



November 21, 2006

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SUBJECT: Management Advisory – Delivery Confirmation
for Inbound International Mail
(Report Number DR-MA-07-002)

This report presents the results of our review of Delivery Confirmation for Inbound International Mail (Project Number 06XG032DR000). Our objective was to determine whether delivery and retail employees are scanning inbound international mail parcels¹ to confirm delivery. The report responds to a request from the Acting Vice President, Delivery and Retail, to review delivery confirmation for inbound international parcels.

Results in Brief

U.S. Postal Service retail² employees at the Chicago and Northern Illinois Districts were not consistently scanning inbound international parcels to confirm delivery³ because they were not aware of the requirement to do so. However, the Postal Service city delivery carriers at both districts were scanning inbound international parcels to confirm delivery. During our fieldwork, the Postal Service issued a Standard

¹ A parcel is "mail that does not meet the mail processing category of letter-size mail or flat-size mail and is usually enclosed in a mailing container such as a carton."

² Postal Service retail employees are sales and services distribution associates who scan delivery confirmation items when they arrive at the delivery unit and sales and services associates who scan for the final delivery when customers pick up parcels at the delivery unit.

³ We conducted fieldwork to determine if Postal Service employees scanned international parcels and obtained signatures from customers at final delivery.

Operating Procedure (SOP)⁴ on scanning international parcels barcodes and securing signatures at all points of delivery. Therefore, we are not making any recommendations on this issue. Postal Service employees do not scan individual international parcels during mail processing at the J.T. Wecker International Service Center (ISC). Furthermore, ISC officials do not maintain records of international parcels seized⁵ by U.S. Customs, except Express Mail® and Registered Mail™. The Postal Service does not have a policy for U.S. Customs to provide notification of all seized parcels.

As of January 2006, per the Universal Postal Union (UPU) agreement, the Postal Service is liable for the loss, damage, or rifling of all parcel items sent to the U.S. from a foreign destination. Consequently, the Postal Service is exposed to potential losses when shippers file claims for parcels that may not have entered the mailstream.

We recommended the Senior Vice President and Managing Director, Global Business, explore developing a process to scan individual international parcels upon receipt at the ISCs and establish a procedure with U.S. Customs to notify the Postal Service of all confiscated inbound international mail.

Management agreed with our recommendations to explore developing a process to scan individual international parcels upon receipt at the ISCs and establish a procedure with U.S. Customs to notify the Postal Service of all confiscated inbound international mail.

Management raised questions about whether the report provided meaningful information for addressing delivery scanning. They also questioned whether observations made at six delivery units in the Chicago Area were adequate to draw conclusions regarding delivery scanning. Management's comments, in their entirety, are included in Appendix C.

Our draft report raised an issue regarding "Arrival at Unit" scans and provided a recommendation to scan inbound international mail parcels upon arrival at delivery units.

⁴ Issued by the Deputy Postmaster General and Chief Operating Officer on June 14, 2006.

⁵ Seized mail represents mail that is forbidden by U.S. law from entering the country.

Management noted in their comments that this would be costly and would not qualify as “proof of delivery.” Based on their comments, we revised the report by removing both the finding and the recommendation (formerly recommendation 1). Therefore, this issue does not appear in the text of this final report.

In regards to management’s concerns on information and conclusions related to delivery scans, this was a limited scope review based on a request from the former Acting Vice President of Delivery and Retail. Further, the former Acting Vice President concurred with our decision to perform the fieldwork in the Chicago Area at the three locations (Carol Stream, Chicago, and Palatine) with the highest volume of international mail based on weight. Our review was limited to this area, in part, because Postal Service Headquarters Marketing was executing a similar review in New York and Los Angeles. We based our conclusions on data analysis and interviews with multiple managers, supervisors, carriers, and sales and services associates. We believe this was adequate evidence to support conclusions regarding the two districts included in the review.

Background

The Postal Service is a member of the UPU. The UPU is the specialized institution of the United Nations that regulates universal postal service facilities. It sets the rules for international mail exchanges and makes recommendations to stimulate growth in mail volumes and to improve the quality of service for customers.

The UPU requires mandatory tracking of all international parcels at inbound arrival, unsuccessful delivery attempt, and final delivery. It also requires a signature from the recipient to confirm delivery. As of January 2006, the Postal Service is liable for the loss, damage, or rifling⁶ of all parcels sent to the U.S. from a foreign destination. Accurate scanning and delivery information is essential for the Postal Service to handle indemnity claims. According to the UPU decision, liability applies to all items defined as parcels, whether or not they include a special service.⁷

⁶ Rifling is to ransack, especially with the intent to steal.

⁷ Special service is a mail service for a fee in addition to required postage, that includes Registered Mail, Certified Mail™, insured mail, collect on delivery, recorded delivery, special delivery, special handling, parcel airlift, business reply mail, and return receipt for merchandise.

Contract air carriers deliver international mail with a bill of lading to the five ISCs located around the country.⁸ Foreign Postal Service administrators place country-of-origin barcodes on mail containers. At the J.T. Wecker ISC, employees scan the country-of-origin barcodes on the mail container into the Receipt Verification System.⁹ However, they do not scan the barcode on each individual parcel before sending it to U.S. Customs.

ISC employees prepare the mail for U.S. Customs inspection. U.S. Customs officials determine what mail they need to inspect and either return inspected parcels to the Postal Service for processing or confiscate it. (See Appendix A.)

If U.S. Customs officials return the mail, ISC employees sort it and send parcels to the Chicago Metro Surface Transfer Center for further distribution. The parcels are then sent to the processing and distribution centers (P&DCs) for transfer to the delivery units. (See Appendix B.) Mail arrives at the delivery units from the P&DCs each morning. The Great Lakes Area sales and services distribution associates scan the barcodes on the items and the corresponding delivery route barcodes to perform the "Arrival at Unit" scan for mail items requiring delivery confirmation. The distribution associates provide the mail to the carriers who prepare it for delivery.

Carriers attempt to deliver mail items for delivery confirmation. If they are successful in delivering the item, they will secure a signature from the recipient; if they are unsuccessful, they leave a Postal Service (PS) Form 3849, Delivery Notice/Reminder/Receipt, at the recipient's address. If the carrier cannot deliver the item after several attempts, they bring it back to the post office for customer pick up. When the recipient picks up the item, a sales and services associate secures a signature to confirm delivery.

On June 14, 2006, the Deputy Postmaster General and Chief Operating Officer issued a memorandum and SOP for delivery and scanning of all international mail parcels. The

⁸ Currently, there are five ISCs: New York, Miami, Chicago (J.T. Wecker), Los Angeles, and San Francisco.

⁹ This automated system speeds up the processing time for foreign mail so it enters the domestic mailstream more quickly.

memorandum instructs all Postal Service Area Vice Presidents and the Manager of Capital Metro Operations to distribute the SOP to all district Delivery Confirmation coordinators. The SOP requires delivery and retail employees to scan parcels' barcodes and secure signatures at the point of delivery.

Objective, Scope, and Methodology

Our objective was to determine whether delivery and retail employees are scanning inbound international mail parcels to confirm delivery. The scope of this review was limited to parcels, which are the subject of the UPU delivery and scanning requirements.

We limited the scope of our review to the processing of inbound international parcels at the J.T. Wecker ISC, Chicago Metro Surface Transfer Center, and the Palatine, Chicago, and Carol Stream P&DCs. We also examined scanning and delivery of inbound international parcels at six delivery units in the Great Lakes Area. The P&DCs referred to above are among the 31 Postal Service destinations with the highest volume of international mail. We did not determine the liability that the Postal Service would incur if delivery and retail employees did not properly scan and deliver inbound international mail.

To obtain an understanding of how international parcels are processed before arrival at the delivery units, we interviewed Postal Service personnel at the J.T. Wecker ISC and the Chicago Metro Surface Transfer Center and U.S. Customs personnel located at the J.T. Wecker ISC.

For each of the three P&DCs mentioned above, we judgmentally selected two delivery units that performed a high volume of delivery confirmation scans on inbound international parcels.¹⁰ To obtain an understanding of the distribution and delivery processes for inbound international parcels at the delivery and retail units, we interviewed Chicago and Northern Illinois District personnel and management at the delivery units. In addition, we interviewed city letter carriers, sales and services distribution associates, and sales and services associates at each unit.

¹⁰ This information is based on the recorded delivery scans in the Product Tracking System. The Product Tracking System provides a nationwide infrastructure for collecting and reporting data on the location delivery status of Express Mail, and delivery confirmation for Priority Mail® and accountable mail.

We conducted this review from May through November 2006 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials and included their comments where appropriate. We did not rely on computer-generated data to develop our findings. Therefore, we did not conduct any testing of the validity of computer systems.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this review.

Delivery Confirmation of International Parcels at Delivery and Retail Units

Postal Service retail employees at the Chicago and Northern Illinois Districts were not consistently scanning inbound international parcels to confirm delivery because they were not aware of the requirement to do so. However, Postal Service delivery employees at both districts were scanning inbound international parcels to confirm delivery.

Carriers in both districts scanned barcodes on international parcels for delivery because as normal practice, they scan all barcodes on parcels for delivery confirmation. However, the sales and services associates were not aware of the requirement to scan all international parcels for delivery confirmation. The UPU requires tracking all inbound international parcels at the inbound arrival, unsuccessful delivery, and final delivery points. During our fieldwork, the Postal Service issued an SOP¹¹ on scanning international parcels barcodes and securing signatures at all points of delivery. Also during our fieldwork, the Northern Illinois District Manager instructed unit management to reiterate to personnel the importance of scanning all international parcels. Chicago District management also stated they would train unit management and personnel to scan all international parcels. Since management took action during our audit to address delivery confirmation scanning, we are not making any recommendations on this issue.

¹¹ Issued by the Deputy Postmaster General and Chief Operating Officer on June 14, 2006.

Inbound Arrival of International Parcels at ISC

Postal Service employees do not scan individual international parcels during mail processing at the J.T. Wecker ISC. The ISC Manager informed the U.S. Postal Service Office of Inspector General (OIG) that there are no procedures to scan individual parcels at the ISC. These parcels go through several processes at the J.T. Wecker ISC, the Chicago Metro Surface Transfer Center, and the P&DCs prior to arriving at the delivery units.

Inbound international mail arrives at the ISC for U.S. Customs inspection, sorting, and transferring to P&DCs for further mail distribution. According to UPU regulations, international parcels require tracking at both arrival and final delivery. However, ISCs are the first arrival point for these parcels in the U.S. and they are not scanned until the carrier attempts to deliver them.

UPU Electronic Exchange Standards provide information describing the type of mail the originating country can transmit to the destination country. According to Postal Service Headquarters, International Network Operations, they are working with foreign countries to increase the amount of electronically transmitted data so the Postal Service can retrieve information on individual international parcels. This information could include electronic data describing both the containers and individual parcels within the containers. However, not all countries are fully complying with the UPU electronic transmittal information, due to cost constraints and technology resources.

Since the Postal Service does not scan each parcel when it enters the mailstream at the ISC, it is impossible to determine precisely how many international parcels they are liable for under the UPU agreement. Therefore, the Postal Service could be liable when customers file claims for parcels that never entered the mailstream. Proper tracking helps ensure that the Postal Service pays only legitimate claims for loss, damage, or rifling of parcels sent to the U.S. from a foreign destination.

Recommendation	<p>We recommend the Senior Vice President and Managing Director, Global Business:</p> <ol style="list-style-type: none">1. Explore developing a process to scan individual international parcels upon receipt at the international service centers.
Management's Comments	<p>Management agreed with the recommendation and stated they are exploring two options that could be solutions to this issue. The first option is for U.S. Postal Service's trading partners to use the Presdes 2 EDI information, which will allow the Postal Service to associate item numbers with each incoming receptacle. The second option is to have the Engineering department develop a passive scanning solution that will capture the scan events without resorting to a manual scanning process. The Postal Service believes it can resolve this issue by using one of these options or a combination of both.</p>
Evaluation of Management's Comments	<p>Management's comments are responsive to our finding and recommendation and their planned actions should correct the issues identified in the finding.</p>
Confiscated Inbound International Parcels	<p>J.T. Weeker ISC officials maintain records of international Express Mail and Registered Mail seized by U.S. Customs; however, they do not maintain records for other international parcels seized by U.S. Customs. The Postal Service does not have policies or procedures to obtain information regarding all seized international parcels information from U.S. Customs.</p> <p>International parcels arrive at the J.T. Weeker ISC and ISC employees then prepare them for U.S. Customs inspection. U.S. Customs inspects the parcels and either returns them to the Postal Service for processing or detains them for further examination or seizure. (See Appendix A.) U.S. Customs officials maintain a manual log to track seized parcels. In addition, U.S. Customs officials enter information regarding seized parcels into their internal electronic tracking system.</p>

U.S. Customs officials notify the Postal Service when they seize Express Mail and Registered Mail and scan seized Express Mail barcodes into the Postal Service's Product Tracking System. They verbally notify ISC officials of seized registered parcels. ISC officials record this data in the Postal Service's Registered Mail database. However, U.S. Customs does not inform ISC officials of other seized international parcels.

The ISC plant manager contacted Postal Service Headquarters International Network Operations during our review to obtain guidance to implement a process for receiving notification from U.S. Customs on all seized inbound parcels. The manager indicated that it would benefit the ISC to receive notification from U.S. Customs for all seized parcels, not only those with special services.

According to the UPU agreement, the U.S. Postal Service is not liable for the loss of an inbound international parcel when it is confiscated because its contents are prohibited from mailing. However, when U.S. Customs seizes parcels, senders or intended recipients may still claim the Postal Service did not deliver their parcels. If the Postal Service has no record of seized parcels, it might inappropriately pay those claims. Proper tracking helps ensure the Postal Service pays only legitimate claims for loss, damage, or rifling of parcels sent to the U.S. from a foreign destination.

Recommendation

We recommend the Senior Vice President and Managing Director, Global Business:

2. Establish a procedure with U.S. Customs to notify the Postal Service of all seized inbound international parcels.

**Management's
Comments**

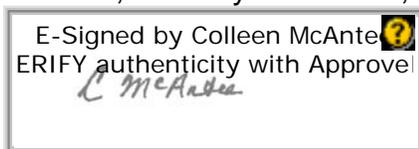
Management agreed with the recommendation. Management addressed this issue by inserting language into Handbook T-5, *International Mail Operations*, which states that the Postal Service is to receive a "Custody Receipt for Seized Property and Evidence," U. S. Customs Form CPB 6051, document for all seized items. In addition, management instructed the ISC to keep this information on file in the Records Unit for retrieval and use when investigating claims or inquiries.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our finding and recommendation and the actions taken or planned should correct the issues identified in the finding.

The OIG has reviewed management's responses to these recommendations and agrees that both significant recommendations should be closed in the follow-up tracking system with the issuance of this report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Rita Oliver, Director, Delivery and Retail, or me at (703) 248-2100.



Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

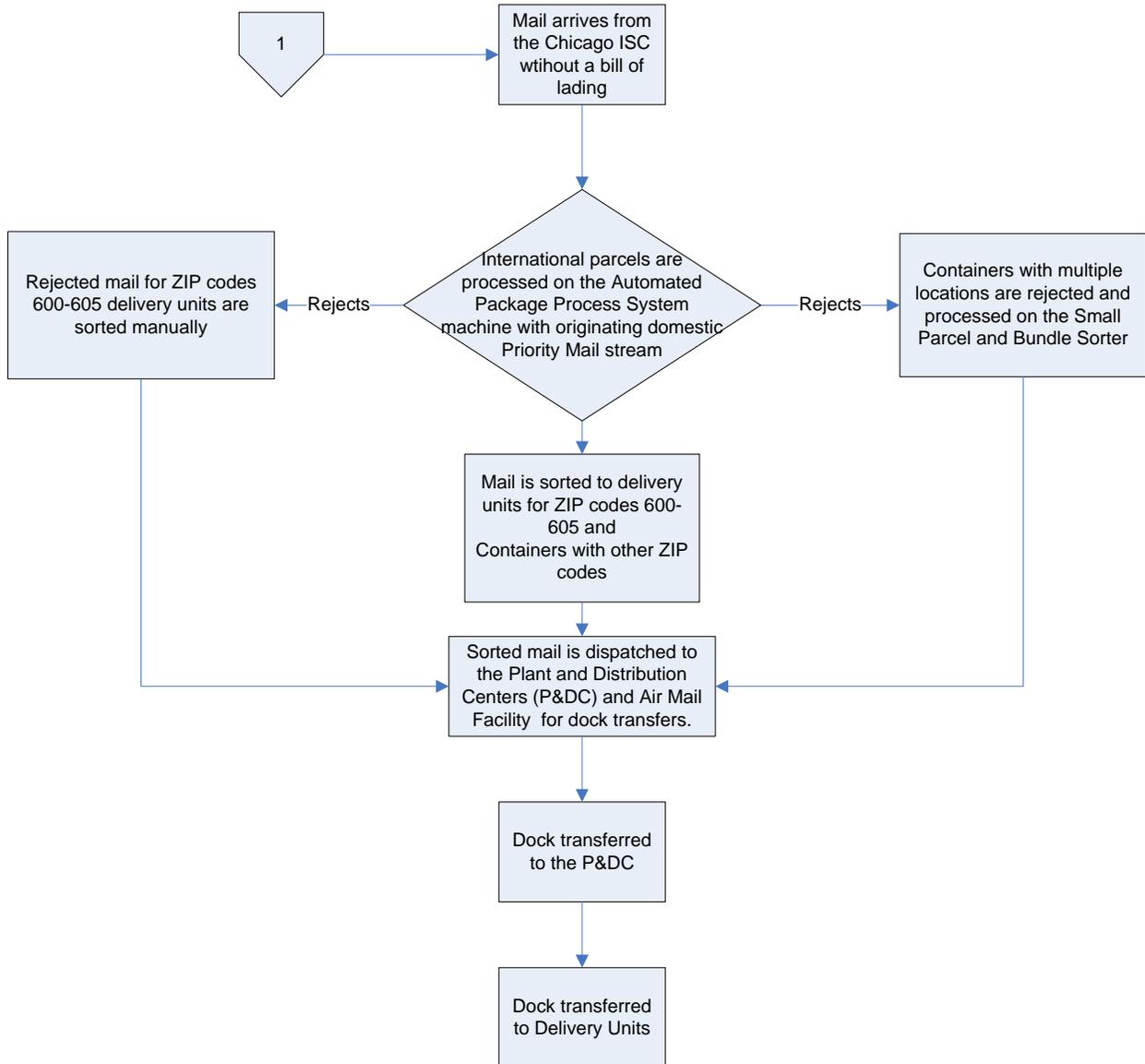
cc: William P. Galligan
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APPENDIX A

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APPENDIX B

INBOUND INTERNATIONAL PARCELS PROCESS AT THE CHICAGO METRO SURFACE TRANSFER CENTER



APPENDIX C. MANAGEMENT'S COMMENTS

KATHY AINSWORTH
ACTING VICE PRESIDENT, DELIVERY AND RETAIL



September 26, 2006

KIM H. STROUD
DIRECTOR, AUDIT REPORTING

SUBJECT: Draft Management Advisory – Delivery Confirmation for Inbound International Mail
(Report Number DR-MA-06-DRAFT)

This is the Delivery and Retail response to the Draft Management Advisory – Delivery Confirmation for Inbound International Mail dated August 31.

Recommendation 1: "Coordinate with the Deputy Postmaster General and Chief Operating Officer to incorporate specific procedures in the June 2006 Standard Operating Procedure for delivery and retail units to scan inbound international mail parcels upon arrival at delivery units."

Response: In the report, this recommendation was based on our exposure to potential losses for indemnity claims when no proof of delivery is available. Unfortunately, an "Arrival at Unit" scan will not change our exposure to losses as it does not qualify as proof of delivery. In addition, the costs for this recommendation would be prohibitive compared to the contribution for the majority of international parcels.

Our research indicates this is a problem to be approached through actionable data identifying problem areas and ongoing education regarding the requirements for delivery personnel to scan and capture the signature of the addressee at the time of delivery. We have participated in the issuance of a Postal Bulletin article on March 30, a letter to field managers from the Deputy Postmaster General and Chief Operating Officer on June 14 with standard operating procedures and service talks attached, and a follow-up letter from the Acting Vice President of Delivery and Retail to those field managers with the highest identified volumes of incoming international mail to improve scanning and signature capturing.

In addition, a training video is in production on proper scanning procedures for inbound international parcels that will be distributed nationwide prior to December. We have also formed a task force of stakeholders from Operations and Marketing to determine any other actions needed to increase scan rates for international parcels. The task force is looking at all aspects of this problem, particularly the lack of specific data concerning the severity of this problem.

This issue has been misunderstood for many years and the requirements for much of international parcels is somewhat counter-intuitive to how our carriers and retail associates handle domestic parcels. For instance, in most conversations on this problem, including the draft audit, the problem is referred to as scanning or not scanning the mail pieces. The actual problem involves signature capture. This process may begin with a barcode scan, but until a signature is captured for every parcel (from Express Mail to ordinary parcels), we do not have proof of delivery as defined by the Universal Postal Union.

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Recommendations 2 and 3: "Explore developing a process to scan individual international parcels upon receipt at the international service centers and establish a procedure with the United States Customs to notify the Postal Service of all inbound international parcels."

Response: We agree with both of these recommendations. In our data driven organization, the need to define a problem with hard data is paramount if we are to fix the problem. Both of these recommendations, if enacted, would greatly add to our ability to supply data to the field and fulfill the requirement to supply an inbound arrival scan somewhere in the system once the parcel arrives in the United States.



Kathy Ainsworth

cc: Mr. Galligan
Mr. Vogel
Mr. Nappi

PAUL VOGEL
MANAGING DIRECTOR, GLOBAL BUSINESS
AND SENIOR VICE PRESIDENT



September 18, 2006

KIM H. STROUD
DIRECTOR, AUDIT REPORTING

SUBJECT: Draft Management Advisory – Delivery Confirmation for Inbound International Mail (Report Number DR-MA-06-DRAFT)

This is the Global Business Management response and other comments to the Draft Management Advisory – Delivery Confirmation for inbound International Mail dated August 31.

Recommendation Number 2: "Explore developing a process to scan individual parcels upon receipt at the international service centers."

Response: We concur with this recommendation as stated. We believe the solution to this issue lies down one of two paths (or some combination of both). As stated in the draft report, the strategy has been, and will continue to be, utilization of Preedes 2 EDI information. If fully implemented by our trading partners for parcel traffic, this will allow us to use the nested piece information contained within the Preedes 2 file structure by associating these item numbers with the scan currently performed on each incoming receptacle. Notwithstanding this preferred strategy, we have also requested Engineering to develop a passive scanning solution that would allow us to capture this scan event without resorting to a labor intensive manual scanning process. To date, an automated solution has not been identified.

Recommendation Number 3: "Establish a procedure with U.S. Customs to notify the Postal Service of all seized inbound international parcels."

Response: We concur with this recommendation. In fact, such a process has long been in effect, but as pointed out by the observation of the audit team, this is inadequately documented in terms of policy and procedures. As a result, the on-going application of the process at the international service center (ISC) level has not been adequately utilized or managed. We have addressed this issue as a result of verbal information from the audit team, preceding this draft report. In consultation with Customs and Border Protection, language has been inserted in the T-5 handbook, International Mail Operations, which states that the Postal Service is to receive a "Custody Receipt for Seized Property and Evidence," CPB 6051, document for all seized items. The ISC is instructed to keep this information on file in the Records Unit for retrieval and use when investigating claims or inquiries.

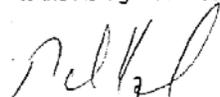
I wish to also offer a general comment on the report itself and a specific comment on recommendation number 1, "Coordinate with the Deputy Postmaster General and Chief Operating Officer to incorporate specific procedures in the June 2006 Standard Operating Procedures for delivery and retail units to scan inbound international mail parcels upon arrival at delivery units," which was directed at the acting Vice President, Delivery and Retail. As stated in the opening introductory paragraph, the original request was to review and report on the delivery confirmation

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scan performance, specifically for inbound international parcels. This report does not respond to the requested task and does not provide meaningful information for management to address this identified problem. In fact, the report conveys the impression that the delivery scan is the one aspect of the process that functions correctly. However, this conclusion is based solely on observations made at six delivery units in the Chicago area; and even if this were a representative number of observations from which to reach a conclusion, there is no substantiating data in support of it.

The most extensive coverage in the report revolves around the issue of the lack of scanning on receipt of items in the delivery unit. The report states that this function is poorly performed because there are no policies and procedures in place requiring this scan. The report is correct on that point. There are no policies and procedures in place because this is not and has never been a requirement. Further, it is not a necessary component to determining whether or not a parcel has been delivered. While an argument can be made that an arrival at delivery unit scan potentially provides added value from a customer service perspective in terms of track and trace information, the lack of such a scan has absolutely no bearing on Postal Service's exposure to illegitimate claims of non-delivery and is not necessary as proffered in the report. Institution of further scanning should be made based on sound business case analysis to ensure that the expense of doing so supports the gain received. As such, we do not support implementation of recommendation number 1, made to the Acting Vice President, Delivery and Retail.



Paul E. Vogel

cc: Mr. Galligan
Ms. Feindt
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Mr. Knoll
Mr. Nappi
Mr. Mack
Ms. Rettinhouse
Mr. Phelps