



Internal Controls Over Stamp Stock Shipments - Fremont, CA, Post Office

September 21, 2017



Report Number FT-FM-17-030



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BACKGROUND:

The U.S. Postal Service Office of Inspector General (OIG) performed data analytics to identify offices with lost or stolen stamp stock shipments. We identified expenses regarding stamp stock shipments for the Fremont Post Office in Fremont, CA, between May 1, 2016, and April 30, 2017.

Stamp Fulfillment Services (SFS), 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 records an expense to the units for the difference.

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

- Daily financial accountability reconciliations and semi-annual stamp counts at SFS.
- Enhancements to tracking stamp movement and in-transits at SFS; and stamp shipments to individual post offices.
- New tracking process and centralized review of all missing stamp stock shipments, including orders sent to the wrong unit.

- New stamp destruction process that better aligns and tracks inventory discrepancies.

The objective of this audit was to determine whether internal controls over stamp stock shipments were in place and effective at the Fremont Post Office.

WHAT THE OIG FOUND:

Internal controls over stamp stock shipments at the Fremont Post Office needed improvement. Management properly scanned and secured stamp stock shipments upon arrival, and performed stamp count verification with a witness prior to recording receipt. However, they did not always adequately order stamps, record stamp stock shipments timely, or research and resolve stamp stock shipment discrepancies.

This occurred because the Postmaster relied on the customer services supervisor and Pacific Area financial specialists to monitor stamp stock inventory and resolve stamp stock shipment discrepancies. The Postmaster is responsible for overall monitoring of field unit operations. When inventory and discrepancies are not monitored, there is an increased risk that stamps could be lost, stolen, or sold without being recorded in inventory; of financial reporting misstatements; and of additional unnecessary costs to research and resolve stamp stock shipment discrepancies.

As a result of this audit, the Postmaster began to properly monitor stamp stock inventory and discrepancies, to include authorizing the ordering of stamps and reviewing daily financial reports.

We referred this information to OIG Office of Investigations for further review.

WHAT THE OIG RECOMMENDED:

Because management took corrective actions, we are not making any recommendations at this time. However, we may follow up in the future as part of our ongoing financial controls audits.

[Link to review the entire report](#)



September 21, 2017

MEMORANDUM FOR: JAGDEEP K. GREWAL
MANAGER, BAY-VALLEY DISTRICT



FROM: Lorie Nelson
Director, Finance

SUBJECT: Audit Report – Internal Controls Over Stamp Stock
Shipments – Fremont, CA, Post Office
(Report Number FT-FM-17-030)

This report presents the results of our audit of the Internal Controls Over Stamp Stock Shipments - Fremont, CA, Post Office (Project Number 17BFM028FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dianna Smith, Acting Deputy Director, 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 Fremont, CA, Post Office (Project Number 17BFM028FT000). The Fremont Post Office (PO) is in the Bay-Valley District of the Pacific Area. This audit is designed to provide U.S. Postal Service management with timely information on potential financial control risks at Postal Service locations.

The Fremont PO shares a finance number¹ with the Niles Station for processing and reporting financial data. Stamp Fulfillment Services (SFS) ships stock for Niles Station to the Fremont PO. To determine whether internal controls over stamp stock shipments were in place and effective, we extracted and analyzed financial transactions including supporting documentation from May 1, 2016, through April 30, 2017. We also reviewed applicable policies and procedures, and interviewed personnel responsible for overseeing the process.

We relied on computer-generated data from the Enterprise Data Warehouse (EDW).² We did not test the validity of controls over this system; however, we verified the accuracy of the data by confirming the reported financial expenses for stamp stock shipment discrepancies to the Stock Ledger Expense Report and selected supporting information available on-site. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this audit from July through September 2017, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 3, 2017 and included their comments where appropriate.

Internal Controls Over Stamp Stock Shipments

Internal controls over stamp stock shipments at the Fremont PO needed improvement. Management properly scanned and secured stamp stock shipments upon arrival, and performed stamp count verification with a witness prior to recording receipt. However, they did not always adequately order stamps, record stamp stock shipments timely, or research and resolve stamp stock shipment discrepancies.

¹ An assigned six-digit number that correlates accounting data with the related post office installation. Fremont PO and Niles Station are sub-units within the six-digit finance number and have separate 4-digit finance number extensions for unique identification purposes.

² EDW is a collection of data from many sources stored in a single place for reporting and analysis.

The customer services supervisor (supervisor) routinely:

- Ordered stamp stock for the Fremont PO in excess of the office's authorized stamp stock limit.³
- Delayed recording receipt of stamp stock shipments, instead of when it was actually received.
- Did not research and resolve stamp stock discrepancies until notified by the Pacific Area financial specialists.

The Postmaster delegated the stamp stock shipments responsibilities to the supervisor but did not provide the required oversight. He also relied on Pacific Area financial specialists to monitor stamp stock shipment discrepancies. The Postmaster is responsible for overall monitoring of field unit operations, including stamp stock inventory levels, ensuring proper entry of all financial transactions, and researching and identifying the cause of stamp stock discrepancies.⁴

As a result, there was an increased risk that stamps could be lost, stolen, or sold without being recorded in inventory. In addition, stamp stock inventory and expenses were misstated, and unnecessary stock shipment discrepancy expenses were incurred.

Ordering Stamp Stock

The supervisor routinely ordered stamp stock in excess of authorized limits to ensure availability of stamps for sale and to reduce reliance on others for ordering stamps. During our scope period, we identified 12 and eight instances where excess stamp stock orders occurred for the Fremont PO and Niles Station, respectively. The supervisor stated revenue was the top priority, and she did not want to risk having insufficient stock. Even though a backup was available, she was the only one who ordered stamp stock, and even ordered stamps when she was not scheduled to work.

Postal Service policy requires post offices to order postage stamps to meet customer demand but not exceed stamp stock limits.⁵ Postal Service policy⁶ also requires the Postmaster, manager, or supervisor to monitor the stamp stock limits for excess and make the necessary adjustments to bring the unit back to their maximum limits. When post offices order excessive stamp stock, it increases the risk of additional losses or theft.

³ A PO's stamp stock limit is calculated based on the prior fiscal years sales.

⁴ Handbook F-101, *Field Accounting Procedures*, June 2016, Sections 2-4.a, 11-3.1, and 8-6.1.1.

⁵ Handbook F-101, Section 11-4.

⁶ Handbook F-101, Section 11-3.4.

Recording Stamp Stock Shipment

The supervisor manipulated stamp stock to avoid exceeding stamp stock limits. During our scope period, the supervisor delayed recording receipt of stamp stock shipments from SFS on 12 occasions in the amount of \$36,233 for the Fremont PO and eight occasions in the amount of \$44,757 for the Niles Station. Additionally, in September 2016, the supervisor transferred \$35,720 in stamp stock from the Fremont PO to the Niles Station in the Retail Systems Software (RSS).⁷ However, the stamp stock physically remained at the Fremont PO, and the Niles Station did not record receipt of the stock.

The supervisor stated it was her practice to record stamp stock shipments only when the receipt would not cause the unit to exceed its authorized stock limit. She acknowledged awareness of the requirement to record receipt of stamp stock shipment within 15 days but stated she was not always able to receive it within that timeframe without exceeding the stock limits. She also stated she transferred the stamp stock from the Fremont PO to the Niles Station so she could record two shipments of \$15,040 and \$20,680 into the Fremont PO without exceeding the stock limits.

Postal Service policy requires stamp stock shipments be recorded upon receipt, and for post offices to maintain an accurate inventory.⁸ As a result, Accounting Services⁹ recorded expenses for stamp stock shipment discrepancies, which were subsequently resolved.

Stamp Stock Shipment Discrepancies

The supervisor did not research and resolve stamp stock shipment discrepancies. In addition, the supervisor did not maintain a detailed file to ensure timely clearance of the discrepancies. She was unaware of the responsibilities and thought the process was to await notification and guidance from the financial specialists to resolve stock shipment discrepancies.

We identified 10 of 48 stamp stock shipment discrepancies, or 21 percent, valued at \$7,440, were not resolved during our scope period. Postal Service policy requires post offices to research expenses for stamp stock discrepancies, maintain a file with detailed records, and ensure timely clearance of expenses.¹⁰ The Pacific Area financial specialists notified the supervisor regarding unresolved stamp stock discrepancies. The supervisor researched to resolve the discrepancies with guidance by the Pacific Area financial specialists. The supervisor made entries in the RSS which generated clearing offsetting entries issued by Accounting Services. During our audit, the Pacific Area financial specialists provided the documentation to the audit team that all stamp

⁷ The software product used in all Postal Service retail locations that sell postal products and services.

⁸ Handbook F-101, sections 11-5.1, 11-3.1, and 11-3.4.

⁹ Accounting, disbursing, and data processing facilities that provide accounting support for postal activities.

¹⁰ Handbook F-101, Section 8-6.1.

shipment discrepancies issued during the scope period were cleared as of July 26, 2017. As a result, the Postal Service incurred unnecessary costs researching and resolving stamp stock shipment discrepancies.

Effective August 1, 2017, the Postmaster implemented controls to improve internal controls relating to stamp stock orders, expenses and limits, including resolving financial discrepancies timely and maintaining a file with detailed records. Specifically, the Postmaster now reviews and authorizes ordering of stamps to ensure stamp stock limits will not be exceeded; reviews the daily financial report including the *Unit Reserve Stamp Stock* report to monitor recording of stamp stock shipments; and uses a log to track, clear, and document stamp stock shipment financial discrepancies on a daily basis. Because management took corrective actions, we are not making a recommendation at this time. However, we may follow up in the future as part of our ongoing financial control audits.

We referred this information to U.S. Postal Service Office of Inspector General Office of Investigations for further review.

Management's Comments

Management agreed with the findings and took corrective actions based on this report, so the U.S. Postal Service Office of Inspector General (OIG) did not make recommendations. Management acknowledged that a follow-up audit may be conducted in the future.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the report, and corrective actions should resolve the issues identified in the report.

Appendix A: Management's Comments

DISTRICT MANAGER
BAY-VALLEY CUSTOMER SERVICE AND SALES



September 20, 2017

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Internal Controls Over Stamp Stock Shipments -
Fremont, CA, Post Office
(Report Number FT-FM-17-DRAFT)

The Bay-Valley District agrees with the Office of the Inspector General audit findings.

Management also agrees with the monetary findings.

Based on the report, management took corrective actions and the OIG is not making any recommendations at this time. A follow up audit may be conducted in the future as part of the OIG's ongoing financial controls audits.

A handwritten signature in black ink, appearing to read "Robert Reynosa".

Robert Reynosa
District Manager (A)
USPS Bay-Valley District

cc: AVP, Pacific Area (A)
Controller, Pacific Area
Manager, Corporate Audit Response Management
Manager, Pacific Area Accounting
Manager, District Finance
Manager, Post Office Operations
Postmaster, Fremont, CA