



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

International Transportation Payments

Audit Report

September 28, 2012

Report Number CA-AR-12-007



HIGHLIGHTS

BACKGROUND:

The U.S. Postal Service operates five international service centers responsible for the distribution of international mail to and from foreign countries. In August 2005, the Postal Service began using the Surface Air Support System (SASS) to process payments to contracted air carriers for transporting international mail. However, on July 10, 2010, the SASS International Payment System was retired and replaced with the Global Business System (GBS). In fiscal year 2011, the Postal Service made \$886 million in international air transportation payments.

Our objectives were to evaluate the Postal Service's oversight of international air transportation contracts and determine whether payments to international air carriers for outbound mail transportation were accurate.

WHAT THE OIG FOUND:

The Postal Service generally provided sufficient oversight of the international air transportation contract. Payments initiated through GBS totaling \$1,543,530,528 (94 percent of total payments issued to international air carriers) were accurate. However, we were unable to determine the accuracy of about \$46 million per year SASS-initiated payments made between June 2009 and June 2011 that were ultimately processed through GBS (6 percent of the total payments). The

Postal Service stated they did not review these payments for accuracy because they were based on another agency's rates. Accordingly, they provided no evidence of prior certification, nor was supporting data maintained that could be readily reviewed. We did note that controls were in place for payments initiated in GBS to ensure traceability, approval, and subsequent verification.

WHAT THE OIG RECOMMENDED:

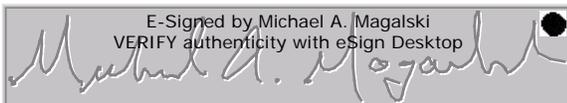
We recommended management maintain payment back-up data in a form that will facilitate the traceability, approval, and verification of contract payments after a system has been retired.

[Link to review the entire report.](#)



September 28, 2012

MEMORANDUM FOR: GISELLE E. VALERA
VICE PRESIDENT, GLOBAL BUSINESS

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop


FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – International Transportation Payments
(Report Number CA-AR-12-007)

This report presents the results of our audit of the U.S. Postal Service's International Transportation Payments (Project Number 11YG051CA000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Judith Leonhardt, director, Supply Management, or me at 703-248-2100.

Attachments

cc: Nagisa Manabe
Stephen J. Masse
Susan Brownell
Susan A. Witt
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction 1

Conclusion 1

International Air Carrier Payment Verifications..... 1

Recommendation 2

Management’s Comments 2

Evaluation of Management’s Comments..... 3

Appendix A: Additional Information 5

 Background 5

 Objectives, Scope, and Methodology 6

 Prior Audit Coverage 7

Appendix B: Monetary Impact 8

Appendix C: Management’s Comments 9

Introduction

This report presents the results of our audit of the U.S. Postal Service's International Transportation Payments (Project Number 11YG051CA000). Our audit objectives were to evaluate the Postal Service's oversight of international air transportation contracts and determine whether payments to international air carriers for outbound mail transportation are accurate. This self-initiated audit addresses financial and operational risk. See [Appendix A](#) for additional information about this audit.

In 2009, the Postal Service began solicitation for fixed price proposals from direct air carriers for the worldwide transportation of its International Expedited, Preferred, and Deferred products¹ for a contract period of 2 years. In order to contract with the Postal Service, international air carriers must demonstrate they are electronic data interchange (EDI)-compliant.² Payments to carriers are generally system-generated based on required carrier scanning events and graduated liquidated damages that apply for failure to meet product service requirements. Contract rates are applied by region and depend on various lane designations³ and product types. In fiscal year 2011, the Postal Service made \$886 million in international air transportation payments.

Conclusion

The Postal Service generally provided sufficient oversight of international air transportation contracts. We determined that payments based on Logistics Contract Management System (LCMS) contract rates and Global Business System (GBS) scans totaling \$1,543,530,528 (94 percent of the total payments to international air carriers) were accurate and that the Postal Service managed the oversight of these payments appropriately. However, payments initiated in the Surface Air Support System (SASS) totaling \$91.6 million (6 percent of the total payments to international air carriers), or about \$46 million annualized, were not verified for accuracy before issuance. The Postal Service retired SASS on July 10, 2010, and could not provide evidence of prior certification of these payments, nor did it maintain supporting data in a form that could be readily reviewed. Management stated they will retain SASS data until June 2018; however, no business rules or application software exists to readily manipulate the data.

International Air Carrier Payment Verifications

Payments based on LCMS contract rates and initiated through GBS totaling \$1,543,530,528 — or 94 percent of the total payments made for the period June 2009

¹ Express Mail International (Expedited), Priority Mail International (Preferred), and First-Class Mail International (Deferred) mail items.

² EDI compliance enables carriers to transmit electronically scanned barcode information from the carrier's system to the Postal Service system.

³ The Postal Service has segregated international countries into seven geographical regions for rate structure purposes. The regions include: Transborder (Canada and Mexico), Latin America and the Caribbean, Europe/Commonwealth of Independent States/Africa, Southwest Asia and Middle East, Northeast Asia, Southeast Asia, and Oceania, with lane designations of heavyweight or lightweight per airport origination and destination pair for mail transport.

through June 2011 — were accurate. Specifically, payment information initiated through GBS for mail delivered according to contract requirements matched carrier rates in LCMS. In instances where penalties, liquidated damages, or missed carrier scans occurred, the contractor received a reduced or zero payment for the delivery, as appropriate.

However, 685 international air carrier payments initiated in the SASS totaling \$91,585,550 — or 6 percent of the total payments made for the period June 2009 through June 2011 — were not verified for accuracy before issuance. Further, the Postal Service did not maintain supporting data from the retired SASS International Payment System in a form that could be readily reviewed. Management stated they backed up SASS data and will retain it until June 2018; however, no business rules or application software exists to readily manipulate the data. Therefore, we could not verify the accuracy of these payments.

The Postal Service's International Accounting team stated that these SASS payments were based on U.S. Department of Transportation (DOT) rates and the Postal Service never reviewed them for accuracy. A prior U.S. Postal Service Office of Inspector General (OIG) report⁴ found that insufficient system and management controls over the SASS resulted in payment errors to air carriers transporting international airmail. In addition, the system design did not contain the necessary business logic to correctly calculate payments for the transport of international mail. Without validation controls and supporting documentation to verify these payments, there is an increased risk that the Postal Service made inaccurate payments to contracted carriers for their services. Therefore, we will report these SASS payments (totaling \$91,585,550) made during our review period as unsupported questioned cost.⁵

Recommendation

We recommend the vice president, Global Business:

1. Maintain payment back-up data in a form that will facilitate the traceability, approval, and verification of contract payments after a system has been retired. This data should be maintained for at least the 6-year contractual records retention period.

Management's Comments

Management disagreed with the basis of our finding, recommendation, and monetary impact. Management stated that \$13 million of the reported \$91.5 million in unsupported questioned costs did not originate from SASS, but these payments were made via the LCMS module and went through an approval process. Management also stated they found receptacle-level support for some other sampled invoices. Management disagreed with our assessment that SASS payments were not verified for accuracy prior

⁴ *Controls Over International Air Transportation Payments* (Report Number CRR-AR-09-003, dated March 5, 2009).

⁵ A subset of questioned costs that is claimed because of failure to follow policy or required procedures but that does not necessarily connote any real damage to the Postal Service.

to payment. Management indicated that, because of the magnitude of data-intensive systems such as SASS and GBS, these payments do not receive manual review prior to payment. Instead management built payment data systems with programmed logic to align with contract requirements, terms, and conditions. Management further indicated that the SASS data in question was accessible to the audit team via Enterprise Data Warehouse (EDW) queries. Management further suggested that officials who verified that the Postal Service never reviewed SASS payments for accuracy may not have the historical background to accurately offer this information.

Management does not agree that they should maintain payment back-up data in a form that would facilitate verification of contract payments after a system has been retired, and suggested that the Postal Service is not in a financial position to do so. They pointed out that the retirement and replacement of large, complex systems are rare and require significant resource expenditures; and they believe the data retention policy for the SASS to GBS transition was appropriate. Finally, management believes our report should be addressed to Supply Management instead of Global Business due to organizational changes. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to the recommendation in the report. We view the disagreement with this recommendation as unresolved but do not plan to pursue it through the formal audit resolution process and are closing the recommendation with the issuance of this report.

Regarding SASS payment verifications, there is a fundamental requirement that invoices must be certified by a contracting officer (CO) or a contracting officer representative (COR) with appropriate delegation authority prior to payment. Our audit found no evidence of these payments being verified for accuracy by a CO or COR prior to payment. Building payment data systems with programmed logic to align with contract requirements, terms and conditions is not a valid or effective substitute for this requirement. Additionally, Global Transportation Contracts, International Accounting, and Global Systems management officials confirmed during our fieldwork that SASS payments were not reviewed for accuracy prior to payment and management subsequently provided no evidence of verification.

Further, in an August 16, 2012 meeting with OIG, management stated they would provide documentation of SASS payment reconciliations and access to the database containing SASS archived data to support their assertion that these payments, included in unsupported questioned costs, had received appropriate verification prior to payment. We followed up multiple times prior to issuing our draft report and noted that neither the reconciliation documentation nor access to the data files were provided for our analysis. Also, management did not provide sufficient evidence in support of their statement that \$13 million of the unsupported questioned costs did not come from the SASS system. Management was given time to provide additional data before we issued the draft report, but did not provide timely information. Management restored the SASS

international database on September 26, 2012, after the audit had concluded. Interviews with contracting officials confirmed that SASS payments were never reviewed and certified before contract payment. In addition, supporting documentation to trace contracted rates and mail types for SASS payments does not exist. Therefore, the restored data will not meet all the necessary criteria to exclude it from unsupported questioned costs.

Management also stated that SASS data was accessible to the audit team via EDW queries. We met with Global Systems management and Accenture in March 2012 to discuss the possibility of accessing SASS data through EDW. At that time the detailed SASS payment data was not accessible, although GBS data could be accessed. Additionally, supporting documentation to trace contracted rates and mail types for SASS payments does not exist. Thus, data available in EDW is not complete and cannot provide all the necessary information to verify payments for accuracy prior to payment.

Regarding maintenance of payment back-up data in a form that facilitates traceability, management does not view this as a priority. While we acknowledge the Postal Service's financial constraints, we believe maintaining payment back-up data for retired systems in a traceable form for verification purposes is important in meeting contractual records retention requirements and ensuring the integrity of the payment verification process.

Further, it appears that management's comments addressed statements that were not in our report, including a comparison of 2010 and 2011 international transportation payments. We do report \$886 million in total international air transportation payments for FY 2011, which we confirmed with International Accounting management officials.

Finally, the report is addressed to Global Business because it owned the SASS payment data when the system was active. Global Business should coordinate with Global Systems management to ensure appropriate data fields and formats are defined and maintained to meet records retention requirements and allow subsequent traceability in an efficient manner.

Appendix A: Additional Information

Background

International mail consists of all letters and cards, printed matter, and Parcel Post⁶ exchanged between the U.S. and foreign countries. Five international service centers⁷ are responsible for the distribution and dispatch of international mail received from a designated service area to specific foreign countries or to gateway exchange offices. Policy covering the distribution, routing, and transportation of international mail is the responsibility of international and military mail operations, logistics, and headquarters.

The Postal Service deployed the SASS in August 2001 to manage domestic mail transportation needs and, subsequently, modified the system in August 2005 to process payments to air carriers for transporting civilian and military mail to foreign destinations. On July 10, 2010, the Postal Service retired the SASS International Payment System and replaced it with GBS.

The GBS application manages the process of mail entering and leaving the U.S., as well as the reconciliation between mail sent and received. This process is divided into three modules in GBS: International Dispatch, International Receipt, and the International Reconciliation System.

In October 2008, new legislation⁸ was passed regarding the procurement process and rate structure associated with the air transportation of Postal Service international mail products. The new legislation allowed the Postal Service to seek a competitive rate structure replacing DOT, International Air Transport, and International Surface Air Lift air contracts. As a result, in 2009, the Postal Service began soliciting for fixed price proposals from direct air carriers for the worldwide transportation of its International Expedited, Preferred, and Deferred products for a contract period of 2 years, expiring in July 2011. However, the Postal Service extended these contracts to February 3, 2012 because of updates to various processes and changes to some contract language. On February 4, 2012, the Postal Service awarded contracts for 3 years, set to expire February 6, 2015.

In order to contract with the Postal Service, international air carriers must demonstrate they are EDI-compliant. Payments are generally system-generated based on required carrier scanning events and graduated liquidated damages apply for failure to meet product service requirements. Contract rates are applied by region and depend on various lane designations and product types. Except for Deferred mail, all scans (possession, load, transfer, and delivery) must be performed and submitted within the payment cycle to receive payment for services performed. For Deferred mail, payment

⁶ A service that provides a lower cost shipping option for less-than-urgent deliveries and packages that are not eligible for First-, Second-, or Third-Class mail delivery.

⁷ New York, Miami, Chicago, Los Angeles, and San Francisco.

⁸ §3536, Public Law 110-405, *The Air Carriage of International Mail Act*, approved October 13, 2008.

is made for all receptacles receiving an on-time delivery scan at final destination if the destination is a designated scanning location. In FY 2011, the Postal Service made \$886 million in international air transportation payments.

Objectives, Scope, and Methodology

Our objectives were to evaluate the Postal Service's oversight of international air transportation contracts and determine whether payments to international air carriers for outbound mail transportation were accurate. To accomplish our objectives, we:

- Reviewed the Postal Service's International Air Transportation contract for civilian and military mail.
- Interviewed Postal Service and international air carrier personnel to determine existing policies and procedures related to international air transportation payments.
- Visited the J.T. Weeker ISC in Chicago, IL to examine controls over GBS processes and observed processes used to build and dispatch mail to contracted international air carriers.
- Observed acceptance, processing, and plane-side loading of the mail by contracted international air carriers.
- Obtained payment data from the EDW, compared these payments to GBS barcode data, and traced them back to LCMS to determine payment accuracy.
- Tested a random sample of 414 payments issued to international air carriers totaling \$1,511,359 for the review period of June 2009 to June 2011. The Postal Service paid international air carriers \$1,635,116,079 during that period.
- Conducted a judgmental sample of 27 international air carriers to determine whether they have a quality management system in place as required by the contract.

We assessed the reliability of electronic data from GBS and LCMS by performing tests of the data for a sample period and interviewing agency officials knowledgeable about the data. We determined the data were sufficiently reliable for the purposes of this report. We conducted this performance audit from September 2011 through August 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on August 14, 2012, and included their comments where appropriate.

Prior Audit Coverage

In our report titled *Controls Over International Air Transportation Payments* (Report Number [CRR-AR-09-003](#), dated March 5, 2009), we found that insufficient system and management controls over the SASS resulted in payment errors to air carriers transporting international airmail. We reported \$3.95 million in recoverable questioned costs for the additional contract expenditures incurred to identify and correct payment calculation issues related to international air payments in the SASS. The OIG recommended the Postal Service identify potential payment deficiencies in the SASS and implement system changes; update system documentation, consult with Supply Management concerning contract payments to initial contractors and pursue recoveries, develop reports capable of identifying payment errors to air carriers; and implement a reconciliation process to rectify payment errors. Management agreed with the audit findings and recommendations.

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Unsupported Questioned Costs ⁹	\$91,585,550

The monetary impact represents 100 percent of SASS payments issued to international air carriers during the audit review period, June 2009 through June 2011. The Postal Service never reviewed these payments for accuracy as required. Without validation controls and supporting documentation to verify these payments, there is an increased risk that the Postal Service made inaccurate payments to contracted carriers for their services.

⁹ A subset of questioned costs that is claimed because of failure to follow policy or required procedures but that does not necessarily connote any real damage to the Postal Service.

Appendix C: Management's Comments



September 21, 2012

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: International Transportation Payments
(Report Number 11YG051CA000)

USPS management rejects the basis of the recommendation contained in the *International Transportation Payments* report. The comments below address both the direct recommendation as well as certain references that USPS management believes to be materially flawed.

Recommendation #1: Maintain payment back up data in a form that will facilitate the traceability and verification of contract payments after a system has been retired. This data should be maintained for at least the 6 year contractual records retention period.

The OIG supports this recommendation with the following statement:

However, payments initiated in Surface Air Support System (SASS) totaling \$91.6 million (6 percent of the total payments to international air carriers) were not verified for accuracy before issuance. SASS was retired on July 10, 2010 [2009], and the Postal Service could not provide evidence of prior certification of these payments, nor was supporting data maintained in a form that could be readily reviewed. Management stated the SASS data will be retained until June 2018; however, no business rules or application software exists to readily manipulate the data.

The original unsupported, questioned cost cited in the report exceeded \$94 million. USPS management promptly pointed out that \$3.4 million of the \$94 million was international maritime expense, not international air expense. USPS management acknowledges the OIG correction of this error. However, the OIG did not address the response from USPS indicating that over \$13 million of the \$91.5 million figure cited above, in fact did not come from the SASS system as is indicated in the report. Rather, the payments were made via the LCMS 7440 module. All 7440 payments go through a multi-step approval process with supporting documentation uploaded to LCMS when relevant.

Having discredited over \$16 million of the original \$94 million figure, USPS management elected not to pour considerable resources into investigating the remainder. However, since the OIG has elected not to address the concern noted

- 2 -

above, USPS management permitted a junior analyst to research the remainder for a few more hours in support of this management response. With minimal effort, the USPS analyst queried a sample of the invoices against the USPS Enterprise Data Warehouse (EDW). The analyst found full receptacle level support for the sampled invoices, including consigned origin, consigned destination, weight data, product type data, and rate data. This data can be found on the *ITPSPayment* (ITPS, International Transportation Payment System) table within database EDWLOGSTCWEBPRODVIEW.

It is clear from the OIG report language quoted above, that the OIG is aware of the fact that the underlying SASS data has been retained by USPS. It is unclear to USPS management why the OIG did not pursue this data source for resolution of the SASS era payments. Certainly the OIG has access to the USPS Enterprise Data Warehouse, both via the front-end application and via SQL platforms through which those with the necessary technical skills can query and search the EDW tables. USPS considers this data to be reasonably accessible despite the fact that the underlying data is not supported via a front-end user interface. The retirement and replacement of large and complex systems such as SASS are rare in occurrence and require monumental resource expenditures. USPS believes that its data retention policy governing the transition from SASS to GBS was appropriate, and therefore, management rejects the recommendation to maintain "business rules or application software" to "readily manipulate the data." USPS is not in a financial position to maintain retired system user interfaces for the sole purpose of research and "ready review." USPS cannot allow for this precedent to be established, and therefore, feels it necessary to reject this recommendation.

USPS management would also like to address the statement that the SASS payments "were not verified for accuracy before issuance" and that USPS "could not provide evidence of prior certification of these payments." These statements fail to recognize the role of management when it comes to payment systems as large, complex, and data intensive as SASS and GBS. To give an idea of the magnitude, consider that since its inception in July of 2009, the GBS payment system has generated over 60 million line items of INVOIC receptacle level payment data. SASS also issued receptacle level payment data of a similar magnitude. Of course the individual line items are not "certified" or "approved" via manual review by management. Rather, USPS built robust payment data systems with programmed logic to align with the requirements, terms and conditions of the international air contracts. Supply management configures the reference data used by the payment system through the entry of rates and dozens of other reference data elements that are configurable in LCMS. These reference data configurations go through a controlled multi-layer approval process.

- 3 -

In response to the statement that *“The Postal Service International Accounting team stated these SASS payments were based on Department of Transportation rates, and the Postal Service never reviewed these payments for accuracy.”* USPS has not investigated where these comments originated, however, the individuals supplying this information may not have had the historical background necessary to accurately offer this information. When the Department of Transportation’s strict regulatory oversight of International Transportation ended in July of 2009, leading to the retirement of the SASS payment system, a team of outside contractors was brought in to aid in the complex data analysis necessary to review the historic payment data and engage in contract closeout procedures with international air suppliers. This action was taken in alignment with a previous OIG report that documented the challenges of the SASS payment system.

After this SASS data reconciliation process was complete, USPS management found it reasonable to retire the front-end user interfaces formerly used to interact with the payment data. However, as noted above, sufficient ITPS data is available via SQL queries on Enterprise Data Warehouse tables maintained by USPS. USPS considers SQL skills to be reasonably available to query this data when necessary.

Additionally, Global Systems Management has initiated a process to resurrect the SASS source transaction data for OIG review; however, the short window allowed for this response does not acknowledge the resources required to accomplish this task.

USPS management also finds it necessary to comment on the inaccuracy of the following statement within the report: *In 2010, the Postal Service paid \$449 million in international air transportation expenses. By 2011, this amount increased 97 percent to \$886 million.* If this were true, it would be quite a cause for alarm. Fortunately, this statement is inaccurate. In an email to the OIG, USPS pointed out the materially flawed and misleading nature of this statement, and provided General Ledger account data indicating that the civilian international air transportation expense actually *decreased* slightly from 2010 to 2011. It is important to note that USPS also oversees international transportation expense on behalf of United States Military international mail. When the military and civilian expenses are combined, the combined expense amount did rise nearly 20%. It is important to note that the military reimburses USPS in full for this expense.

USPS management would like to cite its disappointment in the overall tone of this recommendation. USPS has acknowledged past challenges with the SASS system in prior OIG reports. In response, USPS took prompt corrective data reconciliation actions noted above. Most significant of all, USPS invested resources in building a new and robust international payment system which has governed international air

- 4 -

transportation expense transactions since July of 2009. This OIG report found zero problems with the GBS Payment system. And USPS management contends that the SASS data retention policies are appropriate.

Finally, USPS management does not believe that this report should be directed to the Vice President of Global Business. Following the USPS headquarters reorganization implemented in the Fall of 2011, the Vice President of Global Business now reports to the Chief Marketing and Sales Officer. Prior to the reorganization, the Global Systems team, International Transportation team, and International Supply Management team all reported to the Vice President of Global Business. Following the reorganization, the Global Systems team and International Transportation team now report through the Vice President of Network Operations organization, and the International Supply Management team not reports through the Vice President of Supply Management. The Global Systems team works closely with the Information Technology organization when it comes to data retention policies. The data retention policies draw upon business requirements, and in the case of invoice data related to supplier contracts, these business requirements would originate with Supply Management, not Global Business.



Giselle E. Valera
Managing Director, Global Business
And Vice President

cc: Nagisa Manabe
Stephen Masse
Susan Witt
Susan Brownell
Sally K. Haring