



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

July 28, 2017

OIG-CA-17-023

MEMORANDUM FOR DAVID MOTL, ACTING PRINCIPAL DEPUTY DIRECTOR
UNITED STATES MINT

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Termination Memorandum – Audit of the Inventory
Fulfillment Center in Plainfield, Indiana, Operated by Pitney
Bowes Government Solutions

In February 2013, we initiated an audit of the inventory fulfillment center in Plainfield, Indiana, operated by Pitney Bowes Government Solutions (PBGS) under contract with the United States Mint (Mint).¹ PBGS fulfilled orders for Mint numismatic products to the general public. We performed this audit in response to two events. One event was an allegation received by our office that claimed, among other things, Mint-paid PBGS workers were under-utilized on weekends because of low demand for Mint products. In this regard, we visited the PBGS facility on January 18 and 19, 2013, a Friday and Saturday, as part of our initial assessment of the allegation. The second event was the disappearance of 1,449 presidential spouse gold coins at the inventory fulfillment operations warehouse.

The objectives of our audit were to (1) determine the validity of the allegation and (2) gain an understanding of the circumstances surrounding the missing coins and assess the controls implemented by PBGS in response. With respect to the second objective, we coordinated our work with our Office of Investigations.

In January 2009, PBGS started operations at its call center and inventory fulfillment operations warehouse located in Plainfield, Indiana. The PBGS facility was headed by a project manager who supervised six departments – Administrative, Call Center, Fulfillment Center, Information Technology, Quality/Safety, and Security. Within the Call Center, there were four teams – call center, claims, training, and workforce. These teams were led by the call center manager and staffed by supervisors, a workforce specialist, team leads and Customer Service Representatives (CSRs).

¹ Mint-PBGS, TM-HQ-08-0074, August 2008.

First Event – Allegation

In September 2012, a former PBGS CSR on the claims team within the call center contacted Mint officials to raise concerns regarding the PBGS operations, including among other things (1) there were no responsible supervisory personnel on evening and weekend shifts, (2) supervisors and leads received no training on proper emergency procedures, (3) CSRs on the claims team were not allowed to take time off because they were “100 percent billed to the Mint” and must be available to take call center calls, and (4) the Mint was either billed for phantom work or double billed for CSRs who worked on both the claims and call center teams.

In response to this allegation, the Mint police referred the matter to the Treasury Office of Inspector General, Office of Investigations, which requested assistance from the Office of Audit. Based on the work completed, we could not substantiate 3 of the 4 the allegations as (1) supervisors were scheduled for the evening and weekend shifts, (2) supervisors did receive emergency procedures training, and (3) CSRs on the claims team were allowed to take time off.

However, related to the fourth allegation, we found that PBGS submitted invoices to the Mint that over-billed and under-billed for CSRs who worked on both the claims and call center teams resulting in a net over-billing of over \$16,000. In addition, we found that the PBGS call center was open on weekends despite lower call volumes and occasional staff downtime, and Mint oversight of the PBGS contract could be enhanced by assigning an alternative COR and conducting site visits outside of normal business hours.

PBGS immediately responded to the fourth allegation by conducting an internal review of its time and billing systems and found that the Mint was not properly billed for CSRs’ time due to two incompatible time keeping systems. Consequently, PBGS added a credit of \$16,411.62 for the over-billed amount to a subsequent invoice. Regarding the call center being open during periods of lower call volume, Mint management told us that the PBGS call center provides a public service so it is in the Mint’s best interest to keep it open. During our review, the Mint did assign an alternative COR to the PBGS contract and changed the site visit schedule to include a weekend visit.

Second Event – Disappearance of Gold Coins

On January 16, 2013, during a quarterly physical inventory count, PBGS staff could not locate a pallet of gold coins. The pallet contained 1,449 one-half ounce 2007 Dolley Madison gold coins. PBGS conducted an internal review and determined that the missing pallet of gold coins had been inadvertently placed next

to 23 pallets of detrash² packaging to be incinerated at a waste disposal and incineration facility. PBGS and Mint officials and the audit team reviewed the PBGS and incineration facility security tapes, which showed all 24 pallets being loaded to the truck, unloaded from the truck, and added to the "pit", the first stage of the incineration process. On February 6, 2013, the Mint submitted a claim for the lost gold coins to PBGS. PBGS's insurance company settled this claim and wired \$1,015,941.87 to PBGS, which reimbursed the Mint in May 2013.

On January 18, 2013, we visited the PBGS facility and discovered that (1) the detrash process standard operating procedures (SOPs) were not consistently followed, (2) precious metal inventory and detrash materials were not properly segregated, and (3) PBGS staff did not reconcile the documentation for the detrash materials. We immediately discussed the results with the responsible PBGS officials, who were receptive to our recommendations and quickly implemented changes to improve lacking internal controls. We also informed Mint management of our findings.

On April 29, 2013, we returned to the PBGS facility and observed major improvements in the detrash process - segregation and storage of detrash materials, and managerial oversight and accountability. PBGS management (1) revised the detrash process SOPs and provided training to all applicable personnel, (2) created a locked and secure location exclusively for salvage and incineration detrash materials - no coins were allowed in this quarantined area, and (3) required that a bill of lading be prepared during the loading process and the total number of pallets and pallet weights were reconciled before the pallets left the PBGS facility.

Additional Concerns

Based on our review of the PBGS contract, we noted that in FY 2012, PBGS charged the Mint over \$654,000 for CSR training costs, which were not capped in the contract. When we brought this matter to the attention of Mint management, a manager told us that the Mint would cap the training costs in the next contract solicitation. In September 2013, the Mint awarded a new contract to Priority Fulfillment Services, Inc., a subsidiary of PFSweb, to develop and deploy a direct-to-consumer eCommerce solution to support the Mint's multi-channel retail sales program for numismatic products. Under this contract, the startup training costs

² Detrashing means to reclaim coins from inventory that have exceeded their program time limits. PBGS staff extracted coins from packaging and prepared the coins for shipping to melters and the packaging for disposal. If the Mint logo was visible on packaging, the item was classified as logo-trash. Packaging without a Mint logo was dumpster trash. The Mint instructed the PBGS personnel how to dispose of the packaging - return to the Mint, destroy at the PBGS facility, or incinerate off-site.

were fixed; however, subsequent training was estimated on an annual basis but not capped.³

We also found that the PBGS facility's all risks insurance policy, included PBGS's professional liability. This is a PBGS expense and therefore should not be fully charged to the Mint. That is, a portion of the insurance premium should have been allocated to PBGS; however, the Mint was charged 100 percent of the premium. After the May 2013 settlement, we noticed in the PBGS's insurance policy extension that the daily premium insurance rates had not changed but the premium did not include the 10 percent upfront no claims bonus. We recommend that Mint management try to recoup this bonus from PBGS as the loss of gold coins was caused by weak PBGS internal controls and should not negatively impact the Mint's future insurance costs.

We discussed the PBGS facility's insurance policy with Mint Counsel and the contracting officer. Mint Counsel was surprised by the insurance line item in the contract and told us that they would address this issue in the next contract solicitation. Under the new contract referred to above, inventory insurance is treated as a pass through at cost expense.

In consideration of PBGS's and Mint's actions to address our findings and the fact that the Mint no longer uses PBGS for inventory fulfillment, we believe it would be more beneficial to assess the controls in place by PFSweb, the existing contractor, at the Mint's inventory fulfillment center. We are currently auditing the Mint's numismatic order processing program (job code A-BT-17-039). Accordingly, we are terminating this audit. Also, please note that *Inventory Fulfillment Center Operated by Pitney Bowes Government Solutions* (job code A-MF-13-004) will be removed from our *Monthly Status Report*.

We appreciate the courtesies and assistance provided by your staff. If you have any questions, please contact me at (202) 927-5400 or Kathy Johnson, Audit Director, at (202) 927-8783.

cc: Jovita Carranza, Treasurer
Tom Noziglia, Mint Audit Liaison

³ Mint-Priority Fulfillment Services, Inc., Contract TM-HQ-13-C-0073, Appendix H – Pricing, September 11, 2013.