



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Stamp Manufacturing and
Inventory Management**

Audit Report

July 23, 2012

Report Number MS-AR-12-006



HIGHLIGHTS

BACKGROUND:

The U.S. Postal Service issues three kinds of stamps: (1) Definitives: issued in unlimited quantities in a variety of denominations — remain on sale until rates change; (2) Commemoratives: issued in limited quantities to pay tribute to people and events — remain on sale for about 18 months; and (3) Special Issues: such as the Love and holiday stamps, which supplement definitive stamp stock.

The Postal Service first issued Definitive Forever stamps in 2007 to reduce the number of stamps destroyed due to a rate change. Customers can purchase these non-denominational First-Class Mail[®] stamps at the current rate and use them indefinitely. The Postal Service reduced the number of stamps it prints annually from 29.7 billion (production cost, \$56 million) in fiscal year (FY) 2009 to 21 billion stamps (production cost, \$43 million) in FY 2011.

Our objective was to evaluate whether the Postal Service effectively forecasts stamp stock requirements and manages stamp inventory.

WHAT THE OIG FOUND:

The Postal Service's adoption of the Forever stamp has generally alleviated concerns regarding over-production and destruction of definitive First-Class Mail stamps. However, due to the unique

nature of commemorative and special issue stamps, production volumes require closer management scrutiny. Specifically, we found the Postal Service overproduced 2 billion commemorative and special issue stamps during calendar years 2009 and 2010, resulting in \$2 million of unnecessary manufacturing costs annually for stamps that were later destroyed. This occurred because the Postal Service did not develop and document an objective forecasting methodology and review process to determine stamp stock demand. In addition, reduced visibility in retail units hinders accurate forecasting and inventory management.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service improve controls over stamp manufacturing, including documentation of procedures to determine stamp stock requirements, and an enhanced review and approval process. We also recommended the Postal Service initially produce these stamps in limited runs and develop and implement a strategy to maximize sales through unique promotional opportunities, given the historical lifecycle of similar commemorative and special issue stamps.

[Link to review the entire report](#)



July 23, 2012

MEMORANDUM FOR: MARIE THERESE DOMINGUEZ
VICE PRESIDENT, GOVERNMENT RELATIONS AND
PUBLIC POLICY

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

A rectangular box containing a handwritten signature in black ink that reads "Darrell E. Benjamin, Jr." and a small yellow question mark icon in the top right corner.

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue & Systems

SUBJECT: Audit Report – Stamp Manufacturing and Inventory
Management (Report Number MS-AR-12-006)

This report presents the results of our audit of the effectiveness of the U.S. Postal Service's stamp manufacturing and inventory management (Project Number 12RG007MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Janet Sorensen, director, Marketing and Service, or me at 703-248-2100.

Attachments

cc: Ronald A. Stroman
Nagisa M. Manabe
Dean J. Granholm
Stephen J. Masse
Stephen M. Kearney
Charles G. Delaney
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction 1

Conclusion 2

Excessive Commemorative and Special Issue Stamps..... 2

 Enhancements to Commemorative Program 3

Improved Visibility Needed 4

 Proposed Solution Might Resolve Some Issues 5

Recommendations 6

Management’s Comments 6

Evaluation of Management’s Comments 7

Appendix A: Additional Information..... 8

 Background 8

 Objective, Scope, and Methodology 9

 Prior Audit Coverage 10

Appendix B: Monetary Impacts 12

Appendix C: Overproduced Commemoratives and Special Issue Stamps..... 13

Appendix D: Management’s Comments 14

Introduction

This report presents the results of our audit of the effectiveness of the U.S. Postal Service's stamp manufacturing and inventory management (Project Number 12RG007MS000). Our objective was to evaluate whether the Postal Service effectively forecasts stamp stock requirements and manages stamp inventory. This is a self-initiated audit and addresses financial risk. See [Appendix A](#) for additional information about this audit.

Stamps are generally issued in coils,¹ books, or sheets and in one of three categories:

- **Definitive:** Regular postage stamps issued in unlimited quantities in a variety of denominations that remains on sale until rates change. To reduce the number of stamps destroyed due to a rate change, the Postal Service began issuing definitive Forever stamps in 2007. Customers can purchase these non-denominational First-Class Mail[®] letter stamps at the current rate and use them indefinitely.
- **Commemorative:** Postage stamps issued in limited quantities to pay tribute to people and events.² In January 2011, the Postal Service began issuing all commemorative stamps as Forever stamps, so they can be revalued after a rate change and remain on sale.
- **Special Issue:** Stamps that supplement regular issues, such as the Love and holiday stamps.

Commemorative and special issue stamps attract two types of customers: members of the general public with special interest in stamps and collectors. The latter is a source of substantial revenue to the Postal Service. Collectors retained an estimated \$45.5 million worth of commemorative stamps in fiscal year (FY) 2010. In response to declining First-Class Mail volumes, the Postal Service reduced the projected number of definitive stamps needed by 29 percent from 29.7 billion in FY 2009 to 21 billion in FY 2011. In contrast, the Postal Service reduced its projected stamp requirements for commemorative and special issue stamps by 15 percent, from 5.5 billion in FY 2009 to 4.6 billion in FY 2011.

The Postal Service issues postage stamps and distributes them to about 35,000 postal retail units (PRUs) through its network of stamp distribution centers (SDCs).³ PRU managers return non-Forever stamps to the SDCs for destruction when they become obsolete or damaged, or after a rate change.

¹ A roll of 100 postage stamps.

² The Postal Service develops new commemorative stamp subjects based on public suggestions, input from the Citizens' Stamp Advisory Committee, and internal considerations. Stamp subjects are based on such features as historical events; themes of widespread national appeal and significance; and positive contributions to American life, history, and culture.

³ Facilities that consolidate district-level stamp fulfillment activities.

Conclusion

Overall, the Postal Service's adoption of the Forever stamp has alleviated concerns regarding overproduction and destruction of definitive First-Class Mail stamps. However, because of the unique nature and limited issuance of commemorative and special issue stamps, production volumes require closer management scrutiny. Specifically, we found the Postal Service overproduced 2 billion commemorative and special issue stamps during calendar years (CYs) 2009 and 2010,⁴ resulting in \$2 million of unnecessary annual manufacturing costs for stamps that were later destroyed. Overall, the Postal Service did not develop and document an objective forecasting methodology and review process to determine stamp stock demand. In addition, reduced visibility in retail units hinders accurate forecasting. If the Postal Service improves forecasting and inventory management processes, we estimate it could save about \$2 million annually. See [Appendix B](#).

Excessive Commemorative and Special Issue Stamps

The Postal Service overproduced 2.1 billion commemorative and special issue stamps during CYs 2009 and 2010. For example, the Postal Service forecast:

- A need for 1 billion Simpsons stamps. However, PRUs only sold 318 million of these stamps during CYs 2009 and 2010. Accordingly, the Postal Service over-produced 682 million stamps (215 percent), incurring unnecessary manufacturing costs of \$1.2 million.



Nearly twice as many Simpsons stamps were printed than the most popular commemorative ever issued.

- A need for 500 million Flags of our Nation (Series 4) stamps. However, PRUs only sold 120 million during CYs 2010 and 2011, resulting in over-production of 380 million stamps (317 percent), thus incurring unnecessary manufacturing costs of \$716,000.



Flags of Our Nation were over-produced by 317 percent.

As shown in [Appendix C](#), the Postal Service overproduced stamp stock for 37 of the 50 stamps issued during CYs 2009 and 2010 by an average of 34 percent. We did not identify concerns with underproduction of stamp stock, as officials ordered and distributed additional stamp stock as necessary.

The overproduction occurred because the Postal Service did not develop and document an objective forecasting methodology and review process to determine stamp stock demand. Currently, the manager, Stamp Manufacturing, manually compares historical

⁴ New stamp designs are planned and requirements are forecast for each calendar year. Stamps produced during a program calendar year will generally remain on sale into the following year. Accordingly, stamps produced during the program CYs 2009 and 2010 remained on sale through CY 2011 and into CY 2012.

production data retrieved from the Stamps Services System (SSS)⁵ to retail sales data from the Point-of-Service (POS)⁶ system. The manager then forecasts volume requirements in the stamp fulfillment networks to ensure that all retail outlets receive commemorative stamps. The manager then adjusts the forecast based on this information, personal professional expertise, and past sales of similar commemorative stamps. This process depends on manual procedures and the experience of one individual, which increases the risk for costly miscalculations. Further, such errors may be detected if an independent review and assessment of production estimates were performed.

At the end of FY 2011, Postal Service Asset Management officials began using historical sales data and identified factors such as stamp subject and color to determine stamp stock production requirements. The estimates were then provided to the manager, Stamp Manufacturing, for review. The first stamp issued with forecast quantities based on this process was the New Mexico Stamp, released on January 6, 2012. The effectiveness of the factors and the new processes are unclear at this time, because the first commemorative Forever stamp to be issued using these criteria is still being sold in PRUs.

Enhancements to Commemorative Program

Two enhancements to the commemorative and special issue stamp program could reduce overproduction: limited initial production and increased promotion.

- Limited Initial Production: Collectors make most stamp purchases shortly after the stamp's issue date. During CYs 2009 and 2010, our analysis disclosed that 50 percent of all commemorative and special issue stamp sales occurred in the first 13 weeks after the first day of issue. However, the Postal Service printed enough commemorative and special issue stamps to remain on sale for an average of 75 weeks during these 2 years, with more than 2 billion stamps remaining in excess after the issue period.
- Increased Promotion: Because commemorative and special issue stamps represent new products to the Postal Service line, retail customers might be encouraged to purchase them more if they knew of the stamps' availability and their Forever status. Additional retail presence, signage, and clerk promotion might increase the sales of these stamps, reducing the need for stamp destruction.

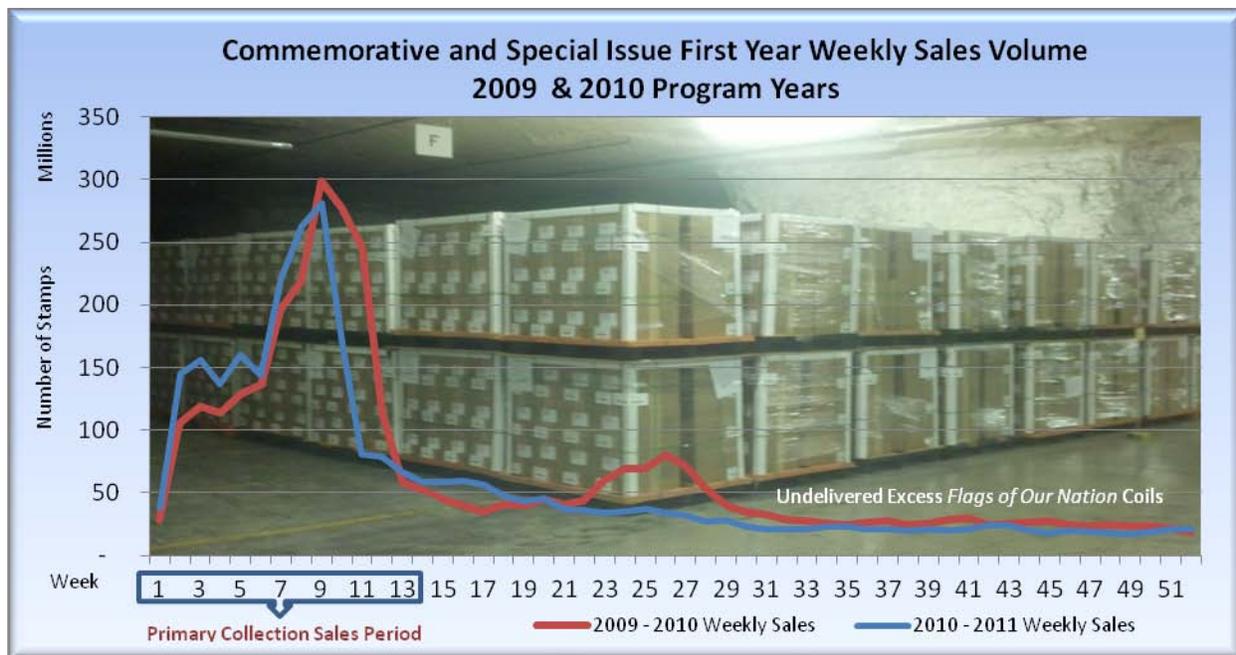
As shown in [Table 1](#), sales of commemorative and special issue stamps decline significantly between weeks 9 and 11, and sales become level after week 13. If commemoratives and special issue stamps were printed in smaller quantities, the Postal Service could take advantage of collectors' early interest in these stamps. Then

⁵ A web-based inventory control system used to facilitate and track the flow of accountable paper, including stamp stock, in and out of the SDC.

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

remaining stamp inventory could be depleted sooner, reducing the need to return and destroy excess stamp stock after the issue period.

Table 1



Source: Stamp Sales recorded in the Retail Data Mart. Photograph: U.S. Postal Service Office of Inspector General (OIG), January 2012.

Improved Visibility Needed

The Postal Service does not have complete visibility over national stamp stock inventory levels throughout the lifecycle of stamps. The Postal Service's current inventory control system, SSS, tracks stamp stock distribution from the SDCs to the PRUs. However, SSS does not interface with POS One,⁷ the system that records stamp sales and return transactions at retail units. Because data do not move between the two systems, Postal Service managers manually compare distribution data from SSS with stamp sales transactions from POS One⁸ to generate reports, track stamp sales nationally, forecast stamp requirements, and plan distribution.

The lack of integration between the two systems inhibits national visibility over PRU level inventories, which is needed to effectively manage and efficiently optimize stamp inventories. Without this visibility, Postal Service managers are unable to identify and redistribute stamps from PRUs with excess stamp stock to those with depleted inventories. Sharing stamp stock among PRUs would decrease unnecessary destruction and reprinting costs.

⁷ POS One is not in place at all PRUs, which means sales transaction data are not available from those sites.

⁸ POS transactions are maintained in the Postal Service's Retail Data Mart.

Further, when retail units return stamps to the SDCs for destruction,⁹ the stamps' identity (type and individual value) is not recorded in SSS and only the total value of stamps destroyed is recorded.¹⁰ Therefore, the Postal Service loses continuous national visibility into the total inventory of stamps in two places during the lifecycle: first, when stamps are sold at retail units and second, when stamps are redeemed for destruction. According to policy, the Postal Service is required to monitor and manage national stamp inventory levels from point of receipt to withdrawal from sale.¹¹ However, the Postal Service cannot effectively monitor national stamp stock inventory levels because of this lack of end-to-end visibility.

Proposed Solution Might Resolve Some Issues

To effectively manage its sizable investment of more than \$28.1 billion in material inventories and physical assets, including stamps, the Postal Service initiated the Asset Management Integration Program in 2009. Asset Management Integration focuses on creating an enterprise-wide approach to postal asset management, and included the completed consolidation of 71 stamp distribution offices into six SDCs. The effort includes the implementation of Solution for Enterprise Asset Management¹² (SEAM) for managing stamp and accountable paper distribution and inventory management at about 15,000 of the largest PRUs using POS One. The focus of SEAM is to determine the optimum replenishment quantities for automatic shipments to select PRUs based on sales volume.

Implementation of SEAM has the potential to improve some — but not all — of the stamp stock forecasting and visibility issues identified previously. Specifically, current plans for SEAM are expected to enhance visibility over national stamp stock inventory levels throughout the lifecycle of the stamp. However, Postal Service officials have informed us that SEAM will not have visibility into stamp stock at all PRUs or the functionality to enable inventory optimization through redistribution at the retail level. Officials explained that only POS One-enabled retail units will have visibility and that they are not considering inventory optimization at this time due to cost. We agree with management's assessment that it would not be cost effective to implement the functionality in SEAM to enable redistribution at the retail level because of the complexity and cost of accounting for and shipping stamp stock from one PRU to another. The anticipated improvements associated with SEAM will depend on complete

⁹ SDCs accept off-sale and customer redeemed stamps for destruction.

¹⁰ In December 2009, destruction clerks at the Kansas City SDC discontinued entering individual stamp identification numbers into the SSS when stamps were redeemed by PRUs. Instead, the clerks consolidated the total value of the stamps and entered Identification Number 3390000, Redeemed Postage Stock.

¹¹ *Administrative Support Manual*, Section 641.1.

¹² SEAM is designed to provide centralized asset and warehouse capacity, tracking, and visibility. SEAM is web-based and contains functional modules that support fulfillment, planning, and service management of inventories and assets. The Postal Service plans to implement SEAM Phase 1C, which includes asset management improvements for accountable paper, expedited packaging supplies, and remaining philatelic products. The Postal Service plans to fully roll-out Phase 1C by September 30, 2012.

and timely implementation. Because the Postal Service is taking cost-effective steps to improve the visibility of inventory at the PRU level, we will not make a recommendation regarding this issue at this time.

Recommendations

We recommend the vice president, Government Relations and Public Policy, in coordination with the vice president, Supply Management:

1. Improve controls over stamp manufacturing, including documentation of procedures to determine stamp stock requirements, and enhance the review and approval process for stamp volume forecasting.
2. Produce commemorative and special issue stamps in limited runs as part of a strategy to increase percentage sales of each stamp issued.
3. Develop and implement a strategy that captures peak sales and unique promotional opportunities of similar commemorative and special issue stamps to increase the percentage of each new issue sold.

Management's Comments

Management agreed with our findings, recommendations, and monetary impact. Management reiterated several changes to the stamp program since 2010, which will enhance the program. These include introduction of the Forever Stamp for definitive, commemorative, and special issue stamps, as well as the development of SEAM as a product distribution, tracking, and planning tool. Management also noted that on June 30, 2012, the program responsibility for Stamp Services moved from the vice president, Government Relations and Public Policy to the chief marketing and sales officer.

Regarding recommendations 1 and 2, management is developing standard operating procedures, to include stamp and philatelic products development, planning, production, distribution and end-of-life activities. SEAM, in conjunction with retail data and stamp attributes, will be the primary tool used to forecast production requirements, as well as inventory replenishment and oversight of inventory levels. The target implementation date is December 2012.

Regarding recommendation 3, management is developing a strategy for the stamp program that will maximize sales and profits for each stamp issued, through promotional opportunities and the issue of stamps that are contemporary and relevant to larger segments of the population. Target completion date is December 2012.

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

Evaluation of Management's Comments

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

Appendix A: Additional Information

Background

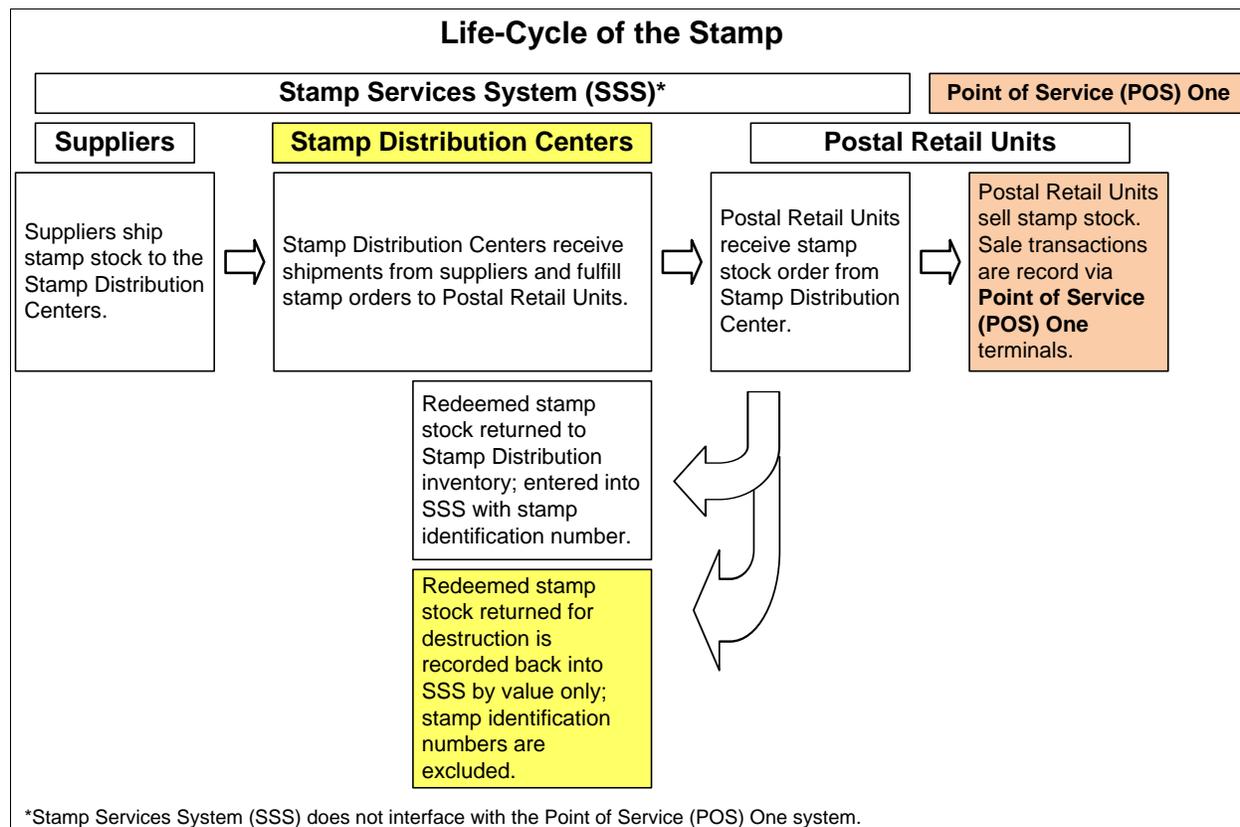
In 1847, the first official U.S. stamps were created, which were 5- and 10-cent stamps depicting Benjamin Franklin and George Washington, respectively. In 1893, Postmaster General George Wanamaker issued the first commemorative stamps, a series of 16 stamps commemorating the World Columbian Exposition held in Chicago, IL, which celebrated the 400th anniversary of Columbus' discovery of America. Initially opposed by Congress, the commemoratives were immensely popular with customers and collectors.

Today the commemorative stamp program continues to be popular. Annually, the Postal Service develops new commemorative stamp subjects based on suggestions the public provides to the Citizens' Stamp Advisory Committee. The committee then makes its recommendations to the postmaster general for his consideration. After input from Stamp Services,¹³ stamp subjects are chosen based on such features as historical events; themes of widespread national appeal and significance; and positive contributions to American life, history, and culture. In addition to the Postal Service's extensive line of definitive stamps, about 20 new subjects for commemorative stamps are recommended each year.

Stamp volume requirements are estimated by the Stamp Services group within the Postal Service. Stamps are printed and distributed to the SDCs, which distribute stamps to the PRUs. They sell stamps to customers or return unsold or damaged stamps to the SDCs (see [Chart 1](#)).

¹³ Stamp Services oversees the creation, production, distribution, and inventory management of postage stamps, stationery products, and philatelic products nationwide.

Chart 1



Source: OIG Analysis, May 2012.

Objective, Scope, and Methodology

Our objective was to evaluate whether the Postal Service effectively forecasts stamp stock requirements and manages stamp inventory. To accomplish our objective, we reviewed available policies, procedures, and documentation. We conducted on-site visits to Stamp Services, Asset Management, the Kansas City Stamp Distribution Center, and a local PRU; and interviewed key officials to gain an understanding of the management and oversight process to develop, print, distribute, maintain, and destroy stamps.

We identified data systems used to manage stamp stock levels at the local and national levels and gained access to this data as necessary. We analyzed and compared stamp manufacturing and distribution data to available sales data. Additionally, we assessed the usefulness of the stamp stock management data systems to determine whether they effectively help the Postal Service manage stamp stock.

We conducted this performance audit from October 2011 through July 2012, 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 June 20, 2012, and included their comments where appropriate.

We assessed the reliability of sales data maintained in the Retail Data Mart and distribution data maintained in the SSS by comparing the quantities by the individual stamp item numbers. We also confirmed our calculations with Postal Service management. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)	Report Results
<i>Stamp Distribution Procedures</i>	FF-AR-11-012	7/29/2011	\$5,907,151	The Postal Service did not sufficiently mitigate the increased level of risk incurred when it discontinued the use of Registered Mail™ service for stamp stock shipments and consolidated the stamp distribution offices into six SDCs. Additionally the report identified further consolidation of the stamp distribution network and performing all stamp destruction with Postal Service resources. The report made recommendations regarding limiting access to the SSS; development of a nationwide strategy to manage lost stamp stock shipments; consolidation of offices; and performing stamp destruction using Postal Service resources. Management agreed with the findings, recommendations, and

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)	Report Results
				monetary impact.
<i>New Approaches to Reduce Costs</i>	FF-AR-11-009	6/14/2011	\$2,153,111	The expansion of Forever Stamps had not expanded to large coils of First-Class™ stamps. It was calculated that 48,000 coils of those stamps would be destroyed. We recommended that a review be conducted to evaluate the benefits of converting all large coils to Forever Stamps. Management disagreed because they felt the customer base for those products differed from other 1-ounce stamp customers.

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount ¹⁴
1	Questioned Costs (CYs 2010–2011)	\$4,068,611 ¹⁵
1	Funds Put to Better Use (CYs 2013–2014)	4,068,611
Total		\$8,137,222

¹⁴ To quantify the monetary impact for the program issue years 2010 and 2011, we compared the total quantity of stamps produced to the total number of stamps sold for each individual commemorative and special issue stamps. We then calculated the questioned cost by multiplying the manufacturing unit cost to the excess quantities produced. The average annual over-production cost was then projected for the program issue years 2013 and 2014 to project the future potential funds put to better use.

¹⁵ The annual amount is \$2,034,305.

Appendix C: Overproduced Commemoratives and Special Issue Stamps

Calendar Years 2009 and 2010 Issue Period 2009 through 2011

Stamp Description	First Day of Issue	Forecast Stamp Requirement	Stamps Sold	Excess Stamp Stock	Percent	Over Production Cost
Alaska Statehood	03-Jan-09	30,000,000	28,953,528	1,046,472	4%	\$ 2,720
Lunar New Year (Year of the Ox)	08-Jan-09	60,000,000	24,525,442	35,474,558	145%	92,221
Oregon Statehood	14-Jan-09	30,000,000	24,793,215	5,206,785	21%	13,536
Edgar Allan Poe	16-Jan-09	30,000,000	25,497,087	4,502,913	18%	11,706
Abraham Lincoln	09-Feb-09	50,000,000	43,582,219	6,417,781	15%	16,684
Pioneers of Civil Rights Movement	21-Feb-09	24,000,000	10,312,124	13,687,876	133%	31,085
The Simpsons	07-May-09	1,000,000,000	317,681,254	682,318,746	215%	1,230,896
Love King & Queen of Hearts	08-May-09	500,000,000	480,160,800	19,839,200	4%	35,790
Bob Hope	29-May-09	100,000,000	80,601,350	19,398,650	24%	50,429
Black Heritage (Anna Julia Cooper)	11-Jun-09	125,000,000	112,065,565	12,934,435	12%	33,625
Zion National Park	28-Jun-09	40,000,000	16,734,400	23,265,600	139%	60,482
Gulf Coast Lighthouses	23-Jul-09	100,000,000	99,579,720	420,280	0%	1,093
Flags of our Nation (Series 3)	06-Aug-09	500,000,000	496,570,600	3,429,400	1%	6,090
Early Television Memories	11-Aug-09	50,000,000	43,186,770	6,813,230	16%	17,712
Eid	03-Sep-09	20,000,000	13,584,337	6,415,663	47%	16,678
Thanksgiving Day Parade	09-Sep-09	40,000,000	39,313,970	686,030	2%	1,783
Legends of Hollywood (Gary Cooper)	10-Sep-09	40,000,000	39,160,925	839,075	2%	2,181
Supreme Court Justices	22-Sep-09	8,000,000	3,190,321	4,809,679	151%	10,923
Nature of America (Kelp Forest)	01-Oct-09	25,000,000	22,384,978	2,615,022	12%	5,939
Winter Holidays	08-Oct-09	1,300,000,000	1,078,703,956	221,296,044	21%	399,216
Hanukah Menorah	09-Oct-09	35,000,000	24,412,678	10,587,322	43%	27,523
Kwanzaa	09-Oct-09	30,000,000	28,289,569	1,710,431	6%	4,446
Lunar New Year (Tiger)	14-Jan-10	40,000,000	39,915,024	84,976	0%	231
Winter Olympics	22-Jan-10	45,000,000	44,683,080	316,920	1%	860
Distinguished Sailors	04-Feb-10	25,000,000	24,819,010	180,990	1%	491
Flags of our Nation (Series 4)	16-Apr-10	500,000,000	119,844,150	380,155,850	317%	716,445
Adopt a Shelter Pet	30-Apr-10	391,000,000	389,707,871	1,292,129	0%	3,508
Katherine Hepburn	12-May-10	50,000,000	39,580,365	10,419,635	26%	28,285
Kate Smith	27-May-10	40,000,000	25,918,406	14,081,594	54%	38,225
Negro Leagues Baseball	15-Jul-10	80,000,000	60,010,880	19,989,120	33%	54,262
Black Heritage (Oscar Micheaux)	22-Jun-10	80,000,000	33,242,360	46,757,640	141%	126,926
Scouting	27-Jul-10	40,000,000	39,842,845	157,155	0%	427
Nature/America Haw'n Rain Forests	01-Sep-10	30,000,000	20,806,445	9,193,555	44%	23,229
Mother Teresa	05-Sep-10	60,000,000	51,597,705	8,402,295	16%	22,808
Literary Arts (Julia de Burgos)	14-Sep-10	30,000,000	18,997,100	11,002,900	58%	29,868
Angel with Lute	21-Oct-10	400,000,000	166,833,595	233,166,405	140%	632,943
Christmas (Hol. Evergreens) Forever	21-Oct-10	2,000,000,000	1,811,577,438	188,422,562	10%	317,347
Totals:		7,948,000,000	5,940,661,081	2,007,338,919	34%	\$4,068,611

Source: Stamp Sales recorded in the Retail Data Mart, March 2012.

Appendix D: Management's Comments



July 16, 2012

LUCINE M. WILLIS

SUBJECT: Response to Draft Audit Report – Stamp Manufacturing and Inventory Management (Report Number MS-AR-12-DRAFT)

We appreciate the opportunity to review and comment on the subject draft report. Management is in general agreement with the Office of Inspector General's (OIG) base findings in the review of the calendar year (CY) 2009 and 2010 stamp programs, the recommendations, and resultant monetary impact. However, this report comes at a time of transition for the stamp program and we would like to provide information on those changes since 2010 that have enhanced the program and will define the direction for addressing the report's recommendations.

The first was the introduction of the Forever stamp. This new concept has significantly changed the context in which stamp production and sales forecasting is currently conducted. The two examples cited in this report (*Simpsons* and *Flags of Our Nation*) were issued in the standard denominated rate. Under the new policy, as Forever stamps, both issues would have remained in the market for a longer period of sales activity allowing the potential for increased sales.

Another recent change has been in the process of forecasting stamp sales. Asset Management Planning is providing Stamp Services with historical data on stamp attributes and sales with recommendations based on collected sales data. As much a factor that this information can be, one would have been hard pressed to predict a fall-off in sales of *Flags of Our Nation* by seventy-five percent between Series 3 and Series 4. Nonetheless, that market lesson was quickly learned and production was cut in half for the final two series.

Currently underway are the implementation phase of the Solution for Enterprise Asset Management (SEAM) system as a product distribution tracking and planning tool, and the development of Sales and Operations Planning (S&OP) as a new business process. Also, effective June 30, there was a change in the reporting relationship of the Stamp Services organization from the Vice President, Government Relations and Public Policy to the Chief Marketing and Sales Officer. As such, the response is being signed by the organization having lead responsibility going forward for implementation of the recommendations.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260

AUDIT RECOMMENDATIONS

We recommend the Chief Marketing and Sales Officer, (formerly addressed to vice president, Government Relations and Public Policy), in coordination with the vice president, Supply Management:

Recommendation 1. Improve controls over stamp manufacturing, including documentation of procedures to determine stamp stock requirements, and enhance the review and approval process for stamp volume forecasting.

Management Response/Action Plan: Management agrees and a solution is underway to address improving these controls in a manner that will support this recommendation. Asset Management Planning and Stamp Services have conducted several meetings with the goal of establishing an S&OP process. The scope of this process will include stamps and philatelic products development, planning, production, distribution and end-of-life activities. We are currently mapping the current business processes of all these activities and identifying all internal and external stakeholders.

SEAM will be used as the planning and distribution tool in conjunction with data provided by retail Point of Service (POS) sites to provide sales data for forecasting and the determination of production requirements. Also, SEAM will be used as the primary method for philatelic inventory replenishment and oversight of retail site accountability levels.

The S&OP process will establish checkpoints for stakeholder input and decision making as stamps and philatelic products wind their way through the development and product life cycles. These meetings will be formalized with approved recommendations from the participating organizations for each stamp issue.

Since revenue generation, revenue retention, and efficiencies throughout the product life cycle are the key goals, reviews and assessments of all product performance will be built into the business process to determine the effectiveness of decisions and actions taken.

Target Implementation Date: We estimate that it will take approximately ninety days to complete the business process mapping for each of the organizational stakeholders, compile a master plan, and agree on the final process. The target date to launch the S&OP process is in the fall of this year (Fiscal Year 2013), in time to incorporate the CY 2013 Stamp Program into the new business process. Not later than December 2012.

Responsible Official: The responsible parties for the structure and implementation of the S&OP process are Manager, Stamp Manufacturing and Manager, Asset Management Planning.

Recommendation 2. Produce commemorative and special issue stamps in limited runs as part of a strategy to increase percentage sales of each stamp issued.

Management Response/Action Plan: Management agrees. The introduction of historical sales data from SEAM and POS transactions and its refinement over time will be integral in planning production quantities and forecasting sales for the program. This information is one current factor in determining stamp production. Other attributes, e.g., subject matter and promotional resources to support specific stamp issues, are also determining factors. These will be included in the S&OP process with the goal of minimizing any end-of-life product destruction. This will also be formalized with approved recommendations from the stakeholder organizations.

Target Implementation Date: As in response to recommendation 1 above, we estimate that it will take approximately ninety days to complete the business process mapping for each of the organizational stakeholders and to compile them into a master plan and agree on the final process. The target date to launch the S&OP process is in the fall of this year (FY 2013), in time to incorporate the CY 2013 Stamp Program into the new business process. Not later than December 2012.

Responsible Official: The responsible parties for the structure and implementation of the S&OP process are Manager, Stamp Manufacturing and Manager, Asset Management Planning.

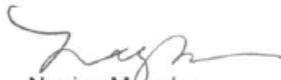
Recommendation 3. Develop and implement a strategy that captures peak sales and unique promotional opportunities of similar commemorative and special issue stamps to increase the percentage of each new issue sold.

Management Response/Action Plan: Management agrees and is now developing the strategy for the CY 2013 stamp program within the marketing group. We are looking for promotional opportunities to maximize sales and profits from each stamp we issue. The Citizens' Stamp Advisory Committee also is involved in seeking future stamp subjects that are contemporary and relevant to larger segments of the population. We believe the percentage of new stamps sold is already at or near an all-time high, and we will continue to try to increase it. On the other hand, as destruction of unsold stamps is a relatively small component of the overall cost of the stamp product, and stamps have a very high profit margin, the percentage of stamps sold must be viewed in relation to the overall net financial return from stamps.

Target Implementation Date: The strategy for the CY 2013 stamp program will be completed by December 2012.

Responsible Official: The responsible party for the CY 2013 stamp program strategy is Manager, Stamp Development.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.



Nagisa Mahabe
Chief Marketing and Sales Officer
and Executive Vice President



Susan M. Brownell
Vice President Supply Management

cc: Ronald Stroman
Marie Therese Dominguez
Dean Granholm
Stephen Masse
Stephen Kearney
Charles Delaney
Myrna Murphy
Connie Totten-Oldham
Trent Ensley
Robert D'Orso
Susan Witt
Corporate Audit and Response Management