is responsible for the management of a national order processing center. This facility fulfills and ships national orders for stamps, stationery items, philatelic products, and other retail merchandise. SFS receives and fulfills orders from individual purchasers, large-volume customers, international agents, and subscription customers.  
 15 *SFS Web Glossary Version 2.0*, May 2018.

orders until the following month. At this point, if the unit requires additional order assistance, they must contact Customer Service to place an emergency order.<sup>16</sup> However, policy does not require units placing additional stock orders after exceeding their monthly stock order limit to obtain an additional approval.

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***“When controls are not designed adequately, the risk of mismanagement of stamp stock inventory increases.”***

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SFS management could view and extract data on demand from SFS Web, including stock ordered, shipped and received. However, Headquarters Finance management stated they lacked visibility into SFS Web, so they were not aware that orders were being placed that exceeded the maximum amount authorized for the units or the maximum number of orders per month. Further, an area accounting manager stated they relied on SFS to monitor the unit stock levels, and a district finance manager stated

he did not have visibility into the orders at the time they were placed. We believe it is important that area accounting or district accounting personnel should also have visibility into orders placed for stamp stock.

When controls are not designed adequately, the risk of mismanagement of stamp stock inventory increases. For example, the manager at the North Kenner, LA, Station placed more than three stock orders in four of the 21 months we audited between January 2017 and September 2018.<sup>17</sup> This unit’s reserve stock fluctuated from just over \$50,000 in April 2017 to over \$630,000 by September 2018. The PRU’s stamp stock limit in FYs 2017 and 2018 was \$102,000<sup>18</sup> and \$98,000,<sup>19</sup> respectively. The growth of the unit’s reserve was inconsistent with normal post office operations as it indicated ordering of large volumes of stamps disproportionate with the sale of those stamps.

We reviewed stamp stock order records to determine whether there were other units that placed more than three orders per month or orders that caused them to exceed their authorized stamp stock accountability threshold. Our analysis showed 10,397 units bypassed excess stock alert warnings. Additionally, 12,151 stock orders valued at more than \$153 million were placed after units had exhausted their monthly stock order limit. Headquarters management advised that they did not track these “additional” stock orders, so they could not provide evidence of approval. We consider these orders assets at risk.<sup>20</sup>

We advised management of existing features within SFS that would give visibility when orders are placed, filled and shipped. These features include (1) requiring an approval before placing a stamp stock order when the system alerts requestors that their orders would cause them to exceed the accountability threshold and (2) adding contacts in the requestor profile to receive messaging when stock orders are placed, canceled, and shipped. Management was receptive to our suggestions to upgrade SFS as part of the control mechanism under development to approve stock orders that exceed authorized limits.

#### **Recommendation #2:**

**We recommend the Vice President, Marketing, in coordination with the Vice President, Controller,** implement controls to require notifications and approvals for stamp stock orders that exceed authorized dollar and number limits.

#### **Finding #3: Stock Shipment Acceptance**

The manager at the North Kenner, LA, Station accepted 51 stock shipments between January 2017 and September 2018 without a witness to confirm receipt of the stamp stock. Postal Service policy<sup>21</sup> states, when receiving stock shipments, the contents must be examined, counted, and verified to the computer-generated Postal Service (PS) Form 17, *Stamp Requisition and*

<sup>16</sup> SFS Web Frequently Asked Questions Version 2.0, August 2018.

<sup>17</sup> The four months where the manager placed more than three stock orders were November and December 2017 and January and February 2018.

<sup>18</sup> FY 2017 stamp stock limit determined by dividing FY 2016 total stamp sales of \$408,917 by 4 quarters, rounded.

<sup>19</sup> FY 2018 stamp stock limit determined by dividing FY 2017 total stamp sales of \$392,948 by 4 quarters, rounded.

<sup>20</sup> Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

<sup>21</sup> Handbook F-101, *Field Accounting Procedures (FAP)*, Section 11-5, dated May 2017 Draft.

*Stamp Return*, with a witness. We reported similar issues in prior audits<sup>22</sup> and recommended management reiterate and enforce current acceptance policies. However, a policy does not exist to require management outside the unit's stock accountability process to monitor that stock shipments are verified with a witness. Without a witness present to confirm the acceptance of stock shipments, there is an increased risk of undetected theft of stamp stock, or errors occurring.

### Recommendation #3:

**We recommend the Vice President, Controller**, establish a control to require management outside the unit's stock accountability process to monitor that stock shipments are verified with a witness.

## Finding #4: Excessive Stock Counts

The manager at the North Kenner, LA, Station conducted 27 separate unit reserve stock counts from April 27, 2017, through September 21, 2018, when only one count was required annually. Further, all 27 counts were done without a second individual to validate the results. Postal Service policy requires that unit reserve stock maintained by management be counted by a supervisor and the unit reserve custodian annually. An employee with the "supervisor" role must initiate the count and enter the count results into RSS.

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***“Financial risk increases when employees share sensitive information such as passwords.”***

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The manager intentionally performed the count by himself to reclassify regular stamps as Christmas stamps. As discussed earlier in the report, the reclassified stock was recorded in the excludable stamp stock category. This category was not included in the unit's stock on hand calculations or actively monitored. Further, the manager used a supervisor's password that was previously shared with him to make it appear that the supervisor and the manager conducted the counts. Handbook AS 805 C, *Information Security Requirements for all Personnel*,<sup>23</sup> instructs employees to keep their

password confidential. It explains employees are accountable for the actions of anyone using their password even if they did not give the user permission. Handbook F-101, used by retail employees, does not define accountability for retail employees sharing passwords.

Financial risk increases when employees share sensitive information such as passwords. For example, the manager at the North Kenner Station knowingly and willfully converted, for his personal use, regular stamps valued at more than \$636,000 to Christmas stamps without raising suspicion. He later sold the stamps online at reduced prices.

### Recommendation #4:

**We recommend the Vice President, Controller**, direct the **Manager, St. Louis Accounting Services**, to monitor and determine reasonableness of units that conduct excessive stock counts and notify the U.S. Postal Service Office of Inspector General, when appropriate, to investigate potential fraud, waste, and abuse.

### Recommendation #5:

**We recommend the Vice President, Controller**, define in Handbook F-101, Field Accounting Procedures, how retail employees are held accountable for password sharing, and communicate it to all employees with retail responsibilities.

## Management's Comments

- Management agreed with recommendations 1, 2, 3, and 4 but disagreed with recommendation 5. Management agreed that controls could be enhanced to mitigate the risk of misappropriation of stamp stock but disagreed that the control environment resulted in the misappropriation of Postal Service assets. They believe the fraud resulted from a stolen password that allowed circumvention of controls.

In response to our evaluation of stamp stock records identifying other units with questionable stamp stock levels, management disagreed with the total

<sup>22</sup> *Internal Controls Over Segmented Inventory - Brooklyn-Greenpoint Station* (Report Number FT-FM-17-001, dated October 6, 2016); *Internal Controls Over Segmented Inventory - Bronx Hillside Finance Station, Bronx, NY* (Report Number FT-FM-17-005, dated December 7, 2016); *Internal Controls Over Stamp Stock Shipments - Rosemeade Station, Carrollton, TX* (Report Number FT-FM-17-025, dated August 28, 2017).

<sup>23</sup> Section 2, October 2015.

monetary exposure. Management reviewed all 26 sites cited and noted they had reasonable explanations to justify the excess stock. Further, in response to our evaluation of stamp stock records identifying whether other units placed more than three orders per month, management disagreed with our calculation of the assets at risk. Management noted the three-order limit was not put into effect until April 2018, reducing the count from 12,151 stock orders valued at \$153 million, from 10,397 units, to 870 stock orders valued at \$22 million, from 537 units. They added that their review concluded stamp sales supported the additional orders identified since that time.

Regarding recommendation 5, management stated accountability for password management is already covered under Handbook AS 805. They stated that employees must acknowledge, upon logging into the Postal Service network, that unauthorized access or use may subject violators to administrative action or civil or criminal prosecution. In separate correspondence, management stated they will take alternative action to address accountability. They plan to include in the Retail Digest a reminder of the specific mention in Handbook AS-805 and the related verbiage from the log-on acknowledgement as the associated punishment. Management plans to include the reminder in the Retail Digest by November 30, 2019.

Management plans to take the following actions regarding recommendations 1, 2, 3, and 4, by March 31, 2020:

Regarding recommendation 1, management will direct and require a review of stamp stock related controls in conjunction with the existing retail unit review process.

Regarding recommendation 2, management will review the Stamp Fulfillment Services system for implementation of enhanced controls for orders exceeding established levels.

Regarding recommendation 3, management will determine an appropriate process for review of stamp stock paperwork that would support improved oversight of stamp stock receipt where practical.

Regarding recommendation 4, management will develop unit reserve stock monitoring.

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

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the findings and recommendations in the report. We acknowledge that a stolen password was the primary factor that allowed circumvention of controls and fraud to occur and agree password accountability is covered under Handbook AS 805. We continue to believe password accountability and awareness could be enhanced. Management's alternate action to remind retail employees about password security responsibilities, including associated punishment for noncompliance, meets the intent of the recommendation.

The purpose of the monetary exposure was to show that because the Postal Service did not have policies in place to monitor and manage excludable stamp stock, an opportunity for theft existed at locations other than the North Kenner, LA Station without raising suspicion or detection. We appreciate management's efforts to validate the reasonableness of stamp stock and additional stamp orders at these sites.

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

# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

To determine whether controls over unit reserve stamp stock accountability were adequately designed and operating effectively, we conducted interviews with Postal Service district, area and headquarters officials knowledgeable about the stamp stock accountability processes. We extracted and analyzed EDW and SFS data to examine stamp stock activity recorded in these systems from January 2017 through October 2018. We also examined documentation gathered from the North Kenner, LA, Station for the same period.

We conducted this performance audit from February through August 2019, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on July 16, 2019, and included their comments where appropriate.

We assessed the reliability of EDW and SFS data by comparing it to the unit's source documents and through interviews of individuals knowledgeable about these systems. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
<i>Stamp Stock Accountability</i>	The objective of our 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 Postal Service locations. Based on our review, we expanded our objective to include related controls used by other headquarters organizations.	FCS-FM-18-013	4/17/2018
<i>Stamp Fulfillment Services</i>	Our objective was to evaluate internal controls over off-sale retail merchandise and accountable paper stored at the Kansas City SFS.	FT-MT-16-001	6/15/2016

# Appendix B: Management's Comments

CARA M. GREENE  
VICE PRESIDENT, CONTROLLER



August 7, 2019

LAZERICK POLAND  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Stamp Stock Accountability (Report Number FT-AR-19-DRAFT)

Management agrees the Manager at the North Kenner, LA, Station knowingly and willfully converted, for his own use, postage stamps valued at more than \$636,000. Management agrees stamp stock management controls can be enhanced and strengthened to mitigate the risks of misappropriation of Postal stamp stock.

Management disagrees that the control environment resulted in the misappropriation of Postal assets. It recognizes opportunity exists to revise and enhance current controls, but believes the North Kenner Station Manager made the determination to steal from USPS via fraudulent actions. The fraud perpetrated was a result of a stolen password, allowing circumvention of multiple controls.

Management disagrees with the calculation and total monetary exposure presented in the OIG (Office of Inspector General) statement:

*"We evaluated Postal Service stamp stock records to determine whether there were other units with questionable stamp stock levels. The data identified 17 additional postal retail units with \$2.5 million in excess stamp stock, and nine additional units with \$1.7 million of questionable levels of excludable stamp stock. Although we did not validate the data for these 26 sites, the additional inventory provides an opportunity for theft to occur without raising suspicion or detection."*

Management reviewed and determined 23 of 26 sites identified had reasonable justification for the identified excess stock levels. Review of the remaining 3 sites indicated inventory had been sold at 2 of the sites, and the third site conducted a 'Special Events Unit' which required excess stock.

Management disagrees with the calculations stated in Finding #2:

*"Additionally, 12,151 stock orders valued at more than \$153 million were placed after units had exhausted their monthly stock order limit. Headquarters management advised that they did not track these "additional" stock orders, so they could not provide evidence of approval. We consider these orders assets at risk."*

Management disagrees and notes that the three (3) order limit was put into effect in April 2018. Assessing the data based on stock orders placed after the 3-order limit was enacted in April 2018 reduced the count to 870 stock orders placed by 537 Postal Retail Units (PRUs) with a value of

475 L'Enfant Plaza SW  
Washington, DC 20260-5222  
WWW.USPS.COM

\$22 million. This review concluded stamp sales supported the additional orders.

Recommendation 1:

*"We recommend the Vice President, Controller, periodically evaluate the effectiveness of the newly implemented procedures for excess and excludable stamp stock and implement additional changes, as necessary."*

Management Response/Action Plan: Management agrees with the recommendation. The Vice President, Controller will direct and require a review of stamp stock related controls in conjunction with the existing PRU review process.

Target Implementation Date: March 2020

Responsible Official: Sean Knepper, Manager, Revenue and Field Accounting

Recommendation 2:

*"We recommend the Vice President, Marketing, in coordination with the Vice President, Controller, implement controls to require notifications and approvals for stamp stock orders that exceed authorized dollar and number limits."*

Management Response/Action Plan: Management agrees with this recommendation and will review the Stamp Fulfillment Services system for implementation of enhanced controls for orders exceeding established levels.

Target Implementation Date: March 2020

Responsible Official: Bill Gicker, Manager, Stamp Services

Recommendation 3:

*"We recommend the Vice President, Controller, establish a control to require management outside the unit's stock accountability process to monitor that stock shipments are verified with a witness."*

Management Response/Action Plan: Management agrees with the recommendation. The Vice President, Controller will direct the Manager, Revenue and Field Accounting to work with Area Finance personnel to determine an appropriate process for review of stamp stock paperwork that would support improved oversight of stamp stock receipt where practical.

Target Implementation Date: March 2020

Responsible Official: Sean Knepper, Manager, Revenue and Field Accounting

Recommendation 4:

*"We recommend the Vice President, Controller, direct the Manager, St. Louis Accounting Services, to monitor and determine reasonableness of units that conduct excessive stock counts and notify the U.S. Postal Service Office of Inspector General, when appropriate, to investigate potential fraud, waste, and abuse."*

Management Response/Action Plan: Management agrees with this recommendation and will develop unit reserve stock monitoring.

Target Implementation Date: March 2020

Responsible Official: Cherell Garrett, Manager, St. Louis Accounting Service Center

Recommendation 5:

*"We recommend the Vice President, Controller, define in Handbook F-101, Field Accounting Procedures, how retail employees are held accountable for password sharing, and communicate it to all employees with retail responsibilities."*

Management Response/Action Plan: Management disagrees with this recommendation because accountability for password management is already covered under the AS-805. Furthermore, upon logging into the Postal network, every user must acknowledge that "unauthorized access or use of this system may subject violators to administrative action, civil, and/or criminal prosecution under the United States Criminal Code (Title 18 U.S.C. Section 1030)".

Target Implementation Date: N/A

Responsible Official: N/A

Regards,



\_\_\_\_\_  
Cara M. Greene  
Vice President, Controller



\_\_\_\_\_  
Steve W. Monteith  
Vice President, Marketing

cc: *Manager, Corporate Audit Response Management*



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