

March 30, 1998

ALLEN R. KANE
CHIEF MARKETING OFFICER
AND SENIOR VICE PRESIDENT

SUBJECT: Management Advisory Report-on the Kansas City Fulfillment Services
Center (RG-MA-98-001)

Attached is our final Management Advisory Report on the Kansas City Fulfillment Services Center which provides specific details concerning this review. Based upon our visit, we observed three conditions which we believe warrant your attention concerning [REDACTED], the destruction of obsolete stamps, and prior audit work. We have incorporated your January 28, 1998, response to the draft advisory report and included it separately as an attachment.

We plan to perform additional work in this area. If you have any questions, please contact Wayne Goleski, Director of Revenue Generation, or me at [REDACTED].

Sylvia L. Owens
Assistant Inspector General
for Investigations

Attachment

cc: Azeezaly Jaffer, Director Stamp Services
Gary Stone, Acting Manager, Fulfillment Services Center
John Gunnels, Audit Liaison
Lawrence Lum, Manager of Stamp Distribution

MANAGEMENT ADVISORY REPORT (RG-98-001)

Background and Summary:

The Office of Inspector General (OIG) staff toured the Kansas City Stamp Fulfillment Services Center (SFS) on December 8, 1997. The tour was extremely informative and we obtained an excellent overview of the services provided at this unique location. We were intrigued by the potential of the new SoftPick automated equipment, which will greatly enhance the speed at which customer orders are filled. Further, the quality of work executed by the SFS Center staff that performed hand-cancellations is impressive. The Acting Manager of the Fulfillment Services Center and his staff were very courteous and provided excellent assistance during our visit.

In addition, we toured the adjacent Stamp Distribution Network Office (SDN), which was also very enlightening. We noted that the SDN has approximately [REDACTED] in stamps [REDACTED], and had just received their first shipment of the new Series H stamps.

Based upon our visit, we observed three conditions which we believe warrant your attention.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

MANAGEMENT ADVISORY REPORT (RG-98-001)

[REDACTED]

[REDACTED]

Observation #2:

THE DESTRUCTION OF OBSOLETE STAMPS:

During our tour of the SDN, management officials advised that there was a significant backlog of stamp inventory awaiting destruction. Because of other priorities, management informed us that the destruction of these obsolete or outdated stamps had been delayed. They could not provide a firm estimate as to when the destruction of the numerous palettes of stamps would be accomplished.

[REDACTED]

Suggestion #2:

We recommend that the SDN management arrange for the prompt destruction of these stamps, and determine the cost/benefit, including security considerations, of the alternate methods of stamp destruction.

Management Response:

The Kansas City SDN also serves as the National Stamp Depository (NSD), and there is a significant backlog of accountable paper inventory awaiting destruction. Regardless of the reasons for this backlog, efforts are ongoing to eliminate the backlog and to continue to destroy redeemed obsolete and unusable, accountable paper in a more efficient and expedient manner. In response to your inquiry, we accelerated the schedule for the SDN's destruction process. We estimate that the destruction of our current backlog of obsolete stock will be completed by the end of this fiscal year.

MANAGEMENT ADVISORY REPORT (RG-98-001)

Observation #3:

PRIOR AUDIT WORK:

Both the Fulfillment Services Center and the SDN staff stated they have not been independently reviewed since 1991. The SDN stated they perform periodic internal inventory reviews; however, no review of the SDN has been performed by the Inspection Service or by an independent public accounting firm in recent years. The Fulfillment Services Center, which has approximately [REDACTED] inventory, performs periodic internal inventories, but also has not been independently reviewed. Because of the [REDACTED] of their inventory and the significance of their program operations, we will perform audit work in this area.

Management Response:

Regarding the independent audit reviews, personnel at both the SFS and SDN welcome and are available, as necessary, for audit work in this area by the OIG team.

Evaluation of Management's Comments:

In their response, management provided additional clarifying information concerning our observations and their comments were generally responsive to our suggestions. Upon completion, the corrective actions should satisfactorily resolve the observations identified.

ALLEN KANE
CHIEF MARKETING OFFICER
SENIOR VICE PRESIDENT



January 28, 1998

KARLA W. CORCORAN

SUBJECT: Management Advisory Report (RG-98-001)

The above-referenced report detailed three observed conditions, with two recommendations, for my attention. Regarding your December 8 visit and tour of Kansas City Stamp Fulfillment Services (SFS) and the Kansas City Stamp Distribution Network (SDN), the following information is provided in response to those observations and recommendations.

[REDACTED]

[REDACTED]

Security for SFS has not been compromised during construction and change over of equipment. The newly constructed area of the facility did not house unattended [REDACTED] stock during the "phase-in" period, and all monitoring systems for the existing facility were operational. The design work and installation schedule has been accomplished with the involvement of our local Inspection Service personnel. [REDACTED] have ongoing involvement and have performed important roles in this project.

[REDACTED]

DESTRUCTION OF OBSOLETE STAMPS

The Kansas City SDN also serves as the National Stamp Depository (NSD), and there is a significant backlog of accountable paper inventory awaiting destruction. Large quantities of returned and redeemed accountable paper and former rate-case, obsolete, non-denominated material are inventoried and stored there. It is true there is a delay from the time a stamp is withdrawn from sale until we can physically dispose of the item, but the SDN/NSD destruction activity (in one form or another) has always been and will continue to be ongoing.

Regardless of the reasons for this backlog, efforts are ongoing to eliminate the backlog and to continue to destroy redeemed obsolete and unusable accountable paper in a more efficient and expedient manner. In response to your inquiry, we accelerated the schedule for the SDN's destruction process.

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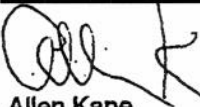
days for installation. The requirement for three additional employees for destruction teams has been identified and will be addressed. Also, there are plans to destroy the obsolete stationery items (bulk postal cards and stamped envelopes) through paper recycling plants. We are now locating potential recycling centers in the area that can use this material as part of our environmentally benign stamp adhesive research and test project.

All destruction activities, whether contained on-site or alternatively destroyed by burning at an off-site facility, are coordinated and with the approval of local Inspection Service personnel. We estimate that destruction of our current backlog of obsolete stock will be completed by the end of this fiscal year.

PRIOR AUDIT WORK

Regarding the independent audit reviews, personnel at both the SFS and SDN welcome and are available, as necessary, for audit work in this area by the Office of Inspector General's team. The decision to perform or not to perform these audits has always been with the Inspection Service. As noted, the SDN and SFS staff perform periodic internal inventory reviews to verify inventory records.

If you have any further questions, please contact Azeezaly S. Jaffer, Manager, Stamp Services, at



Allen Kane

cc: Azeezaly Jaffer, Manager Stamp Services
Gary Stone, Acting Manager, Stamp Fulfillment Services
Bobby Elrod, Acting Manager, Stamp Distribution