

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**AUDIT OF NATIONAL POSTAL SERVICE
FISCAL YEARS 2009 AND 2012**

REPORT NO. 2013-03



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National Public Auditor



FEDERATED STATES OF MICRONESIA

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April 30, 2013

His Excellency Manny Mori, President
Members of the FSM Congress

RE: Audit of the National Postal Service

We have completed the audit of National Postal Service (NPS) covering the review of controls on postage inventory and revenue collection transactions from Fiscal Years 2009 to 2012, up to May 2012. We conducted the audit pursuant to Title 55 FSM Code, Chapter 5, which states in part:

“The Public Auditor shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, offices, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government.”

In addition, the audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States.

The objectives of the audit were to determine whether:

1. Stamp stocks and other philatelic products reflected on records were being counted, managed and protected;
2. All revenues due to NPS from IGPC and postal clerks' sales were collected and properly accounted for.

Based on our audit, we concluded that there is a potential for improvement in the areas of management and protection of inventory of postage stamps and philatelic products. Furthermore, improvement in control is also necessary to ensure that revenues due to NPS from IGPC are fully collected. Our findings disclosed the following:

- \$5.9 Million worth of postage and philatelic products inventory as of fiscal year ending 2011 equivalent to 16 years sales was excessive
- \$467,550 expired and damaged postage stamps and stamp papers equivalent to a little over one-year sales accumulated in the inventory

- Lack of internal control procedures in the stock room and sales agents' operations caused unexplained large amount of stock count discrepancies.
- Inadequate segregation of duties increased the risk of fraud and undetected errors
- Inadequate contract monitoring caused failures to collect postal revenue amounting to \$76,482 and check the accuracy of income and financial reporting

To address the above findings, we identified the causes and recommended the following improvements for management actions:

Postmaster General

- Develop and implement policies and control procedures governing ordering of stocks and maintaining stock level at the national stock room, philatelic manager's custody, post office and at sales agents custody to avoid the costs normally associated with overstocking and under stocking of postage and philatelic products inventories.
- Develop and implement an inventory system to adequately control, manage and protect postage inventory at the stock room and facilitate tracing, count, reconciliation, and accounting
- Implement a program on how to market/dispose the excess postage and philatelic products and thus, achieve the desired inventory level
- Develop and implement policies and procedures that would require all stamp stock custodians to identify and report expired and damaged stamp stocks and philatelic products on regular basis. As a means of monitoring, the Postmaster General should ask for regular report of expired and damaged stamps and philatelic products from the main stockroom custodians.
- Activate the Destruction Committee that would supervise the effective disposition or destruction of damaged and expired stamps to avoid unauthorized uses.
- Ensure that immediate action to settle or investigate reported discrepancies both in cash and in stock accountabilities are implemented.
- Collect all outstanding share of income due from IGPC in a timely manner.
- Remove the provision in the contract allowing IGPC to reimburse the travel expenses of Postal Service employees and deduct the same from the minimum income. For better control and avoid the additional monitoring activity to ensure reimbursement, the processing of employee travels to IGPC should only be processed by the FSM National Government's Department of Finance and Administration and without reimbursement from IGPC so that the minimum income could be collected in full amount.

- Along with the Manager of Philatelic Bureau and Finance Officer, implement the control procedures to ensure that all the terms and conditions of the agreement are complied.
- Study the contract with IGPC considering benefits/costs and determine the need for its renewal since it has already expired

National Stock Controller, Postmaster and Manager of Philatelic Bureau

- Perform his responsibility to receive old stamps from the postmasters and respective custodians and to continuously monitor and immediately remove defective stamps from the inventory for reporting and destruction to prevent further uses.
- The Postmaster as well as the Finance Officer should sign the daily sales and stock accountability reports (PS Form 1412-A & 1214-B) of the sales agents to check the accuracy of daily reporting and to ensure that discrepancies are immediately identified and appropriate decisions made.
- Postmaster should implement proper segregation of duties when delegating responsibility to deter, prevent and reduce the risks of employee fraud and error, which are normally associated with a single person performing incompatible duties

Sales Agents

- The sales agents should account their daily stamp/philatelic product inventories (beginning and ending), withdrawals and sales in a detailed manner. All of the stamp withdrawals, sales, and inventories in the daily report should provide details uniquely identifying stamps as to type/image name, face value, quantity and total value to facilitate count, reconciliation and accounting.

We discussed the contents of this report with the Postmaster General. We also provided office with the draft of this report for their formal management response. We received the management response and attached it as part of this report under the section for Management Response. The Postmaster General generally agreed with the finding and recommendations.

Respectfully yours,



Haser Hainrick
National Public Auditor

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INTRODUCTION

Background

In 1983, **FSM Public Law 3-13** created the National Postal Service (NPS) as an independent agency of the National Government of Federated States of Micronesia (FSM). Its primary purpose is to provide and promote efficient safe postal services and market postage stamps and philatelic products within the FSM and worldwide. It maintains its main office in Kolonia, Pohnpei and has a post office in each of the four FSM states under the supervision of a State Postmaster who serves under the authority of the Postmaster General. The Postmaster General is responsible for supervising the operations of the NPS and performing such other duties and functions as may be necessary to carry out the provisions of the National Postal Service Act.

In April 2006¹, the NPS entered into a three-year contract agreement with Inter-Governmental Philatelic Corporation (IGPC), a US-based company, for the purpose of production, promotion and marketing of FSM stamps and other philatelic products worldwide. As per agreement, IGPC shall produce the stamps and other **philatelic products**² necessary to meet FSM's philatelic and postal needs, free of charge. However, subject to the provisions of the agreement, IGPC is required to remit the net income for stamps and other philatelic products it sold or a minimum yearly income of \$50,000 less travel expenses, as outlined in *Part 7 of the contract agreement* (refer to Appendix B for excerpt). The IGPC should transfer (by wire) or send by mail the payments to the Postmaster General for credit to the NPS.

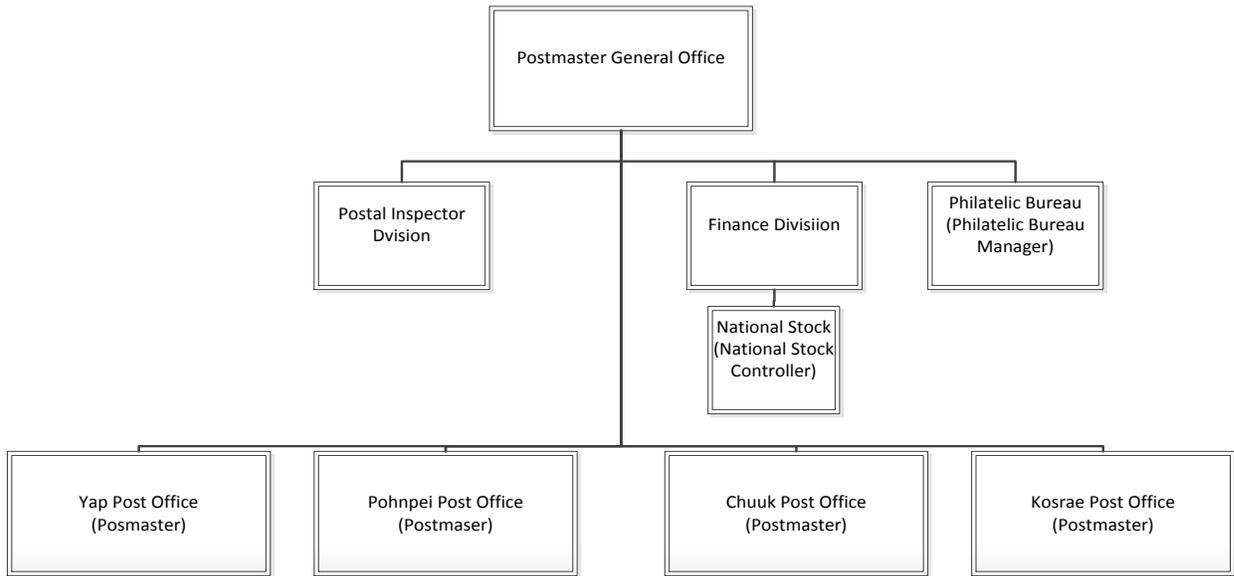
Organization Chart

As indicated in the organizational chart in the subsequent page, the agency consists of various divisions including the Postmaster General Office, Postal Inspection Division, Finance Division, Philatelic Division, and Post Offices. Except for Kosrae State, the three (3) other states Post Office have sub-branches. The National Stock Controller, under the immediate supervision of the Finance Office, maintains and controls all the national stamp stocks received from IGPC and stored in a separate stockroom. Each Postmaster and the Philatelic Bureau Manager maintains also a stockroom to store and safeguard all stamp stocks received from the National Stock Controller. From the Philatelic Bureau Manager/Postmaster, the Postal Clerks and Philatelic Aides withdraw postage stamps/philatelic products for their daily sales and accountabilities.

¹ The agreement should have been expired in April 2009 but with the automatic 2-year renewal in the agreement, it expired in April 2011.

² Philatelic products – stamps mean first day covers, collections of stamps in album or folders and all other items in which stamps are or are intended to be placed, and all other items, which may be derived from the design of the stamps.

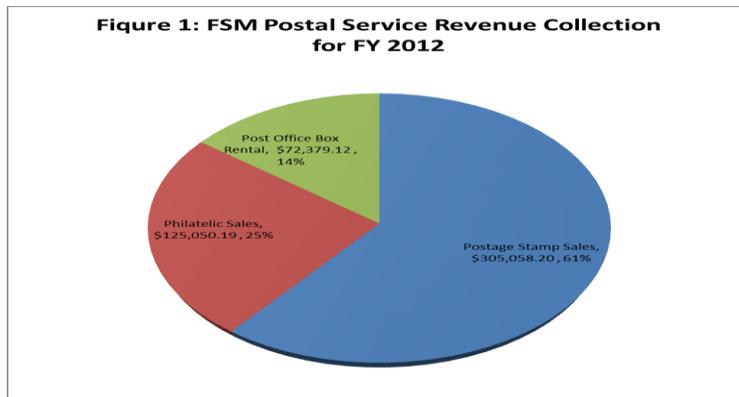
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Annual Revenue Collection for NPS

The revenues and expenditures of the National Postal Service were being recorded in the books of accounts and reflected in the Financial Statements of the FSM National Government. An external auditor has subjected such financial statements to an annual financial audit. Based on the records obtained from the FSM Department of Finance and Administration, the total revenue collected for NPS during Fiscal Years 2009 to 2012 was approximately \$1.9 million or yearly average revenue of \$489 thousand. NPS collects revenue from various sources including postage stamp sales, philatelic products sales, box rentals and others as illustrated in Figure 1 below. Like other agencies of FSM National Government, the NPS requests and receives funding annually from Congressional appropriations since its generated revenues were not sufficient to support its operational expenditures. During the same Fiscal Years 2009 to 2012, its total operational expenditures were about \$ 2.8 million or yearly average of \$709 thousand. Thus, the average annual funding additionally requested from the FSM National Congress was \$728 thousand for the last 4 years or yearly average of \$182 thousand.

The revenues derived from the sales of stamps and other revenue generating activities by IGPC and NPS are deposited in the General Fund of the FSM.



Fiscal Year	Revenue
2009	\$ 611,173.24
2010	417,557.65
2011	428,455.51
2012	502,487.51
TOTAL	\$ 1,959,673.91

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Objective, Scope and Methodology

Objective – We audited the NPS in response to the Postmaster General’s request to conduct an audit of the FSM Postal Office *considering her recent assumption³ of the post and the need to understand the overall circumstances of the FSM Post Offices*. Furthermore, we performed a survey that helped us identify the focus of the audit such as: 1) inventory control of postage stamp stocks and philatelic products and 2) revenue due from IGPC. Therefore, our audit objectives were to determine whether:

3. Stamp stocks and other philatelic products reflected on records were being counted, managed and protected.
4. All revenues due to NPS from IGPC and postal clerks’ sales were collected and properly accounted for.

Scope – The audit included the review of the control processes for inventory management and revenue-generating functions. It did not cover the aspect of determining whether the inventory balances reflected on records are actually existing as of specific period. Furthermore, this audit did not assess whether the arrangement with IGPC was reasonable.

Our review of transactions was limited to testing of revenue collections from Fiscal Year 2009 to May 2012. We performed our audit at the National Postal Service main office and field office in Pohnpei.

The audit was conducted pursuant to Title 55 FSM Code, Chapter 5, which states in part:

“The Public Auditor shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, offices, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government.”

Methodology – We designed and performed our audit procedures to evaluate controls and test transactions:

- To determine whether the stamp stocks and other philatelic products reflected on records are counted, managed and protected, we assessed the adequacy of internal controls, conducted cash count and count the stamps and other philatelic products. We also compared the results of the counts with the related accountabilities. Furthermore, we interviewed key officials, reviewed and analyzed postal service financial information and records. For the inventory of stocks and philatelic products maintain in the National Stock room and Philatelic Bureau Division however, we did not perform an inventory

³ The current Postmaster General assumed office on October 05, 2011.

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count because this audit concerned more on control processes and did not cover the aspect of determining whether the inventory balances reflected on records were existing as of specific period. In addition, the National Postal Inspector conducted an inventory count for main stock inventories during the previous year and the results of those counts were reported to the Postmaster General. For purposes of this audit, we obtained the inventory control balances to analyze the inventory levels.

- To determine whether all revenues due to NPS from IGPC and postal clerks' sales were collected and properly accounted, we obtained and reviewed relevant postal accounting policies and procedures. We further reviewed the contract between NPS and IGPC. Likewise, we interviewed key officials.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings.

Prior Audit Coverage

An external auditor has subjected the NPS to an annual financial audit. We found no audit findings related to the objectives of this audit.

Furthermore, the Postal Inspector subjected the NPS to his internal audits. The December 2011 audit report of the Postal Inspector disclosed findings related to our objectives include the absence of postage stamp stock listing on hand to compare postage image names and values, discrepancies between postage stamp stock ledgers versus physical counts, and delayed submission of reports required from the IGPC, which last submitted those reports in March 2011.

Conclusion

Based on our audit, we conclude that improvement is needed in the management and protection of inventory of postage stamps and philatelic products. Furthermore, improvement is also needed to ensure that revenues due to NPS from IGPC are fully collected. Our findings include the following:

- \$5.9 Million worth of postage and philatelic products inventory as of fiscal year ending 2011 equivalent to 16 years sales was excessive
- \$467,550 expired and damaged postage stamps and stamp papers equivalent to a little over one-year sales accumulated in the inventory
- Lack of internal control procedures in the stock room and sales agents' operations caused unexplained large amount of stock count discrepancies.

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- Inadequate segregation of duties increased the risk of fraud and undetected errors
- Inadequate contract monitoring caused failures to collect postal revenue amounting to \$76,482 and check the accuracy of income and financial reporting

The findings and recommendations are discussed in detail in the following pages.

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FINDINGS AND RECOMMENDATIONS

Finding 1- \$5.9 Million Worth of Postage Inventory as of Fiscal Year Ending 2011 Equivalent to 16 Years Sales was Excessive

Prudent practices in any inventory management require that a desirable level of inventory be maintained at all times to avoid costs associated with overstocking or under stocking. In the case of postage inventory, NPS should develop and document an objective methodology and review process to consider and determine the stamp stock demand (sales forecast), lead time for postage stamp printing and delivery, obsolescence or expiring commemorative stamps for destruction and the desired postage inventory level that will avoid opportunity loss and storage and handling costs.

In addition, the FSM postal stamp examination procedures per memo dated February 27, 2006 required that managers should hold stamp credit or stamp inventory to a reasonable multiple of the weekly sales amount.

We obtained the control balances of postage stamps and philatelic products inventories kept at national and philatelic stock rooms. Refer to Finding 3 for further discussion of the related findings on inventory count. We found that the NPS management did not engage in adequate inventory management activities. From the analysis of both postal records and inventory level, and using the fiscal year ending September 30, 2011 as the cut-off, we found that the two stock rooms at the NPS were overstocked with inventory of postage stamps and philatelic products. As indicated in Table 1 below, the National Stock room and Philatelic Bureau Division maintain an inventory amounted to \$4.3 million and \$1.6 million, respectively. Based on the FY 2011 total annual sales of \$377,000, we estimate that these inventories would be good for or equivalent to 16 years of sales.

Table 1 Analysis of Stamp Inventory on Hand (FY 2011)				
Location	Annual Stock Level Based on Annual Sales⁴	Inventory as of FY 2011 ending⁵	Amount of Excessive Inventory⁶	Years Sales of Actual Inventory⁷
National Stock	\$ 315,855	\$ 4,382,479	\$ 4,066,624	14 years
Philatelic Bureau Stock	61,414	1,555,601	1,494,187	25 years
TOTAL	\$ 377,269	\$ 5,938,080	\$ 5,560,811	16 years

Source: Records from FSM National Department of Finance and Administration and NPS

⁴ Sales of postage stamps and philatelic products based on revenue report from FSM Finance, unaudited

⁵ National stock balance, based on Postal Service Stock Summary report and Philatelic Bureau stock, was based on Philatelic Bureau manager's stock report. This report is unaudited.

⁶ Computed by deducting annual sales from the inventory report

⁷ Computed by dividing inventory by annual sales

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We also found during our count that a philatelic agent was keeping a huge amount of stock accountability amounting to \$95,352 (refer to Table 2) when her daily average sales were only less than \$200. The \$61,882 worth of stock of this accountability though was returned to the philatelic stock room while the audit count was ongoing. Refer to Finding 3 for further discussion of the shortage and weakness in the disposition of cash and/or stock discrepancy.

As a result, too much postage inventory on hand increases the risk of losses due obsolescence, waste, theft and misuse. The postage stamps like the commemorative stamps⁸ at the Philatelic stock room have expiry and therefore subject to obsolescence and waste. On the other hand, maintaining too much inventory in the storage of definitive stamps⁹, a type of stamp that can be available for sale by the postal service for an extended period, increases the risk of theft and misuse. This risk is increased in the absence of postal inventory management system that could effectively track and identify the many stamp types, denominations, variations or distinctions. Although the inventory is valued at \$5.9 million, it may actually lose value as time passes.

Causes and Recommendations

From the interviews with key staff and our review of postal records, the problem of excessive postage inventory on hand was caused by lack of policies and procedures for managing, maintaining and monitoring the existing inventory including the adequacy of the postage stock level. There is no system to determine the right inventory level based on several considerations e.g. stock demand, expiry, ordering lead-time, buffers and others.

Furthermore, the printing of stamps were ordered without reference to the current level of inventory.

We recommend that the Postmaster General should:

1. Develop and implement policies and control procedures governing ordering of stocks and maintaining stock level at the national stock room, philatelic manager's custody, post office and at sales agents custody to avoid the costs normally associated with overstocking and under stocking of postage and philatelic products inventories.
2. Develop and implement an inventory system to adequately control, manage and protect postage inventory at the stock room and facilitate tracing, count, reconciliation, and accounting.
3. Implement a program on how to market/dispose the excess postage and philatelic products and thus, achieve the desired inventory level.

⁸ A **commemorative stamp** is a postage stamp, often issued on a significant date such as an anniversary, to honor or commemorate a place, event, person or object and shall remain on sale for one (1) year after their first day of issue, unless supplies are exhausted at an earlier time.

⁹ A **definitive stamp** is a postage stamp that is available for sale until supplies exhausted. Commonly, a definitive issue or series includes stamps in a range of denominations sufficient to cover many or all-postal rates.

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Finding 2- \$467,550 Expired and Damaged Postage Stamps and Stamp Papers Equivalent to a Little Over One-Year Sales Accumulated in The Inventory.

The job description of the National Stock Controller includes receiving damaged and old stamps or other products from Post Offices or agents, verifying, maintaining records and preparing old stamps for destruction by the Destruction Committee.

Prudent practices also require that stock custodians should perform periodic identification of expired and damaged inventories for reporting to management.

We found that the National Stock Controller did not maintain record for non-salable, expired and damaged stamps. In addition, there were no periodic physical inventory and identification of expired and damaged stamps due to exposure to moistures, performed by the National Stock Controller, Philatelic Bureau Manager, Postmasters, postal clerks and philatelic aids. According to the National Stock Controller, the National Postal Inspector only does the identification of expired and damaged stamp upon the periodic physical count. However, such practice does not result in timely decisions for the disposal of expired and damaged inventories.

As a result, the \$467,550 worth of expired and damaged stamps and other philatelic products, equivalent to a little over one-year sales, had accumulated. These were only disposed of on July 26, 2012; while our audit was ongoing, by National Stock Controller and Postal Inspector and not by a Destruction Committee. It should be noted that we were not made aware of this disposal, thus we were not able to see the conditions of the stamps. Furthermore, this resulted in a waste and direct loss of potential revenue.

Cause and Recommendations

We found that there were no written policies and procedures on periodic identification and destruction of damaged and off-sales stamps. Thus, the custodians did not periodically identify and remove damaged and expired postage stamps and philatelic products from inventory and report them to immediate supervisors. Furthermore, we understand from an interview that the Destruction Committee is inactive and there are no documented roles, responsibilities and membership.

We recommend that:

Postmaster General should;

1. Develop and implement policies and procedures that would require all stamp stock custodians to identify and report expired and damaged stamp stocks and philatelic products on regular basis. As a means of monitoring, the Postmaster General should ask for regular report of expired and damaged stamps and philatelic products from the main stockroom custodians.
2. Activate the Destruction Committee that would supervise the effective disposition or destruction of damaged and expired stamps to avoid unauthorized uses.

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National Stock Controller should;

1. Perform his responsibility to receive old stamps from the postmasters and respective custodians and to continuously monitor and immediately remove defective stamps from the inventory for reporting and destruction to prevent further uses.

Finding 3- Lack of Internal Control Procedures in the Stock Room and Sales Agent's Operations Caused Unexplained Large Amount of Stock Count Discrepancies

Prudent practices require that the details of inventory in the stock room be periodically reported (e.g. monthly) and counted (e.g. annually). An officer should review the inventory report including the results of the periodic counts. For the inventory count report, prudent practices require that each quantity difference oblige the officer to investigate the discrepancy. If the difference is minimal, the authorized officer might direct the inventory custodian to adjust the inventory record to equal the quantity provided in the count. For material discrepancies, the authorized officer dispatches another team to do a recount. Furthermore, prudent practices require immediate settlement of any verified shortages by means of a cash collection from the custodian. These controls would encourage an accurate maintenance of accountabilities at all times.

In addition, prudent practices require that sales agents should maintain detailed inventory record and perform daily count and reconciliation of postage and philatelic products sales and stock accountabilities.

During our audit, we found the following:

- For the stock room counts, the discrepancies were not immediately acted upon for further investigation and verification. We noted that no action was done to determine the cause of or investigate the discrepancies.

In the previous year, the Postal Inspector conducted stock count at the main stocks rooms. First, the inventory in the *national stock room* was counted because its key was found duplicated. The actual count was made from February 21, 2011 to March 15, 2011 with a total face value of \$4,426,990 and a net shortage of \$107,083. The Postal Inspector indicated in his audit report to the former Postmaster General that \$98,367 of the shortage was suspected as the total amount of stamps stolen at the stock room. On the other hand, the *philatelic bureau inventory* was counted from June to October 2011 with a total face value of \$1,984,999 and an unexplained overage of \$513,849. The result was reported to the current Postmaster General.

The records were adjusted to reflect the results of both counts. However, we noted that no action was done to determine the liability on the part of the custodians for the discrepancies and the control procedures that should be implemented to avoid the recurrence of the same problem in the future.

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- For the sales agents' accountabilities, we noted that the sales agents were not maintaining records of the detailed stock items and performing daily sales and inventory count and reconciliation to ensure that accountabilities are intact and discrepancies identified on a timely manner.

At the time of our audit, we counted cash and stamp stock accountabilities of the Pohnpei Post Office main stock custodian and six sales agents/clerks. Our counts indicated a net total unexplained stock shortages amounting to 5,964. Refer to *Appendix C* for details. From observations and interviews, we found that the sales agents were not maintaining records of the detailed stock items and performing daily sales and inventory count and reconciliation to ensure that accountabilities are intact and discrepancies identified on a timely basis. Our counts showed unexplained stamp stock shortage amounting to \$5,595 of one agent as shown in Table 2 below. Considering that, the average daily sales of the agent were less than \$200 and in the absence of daily count and reconciliation, we were unable to establish the reason and the date when the agent has started to have discrepancies in the stock accountability.

Table 2 Auditors' Physical Inventory from July 23 to 27, 2012	
Description	Total Value
Total Accountability , 7/20/12	95,352
Accounted for as follows:	
Stock returned to stock room while the count is ongoing, 7/27/12	61,882
Auditor's Physical Count as of 7/27/12	27,875
Total	89,757
Total Overage/(Shortage)	(5,595)

Source: ONPA created documented. The auditor controlled the movements of stock during the counting period.

As a result, the agent's discrepancies were not detected timely and the risk of loss due to theft is increased.

Cause and Recommendations

The conditions happened because the management did not strictly require the following:

- An immediate settlement or investigation of discrepancies existed during the count of stocks at the stock rooms and at the custody of sales agents.
- Daily count and reconciliation of postage sales and the remaining stamp inventory to establish properly the custodian's accountabilities. The sales agents only account for totals and not the itemized details (type of stamp/image, face value, quantity, total value) of the postage stocks were declared in the daily sales and stock report (PS Form 1412-A

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& 1412-B) prepared by each sales agent. Thus, there has been no accounting and reporting of the itemized details of beginning stock inventory (opening balance), withdrawal, sales and ending inventory (ending balance) to provide complete and accurate accountabilities on daily basis.

We recommend that:

- Postmaster General should ensure that immediate action to settle or investigate reported discrepancies both in cash and in stock accountabilities are implemented.
- The sales agents should account their daily stamp/philatelic product inventories (beginning and ending), withdrawals and sales in a detailed manner. All of the stamp withdrawals, sales, and inventories in the daily report should provide details uniquely identifying stamps as to type/image name, face value, quantity and total value to facilitate count, reconciliation and accounting.
- The Postmaster as well as the Finance Officer should sign the daily sales and stock accountability reports (PS Form 1412-A & 1214-B) of the sales agents to check the accuracy of daily reporting and to ensure that discrepancies are immediately identified and appropriate decisions made.

Finding 4- Inadequate Segregation of Duties Increased the Risk of Fraud and Undetected Errors

The post office **accounting procedure 122.1** states in part, “*In delegating responsibility, there must be adequate internal control separating duties of personnel who handles cash or postage stamps from duties of personnel who record and establish responsibility for financial transactions*”.

Prudent practices further categorized four basic organizational functions for separation, which include: 1) authorization, 2) custody, 3) record keeping and 4) reconciliation to prevent a situation where one person perform and conceal errors and/or irregularities in the course of performing the day-to-day activities.

While performing an independent verification of the agent’s cash sales and stock on hand accountabilities on August 8, 2012, we observed that one postal clerk was performing incompatible activities. For example:

- The Pohnpei Post Office main stock with a closing balance of \$29,500 as of August 7, 2012 was under the custodianship of a postal clerk. According to the Postmaster General, this stock inventory should be under the custodianship and accountability of the Pohnpei Post Office Postmaster.

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- The same postal clerk was acting as sales agent with consigned stamps of \$693 worth of stamp accountability (on August 8, 2012) on which a sale of \$132 was accounted by the audit team.
- Furthermore, a review of financial records also indicated that the same postal clerk was responsible for compiling daily sales reports of all postal clerks and preparing daily deposits for the next business day.

Cause and Recommendations:

The management did not implement adequate controls on proper segregation of duties.

We recommend that the Postmaster should implement proper segregation of duties when delegating responsibility to deter, prevent and reduce the risks of employee fraud and error, which are normally associated with a single person performing incompatible duties.

Finding 5- Inadequate Contract Monitoring Caused Failures to Collect Postal Revenue Amounting to \$76,482 and Check the Accuracy of Income and Financial Reporting

Parts 6 and 7 of NPS and IGPC Agreement state the requirements from IGPC, which include but not limited to the following:

- 1) Keep accurate books of accounts and records (Refer to Appendix A for excerpt of the contract)
- 2) Provide reports to account stamps and other philatelic products produced, sold and on hand; (Refer to Appendix A for excerpt of the contract)
- 3) Pay the NPS at least a guaranteed annual minimum income¹⁰ of \$50,000 less travel and other expenses for sales made through IGPC. (Refer to Appendix B for excerpt of the contract)

We found that the NPS did not have on file reports submitted by IGPC, prove IGPC's maintenance of the books of accounts and records; and check, monitor and reconcile the sharing of income.

- Required Reports Not Obtained. We requested for copies of the required reports for submission by IGPC but were not provided with those reports by NPS. From the interview with the FSM Postal Inspector, we learned that that NPS has not been obtaining reports representing the full accounting of stamp and other philatelic products under the custody of IGPC. The last report provided by IGPC was in 2006 yet while the prior agreement was in effect; however, NPS did not have a copy of the reports available upon our request. The NPS provided the audit team with a worksheet (from IGPC) indicating

¹⁰ Minimum Annual Income – the total annual amount guaranteed as payment to the FSM under the agreement regardless of IGPC's costs and expenses.

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financial information on gross sales/revenue, expenses, and net income during calendar years 2007 to 2012. However, the accuracy of the net income cannot be checked without the information on detailed stamps printed and held for sale, detailed stamps remaining on hand and counted (every year end), and the documents supporting the expenses.

- FSM Postal’s revenue sharing with IGPC’s sales of stamps and philatelic products was not adequately monitored and reconciled. We also found that IGPC has not been paying the guaranteed minimum income stipulated in the contract. The NPS own monitoring record/report showed the total cumulative underpaid “net amount due”¹¹ by IGPC was \$76,483 from 2007 to CY 2012 ending. Some of the receivables were old accounts (refer to column D in Table 4 below). The latest communication made by NPS related to revenue sharing was made last July 2012 when the audit was ongoing. In the said communication, IGPC did not agree with the amount computed by FSM Postal Office but there was no resolution up the date of this report as to the settlement amount.
- Travel Expenses Deducted from Net Income Due From IGPC. From 2007 to 2012, the total travel expenses deducted by IGPC from the minimum income totaled \$81,952. (refer to column B in Table 3 below). From the interview, we learned that these represent the business travels made by National Postal Service employees to IGPC. We were not able to audit the travels to IGPC because NPS Finance Officer was not able to provide the related documents supporting those travels.

Table 3				
Analysis of Net Amount Due to NPS by IGPC				
FY	A Guaranteed Annual Minimum Income	B Travel Expenses	C Payment Received by IGPC	D= A-B-C Underpayment / Overpayment
2007 (2 nd - 4 th Qtr.)	\$ 37,500.00	\$ 166.08	0	\$ 37,333.92
2008	50,000.00	25,686.44	\$ 16,660.48	7,653.08
2009	50,000.00	21,667.88	14,458.31	13,873.81
2010	50,000.00	12,084.13	24,539.00	13,376.87
2011	50,000.00	12,050.78	12,050.78	3,166.53
2012	50,000.00	10,296.62	38,625.21	1,078.17
Total	\$ 287,500.00	\$ 81,951.93	\$ 106,333.78	\$ 76,482.78

Source – NPS Report, unaudited

Without receiving the required reports of the transactions, there was no assurance that the net income collected by NPS was complete and accurate.

We also found that the contract with IGPC had expired since April 2011.

¹¹ Net Amount Due – the amount due to FSM from annual gross revenues less deductions allowed by the agreement.

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Cause and Recommendations

NPS did not implement the control procedures to ensure that the terms and conditions of the agreement were complied. There were inadequate reporting, monitoring, verification and reconciliation controls that were implemented. For example, a correspondence dated April 5, 2012 from IGPC stated that they paid all the minimum income (royalty fees) for CY 2011 when the NPS records showed uncollected revenue amounting to approximately \$3,166 for that year. There was no communication on the part of the NPS to clarify the discrepancy.

We recommend that Postmaster General should;

1. Collect all outstanding share of income due from IGPC in a timely manner.
2. Remove the provision in the contract allowing IGPC to reimburse the travel expenses of Postal Service employees and deduct the same from the minimum income. For better control and avoid the additional monitoring activity to ensure reimbursement, the processing of employee travels to IGPC should only be processed by the FSM National Government's Department of Finance and Administration and without reimbursement from IGPC so that the minimum income could be collected in full amount.
3. Along with the Manager of Philatelic Bureau and Finance Officer, implement the control procedures to ensure that all the terms and conditions of the agreement are complied.
4. Study the contract with IGPC considering benefits/costs and determine the need for its renewal since it has already expired.

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APPENDICES

Appendix A- Excerpt From Contractual Agreement Between NPS and IGPC Inventory Regarding Accountability for Stamps and Other Philatelic Products

Part 6 of the contract agreement between the Federated States of Micronesia and Inter-Governmental Philatelic Corporation requires *one (1) month after the end of each calendar quarter during the term of this Agreement, first commencing December 31, 2006, IGPC to send to FSM a full accounting as of the last day of the calendar quarter just ended, the following information on stamps and other philatelic products:*

- *Type, face value and official selling price stamps and other philatelic products which IGPC has on hands;*
- *Stamps and other philatelic products received from each security printer;*
- *Stamps and other philatelic products which IGPC has sold;*
- *Stamps and other philatelic products which IGPC removed from sale as damaged or withdrawn;*
- *Stamps or other philatelic products IGPC has transferred to FSM;*
- *Stamps or other philatelic products which IGPC has received from FSM; and*
- *Including any stamps and philatelic products IGPC has consigned to distributors during each calendar quarter.*

Appendix B- Excerpt From Contractual Agreement Between NPS and IGPC Regarding Revenue Payments to FSM National Postal Service

Part 7 of the agreement guarantees FSM a minimum annual net income of fifty thousand dollars (\$50,000) by IGPC and shall be made in four (4) payments of twelve thousand five hundred dollars (\$12,500) each.

One month after the end of each calendar quarter during the term of the Agreement, first commencing on December 31, 2006, IGPC shall remit to the Postmaster General of the FSM the net amounts due for the calendar quarter just ended.

However, travel and other expenses made by IGPC on behalf of the FSM pursuant to Part 4, section 5 of this Agreement shall be deducted from the quarterly payment of guaranteed minimum income.

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Appendix C Results of ONPA Counts of Agents' Accountabilities

Custodian	Cut-off	Per Count			Accountability	Overage/ (Shortage)
		Cash	Stock	Total		
Pohnpei Post Office	8/7/12		\$29,573.28	\$29,573.28	\$29,573.28	-0-
Agent A	8/8/12		692.52	692.52	693.26	(.74)
Agent B	8/8/12		543.07	543.07	244.35	298.72
Agent C	8/8/12	23.63	127.01	150.64	164.47	(13.83)
Agent D	8/8/12		2,019.79	2,019.79	2,019.95	(0.16)
Agent E	8/6/12	.70	2,373.64	2,374.34	3,035.49	(661.15)
Agent F	8/3/12		940.49	940.49	932.35	8.14
Agent G	7/17/12		89,757.04	89,757.04	95,352.14	(5,595.10)
Total		\$24.33	\$126,026.84	\$126,051.17	\$132,015.29	(5,964.12)

Source – ONPA created document. Agent E presented \$673.75 worth of stamp the next day which she said was kept at Kolonia Post Office and forgot to tell the auditor about it when her accountability was counted. The discrepancies of the other agents were unexplained.

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MANAGEMENT RESPONSE

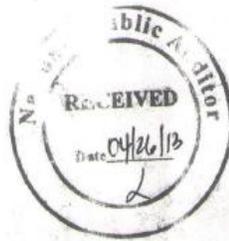


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Ginger Porter Mida
Postmaster General

April 23, 2013

Mr. Haser Hainrick
National Public Auditor
Office of the National Public Auditor
Palikir, Pohnpei FM 96941



Dear Mr. Hainrick:

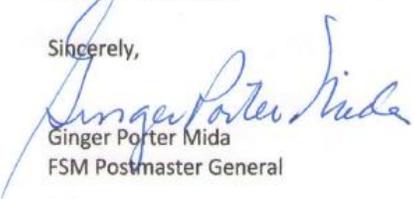
I commend you and your staff for completing the audit in a timely manner which I had requested upon my becoming the new FSM Postmaster General in 2012.

It was my belief that the audit will be a tremendous help to me in my effort to materially improve the operation of the FSM National Post Office and its services in order to produce greater revenue income for the Nation, by identifying areas where improvements are needed. I am happy to note that the audit has done just that and we can now proceed with confidence to addressing our weaknesses and making the operation the best that it can be.

I am happy to state that I am in agreement with the Recommendations made in the audit report relative to your findings, to strengthen the operation of the FSM National Post Office.

Based on the Recommendations, I plan to hire a consultant as soon as possible to help develop the policies and procedures that are needed to remedy the current weaknesses in the operation of the FSM National Post Office.

Sincerely,


Ginger Porter Mida
FSM Postmaster General

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NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank management and staff at the NPS for their assistance and cooperation during the course of the review.

The ONPA will perform a follow-up review within the next 6-9 months to ensure that the NPS have taken corrective measures to address all the findings and recommendations provided in this report.

In conformity with general practice, we presented our draft findings and recommendations to FSM Postmaster General, Pohnpei Postmaster, Manager of Philatelic Bureau, Postal Inspector, and the Administrator of Division Finance, NPS for comment. We have incorporated their written comments in the audit report.

We have provided copies of the final report to the President and Members of the Congress for their use and information. We will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office listed on the last page of this report, along with the ONPA and staff who made major contributions to this report.



Haser H. Hainrick
National Public Auditor

April 30, 2013

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ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

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ACKNOWLEDGEMENTS In addition to the contact named above, the following staff made key contributions to this report:

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Julinida Weital, Auditor-In-Charge
Vanessa Sigrah, Staff Auditor

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