



March 30, 2007

ANACZARINA C. HILARIO  
PLANT MANAGER – SAN FRANCISCO INTERNATIONAL SERVICE CENTER

SUBJECT: Audit Report – San Francisco International Service Center –  
Inbound International Mail (Report Number FT-AR-07-012)

This report presents internal control issues over recording inbound international mail volumes at the San Francisco International Service Center (ISC). We identified this issue during our annual audit of the U.S. Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 06BM003FT003).

### **Background**

ISCs distribute and dispatch international mail received from designated service areas and headed to specific foreign countries or to gateway exchange offices. There are currently five ISCs: New York, Miami, Chicago, Los Angeles, and San Francisco. ISC personnel scan all inbound international mail receptacles<sup>1</sup> into the Receipt Verification System (RVS)<sup>2</sup> for tracking and accounting purposes.

International record unit (IRU) personnel, located within the ISC, input inbound letter class and Parcel Post® mail volumes into the international web-based application,<sup>3</sup> communicate with foreign postal administrations (FPA), and adjust mail volumes based on information received from FPAs. Additionally, ISC personnel break down receptacles and scan individual inbound Express Mail® pieces into the Military/International Dispatch Accountability System (MIDAS).<sup>4</sup> Inbound international mail documents kept at the IRU support international mail revenue and receivables. Prior to calendar year (CY) 2006, the Postal Service calculated international Express Mail billings based on number of pieces. During CY 2006, the Postal Service included gross weight in the billing calculation. Express Mail documentation generated by the FPA supports International Express Mail volumes.<sup>5</sup>

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<sup>1</sup> Receptacles include trays, sacks, and boxes that usually contain more than one piece of mail.

<sup>2</sup> RVS was developed to process inbound international mail and captures data by receptacle, rather than each individual piece of mail. Currently, the San Francisco ISC uses RVS for Express Mail® and Canada mail and has not integrated it for accounting.

<sup>3</sup> The international web-based application allows data entry and data correction of inbound and outbound Parcels, letters, and Express Mail bills.

<sup>4</sup> Employees use MIDAS to record inbound international Express Mail volumes. The Postal Service uses this information to populate internal accounting data files and, ultimately, to record revenues.

<sup>5</sup> International Express Mail volumes consist of piece and, in some cases, weight information.

## **Objectives, Scope, and Methodology**

The objectives of this portion of the audit were to determine whether inbound international mail volumes were accurate and whether internal controls for recording inbound international mail volumes were adequate at the San Francisco ISC.

To accomplish our objectives, we reviewed inbound mail documents for four classes of inbound international mail at the San Francisco ISC from October 2005 through March 2006: Express Mail, Coventry (upgraded) Parcels,<sup>6</sup> Parcel Post, and letter class. The San Francisco ISC was judgmentally selected based on mail volume and the length of time since our last visit. For each class of mail reviewed, we statistically sampled inbound mail volumes and traced them to corresponding inbound mail manifests and/or other supporting documentation. Based on our analysis of the sampled items for letter class mail, we judgmentally expanded our review to include inbound letter class dispatches from FPAs for CYs 2004 and 2005. (See Appendix A.)

We conducted this audit from April 2006 through March 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials February 9, 2007, and included their comments where appropriate.

We relied on computer-generated data from MIDAS, RVS, and the international web-based application and performed specific transaction tests on their data. Although we did not test the reliability of these systems, we verified the accuracy of data. For example, we traced selected inbound international mail volume information to supporting source documents.

## **Prior Audit Coverage**

Our fiscal year (FY) 2002 financial statements audit<sup>7</sup> reported discrepancies between information entered into MIDAS and manifests of inbound international Express Mail and Coventry (upgraded) Parcels. We also noted that the record retention period for Express Mail manifests was 6 months, although the business cycle for international Express Mail can be as long as 18 months. Management agreed with our findings and recommendations and took action to improve the accuracy of inbound international mail data entered into MIDAS and extended the retention period for international Express Mail records to 3 years.

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<sup>6</sup> Coventry (upgraded) Parcel service is a special class of Parcel Post covered by bilateral agreement between the Postal Service and the United Kingdom postal administration.

<sup>7</sup> *Fiscal Year 2002 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center* (Report Number FT-AR-03-008, dated January 30, 2003).

During our FY 2003 financial statements audit, we reported the Postal Service relied on information received from the Canada Post Corporation to record revenues.<sup>8</sup> The Postal Service took steps to address this issue and recognize it in the process of establishing effective internal controls. Based on this effort coupled with the planned implementation of the RVS system, we made no recommendations.

During our FY 2005 financial statements audit, we reported that inbound international mail volumes were not always accurate and internal controls for recording inbound international mail at the J. T. Wecker (Chicago) ISC needed strengthening.<sup>9</sup> Specifically, for Express Mail and Parcel Post, there were discrepancies between source documents and billing information recorded in the international systems.<sup>10</sup> Also, for Coventry (upgraded) Parcels, the Postal Service did not always request missing source documents. In addition, the Postal Service did not have a process in place to monitor volume data entered for inbound international mail. Management agreed with our findings and recommendations, reassigned and trained new personnel, and reinforced the need to request missing documents for Coventry (upgraded) Parcels. In addition, St. Louis Integrated Business Systems Solutions Center personnel plan to develop an exception report to help ISCs investigate Express Mail differences.

Also during FY 2005, we reported the San Francisco Airmail Records Unit processed fewer records per workhour than the targeted productivity rate, misaligned some workhours with workload, and performed extra work because plant operations personnel sorted mail improperly.<sup>11</sup> We recommended management reduce workhours, periodically evaluate operations, and provide additional training to plant operations personnel. Management agreed with our finding and recommendations.

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<sup>8</sup> *Internal Controls Over the Recording and Reporting of Inbound Mail Volumes From Canada* (Report Number FT-AR-04-002, dated December 2, 2003).

<sup>9</sup> *J.T. Wecker (Chicago) International Service Center – Inbound International Mail* (Report Number FT-AR-06-013, dated March 22, 2006).

<sup>10</sup> International systems include the international web-based application, MIDAS, and RVS.

<sup>11</sup> *Efficiency of the Airmail Records Unit at the San Francisco International Service Center* (Report Number NO-AR-05-012, dated September 6, 2005).

## Results

Except for Parcel Post, including Coventry (upgraded) Parcels, inbound international mail volumes were not always accurate and internal controls for recording inbound international mail at the San Francisco ISC record unit needed strengthening. Specifically, personnel did not properly process letter class inbound international mail documents and timely enter the information into the international web-based application. Also, employees did not retain Express Mail documentation as required. In addition, inbound international Express Mail supporting documentation did not always support information scanned into RVS.

### **Letter Class Inbound International Mail Documents**

Personnel did not always properly process letter class inbound international mail documents<sup>12</sup> and timely enter the information into the international web-based application. Although our initial sample did not yield a large amount of errors, we observed a significant number of unprocessed letter class documents maintained in flat trays, as follows:

- Approximately<sup>13</sup> 500 billing documents, dating back to January 2, 2006, were received and verified but not entered into the international web-based application.
- Approximately 260 billing documents, dating back to February 6, 2006, were received but not verified and entered into the international web-based application.
- Approximately 100 billing documents, dating back to April 2005, required documentation from the FPAs.
- Approximately 400 miscellaneous documents needed to be completed, matched and filed, or reviewed.
- Two flat trays of billing documents and supporting documentation from the FPAs from CYs 2001 through 2004 were considered trash by an IRU individual and not entered into the international web-based application.
- Approximately 390 requested documents received from foreign countries, dating back to May 2004, were not entered into the international web-based application. This included a significant number of FPA refusals to provide the requested billing documents due to elapsed time.

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<sup>12</sup> Letter class inbound documentation includes, in part, the billing document (Form CN31 – *Letter Bill*), the *Verification Note* (Form CN43), and other documents.

<sup>13</sup> Approximations were derived by performing a quick count of documents, considering documents stapled or clipped together as one document.

The following picture shows seven flat trays of unprocessed documents.



Universal Postal Union (UPU) guidelines require all postal administrations to submit billing information and to request billing information in a timely manner. In order for the Postal Service to bill and receive payment for services performed, personnel must timely enter billing documentation into the system.

According to the record unit clerk, personnel did not perform the work due to the high volume of documents. Also, management advised that the supervisor had responsibilities at both the ISC and IRU, and ISC responsibilities were a priority.

When employees do not properly process and enter letter class inbound mail documents into the international web-based application, the Postal Service increases its risk of submitting incorrect billings to FPAs, having misstated revenues and receivables in the General Ledger, and forgoing revenue for services provided. Also, the Postal Service could incur costs for researching and resolving discrepancies and payment could be delayed.

As a result of our audit, San Francisco IRU personnel entered documentation from all seven flat trays into the international web-based application.<sup>14</sup> We estimated the value of missing dispatches for CYs 2004 and 2005 at approximately \$922,478. Refer to Appendix B for billing amounts for letter class inbound international mail documents not properly processed and timely entered into the international web-based application. We

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<sup>14</sup> The week after our site visit, the ISC manager developed a process for data entry for the unprocessed documents included in the flat trays. This process took approximately 3 months to complete.

will report \$865,232 as monetary impact, recoverable revenue loss, and \$57,246 as unrecoverable revenue loss in our *Semiannual Report to Congress*.

### **Recommendation**

We recommend the Plant Manager, San Francisco International Service Center:

1. Implement a procedure requiring adequate management oversight to ensure proper processing of inbound international letter class documents.

### **Management's Comments**

Management agreed with the recommendation and assigned a record unit supervisor to oversee document processing. Management also agreed that employees had not processed approximately 100 documents because they required documentation from FPAs and stated they will enter all documents by the end of April 2007.

Management partially agreed with our observations regarding the 500 billing documents received but not entered, and the 260 billing documents received but not verified and entered. Regarding these documents, a backlog occurred because management instructed employees not to enter billing documents due to a computer system upgrade and subsequent computer system issues. However, management resolved the issue in October 2006 and employees have now processed all documents.

Management disagreed, in part, with the observation regarding the two flat trays considered trash. Management acknowledged they were not in complete compliance with records retention policy. However, they stated documents from CYs 2001 and 2002 were beyond the time limit for entry and documents less than 3 years old were pending documentation or responses from FPAs. Management advised that personnel had entered all CY 2003 and 2004 documents by October 2006.

Furthermore, management was unclear how our observation on 400 miscellaneous documents not completed, matched and filed, or reviewed differed from other observations. However, management stated their response to the two flat trays also addressed this issue, which they resolved in March 2007.

Management also disagreed with the observation that employees had not entered approximately 390 requested documents from foreign countries. Management asserted that IRU personnel did not process these documents because of noncompliant FPAs. As a result, they will establish escalation procedures by September 2007. As of January 2007, record unit personal had entered all CY 2004 pending documents into the web-based application.

Management believes the \$922,478 of monetary impact, including \$865,232 of recoverable revenue loss and \$57,246 of unrecoverable revenue loss, in total,

reasonably approximates the value of the documents identified. Management noted that since employees later entered information from these documents into the web-based application, they have or will include their values in settlements with the FPAs.

Management's comments, in their entirety, are included in Appendix C.

### **Evaluation of Management's Comments**

Management's comments are responsive to our recommendation and actions taken or planned should correct the issues identified in the finding. For clarification, the 400 miscellaneous documents included verification notes that were not completed, matched or filed, and other miscellaneous documents that needed to be reviewed. We will provide details of these items upon request.

### **Express Mail Dispatch Document Retention**

Personnel did not retain Express Mail documentation at the San Francisco IRU as required. Specifically, the IRU clerk retained Express Mail documentation for 6 months before disposing of it. This occurred because San Francisco IRU personnel were not aware of the updated record retention policy.

Prior to December 2003, the retention period for international Express Mail documentation was 6 months. However, in our FY 2002 financial statements audit report, we recommended the Postal Service modify the policy to retain the records for the length of the business cycle or longer. Currently, Postal Service policy<sup>15</sup> requires management to retain international Express Mail documentation for 3 years.

Express Mail documentation has piece count information the Postal Service uses for billing purposes. If management does not retain Express Mail documentation, the Postal Service may not be able to support disputed billed amounts because settlement can occur as late as 18 months after delivery date.

### **Recommendation**

We recommend the Plant Manager, San Francisco International Service Center:

2. Communicate the current record retention policy to San Francisco international record unit employees.

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<sup>15</sup> Policy memorandum dated December 22, 2003, Subject: *Retention of International Dispatch Documentation*.

### **Management's Comments**

Management agreed with our finding and communicated the current record retention policy to IRU employees. The San Francisco record unit currently retains Express Mail manifest documentation for 3 years. Management advised they resolved this issue in July 2006. In addition, management plans to post record retention policy requirements and conduct periodic reviews.

### **Evaluation of Management's Comments**

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

### **Other Observations**

Delivery bill documentation generated by foreign countries sometimes differed from weight information scanned into RVS based on barcode tags generated by those same countries. Of 109 international Express Mail pieces reviewed,<sup>16</sup> we found 33 discrepancies, including five where the recorded weight in RVS differed from the weight on delivery bill documentation by one decimal place.

We did not research these discrepancies further or determine the cause of the differences. However, since information from the issuing FPA is used for billing, we offer this information to help reduce disputes over the accuracy of billing and delays in the settlement of accounts receivable. These delays would result in additional research cost for the Postal Service in settling disputes. According to Postal Service personnel, they believe there are chronic issues with the dispatch documentation from certain FPAs that make it impossible for IRU personnel to match them against data captured in the Postal Service's systems.

### **Management's Comments**

Management stated record unit personnel are responsible for resolving the types of differences reported if they fall outside UPU tolerance thresholds and record unit personnel will enter resulting adjustments in a timely manner.

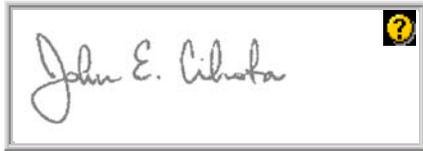
### **Evaluation of Management's Comments**

Management's comments are responsive to the observation. We will continue to monitor this area as part of our future financial statements audit work.

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<sup>16</sup> Documentation was unavailable for 19 of 109 Express Mail items sampled.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Siewert, Director, Financial Reporting, or me at (703) 248-2100.



John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

Attachments

cc: Lynn Malcolm  
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## APPENDIX A

### STATISTICAL SAMPLING AND PROJECTIONS FOR THE AUDIT OF INTERNATIONAL INBOUND MAIL AT THE SAN FRANCISCO INTERNATIONAL SERVICE CENTER

#### Purpose of the Sampling

One of the objectives of this audit was to assess factors related to the correct entry of inbound international mail into the MIDAS. In support of this objective, the audit team employed a stratified random sample of four mail types. The sample design allows statistical projection of the number of mail records with errors. In addition to an overall projection of record errors, we made separate projections for each of the four mail types: letter class/other mail (CN31), Express Mail (CN38), Coventry (upgraded) Parcels (CP87 - Coventry), and Parcel Post (CP86 and CP87).

#### Definition of the Audit Universe

The original audit universe consisted of 68,399 inbound international mail records at the San Francisco ISC for the period October 1, 2005, through March 31, 2006:

- Letter class/other: 11,966 records
- Express Mail: 37,171 records
- Coventry (upgraded) Parcels: 87 records
- Parcel Post: 19,175 records

The OIG Computer Assisted Assessment Techniques team obtained the audit universe from the International Accounting Branch System database for inbound international and Canadian mail.

During the assessment of sample records for the letter class mail type, the audit team identified two duplicate records. Therefore, we adjusted the letter class mail type universe size from 11,966 to 11,813 records to account for other duplicates in the universe. The team did not review two valid records from the letter class sample; we, therefore, eliminated those two records from both the audit universe and the sample. This mail type adjustment reduced the audit universe to an estimated 68,244 records.

#### Sample Design and Modifications

We determined the sample size in each stratum separately. We used unrestricted random sampling of records within each stratum.

For the letter class/other mail, we expected very low error rates based on prior-year results. To determine the sample size for this mail type, we used a desired 10 percent

risk of over-reliance (beta risk), and a tolerable error rate of 5 percent as recommended by the Government Accountability Office's *Financial Audit Manual* for compliance testing. Because of the low expected error rate, we calculated the letter class mail sample size using the cumulative binomial methodology with an expected error rate of 2.5 percent based on the results of the FY 2005 audit at the Chicago IRU.

Our expected error rates for the other three classes of mail were higher, based on the FY 2005 audit results at the Chicago location. For the Express Mail, Coventry (upgraded) Parcels, and Parcel Post mail types, our expected error rates were 27 percent, 14 percent, and 17 percent, respectively. Because these high expected error rates precluded use of the cumulative binomial methodology, we calculated sample sizes for a two-sided normal distribution with a desired 90 percent confidence level and a desired precision of +/- 7 percent.

The final sample sizes for each of the four mail classes are noted in the table of results in the following section.

### **Statistical Projections of the Sample Data**

For each mail class and for inbound international mail overall, we calculated the point estimate of the total number of records with deviations and the corresponding error percentage.

For mail types with high error rates, we applied the normal distribution methodology for an unrestricted random sample as described in Chapter 3 of *Model Assisted Survey Sampling*, Särndal, Swensson, and Wretman, 1991. In this latter case, we used a one-sided 95 percent confidence interval to determine an upper error limit.

We applied the cumulative binomial methodology to determine the upper error limit for those mail types with low error rates. We report those results with a 5 percent risk of overreliance (or 95 percent reliability).

For the letter class mail records, the error rate was low but not zero. Therefore, we calculated the 95 percent one-sided confidence interval for comparison to the binomial upper error limit. The normal distribution method gave the tighter interval (lower upper error limit), so we use that method in reporting the result for this mail type.

We used stratum weights to combine the individual uncertainty intervals for the four strata to determine an overall upper error limit.

Based on projection of the sample results, we estimate errors in 18,040 inbound international mail records in the period audited; the corresponding error rate is 26.4 percent. The 95 percent upper error limit on the total number of errors and the corresponding projected error rate are 21,072 errors and 30.9 percent, respectively.

We note the errors are dominated by the Express Mail mail type. The upper error limits for the remaining three mail types are near the tolerable rate of 5 percent. The Coventry Parcels mail type upper error limit slightly exceeds the 5 percent tolerable level, but that mail type as a whole is an extremely small fraction of the audit universe.

Results are summarized in the table below:

<b>Mail Type</b>	<b>Audit Universe</b>	<b>Sample (Number of Records with Errors)</b>	<b>Point Estimate of Errors, Number of Records (Rate)</b>	<b>Upper Error Limit,* Number of Records (Rate)</b>
Letter class/Other	11,811**	152*** (4)	311 (2.6%)	562 (4.8%)
Express Mail	37,171	109 (52)	17,733 (47.7%)	20,667 (55.6%)
Parcels Post Coventry Airmail	87	39 (0)	0 (0.0%)	5 (5.5%)
Surface & Air Parcels (CP86)	19,175	80 (0)	0 (0.0%)	704 (3.7%)
Overall, estimated without duplicates	68,244	380 (56)	18,044 (26.4%)	21,072 (30.9%)

\* 95 percent confidence.

\*\* Estimated without duplicates and without two records not reviewed. Originally 11,966.

\*\*\* Without duplicates and without two records not reviewed. Originally 156.

## APPENDIX B

### SAN FRANCISCO INTERNATIONAL SERVICE CENTER MISSING DISPATCHES

CY 2004 dispatches (except those from industrialized countries) already passed the billing timeline set by the UPU. FPAs have the right to refuse payment for this timeframe. Therefore, these dispatches were classified as unrecoverable.

CY 2004 dispatches originating from industrialized countries are still recoverable because letter class accounts between the Postal Service and the FPAs have not been settled to date. The parties have not yet agreed on the CY 2004 Items per Kilogram rates.

All CY 2005 dispatches were classified as recoverable because the billing timeframe has not yet expired. At the time of our analysis, July through September 2006, the St. Louis International Accounting Branch was in the process of billing CY 2005 foreign country accounts.

CY	Origin City Code	Origin City Name	Origin Country Name	Number of Missing Dispatches	Average Weight per Dispatch	Estimated Weight of Missing Dispatches	SDR * Amount	U.S. Dollars**
<b><u>RECOVERABLE REVENUE LOSS:</u></b>								
2005	BKRA	Boroko	Papua New Guinea	36	14.00	504.10	1,727.54	\$2,469
2005	CDGR	Insa Roissy Presse Prio	France (Industrialized)	187	7.70	1,439.30	5,930.95	8,475
2005	MNLA	Manila	Philippines	100	278.52	27,851.97	95,448.71	136,396
2005	MNLA	Manila	Philippines	21	11.30	237.30	813.23	1,162
2005	ONED	Gonesse Catmi Mep	France (Industrialized)	42	289.82	12,172.53	50,159.59	71,678
2005	RGNA	Union of Myanmar	Union of Myanmar	10	74.27	742.74	2,545.38	3,637
2005	SINA	Singapore	Singapore	89	89.66	7,979.59	27,346.04	39,077
2004	CDGR	Insa Roissy Presse Prio	France (Industrialized)	138	4.36	601.26	2,367.57	3,677
2004	GLAA	Glasgow	Great Britain	44	109.59	4,821.86	16,306.52	25,324
2004	LALA	Langley	Great Britain (Industrialized)	140	504.13	70,578.72	238,682.42	370,674
2004	LALC	AMRU	Great Britain (Industrialized)	90	87.17	7,845.19	26,530.79	41,202
2004	ONED	Gonesse Catmi Mep	France (Industrialized)	37	207.29	7,669.65	30,200.63	46,902
2004	ONEE	Gonesse Catmi Mep 2	France (Industrialized)	17	77.48	1,317.16	5,186.55	8,055
2004	REAA	Reading	Great Britain (Industrialized)	18	274.01	4,932.23	16,679.77	25,904

CY	Origin City Code	Origin City Name	Origin Country Name	Number of Missing Dispatches	Average Weight per Dispatch	Estimated Weight of Missing Dispatches	SDR * Amount	U.S. Dollars**
2004	TYOA	Tokyo	Japan (Industrialized)	54	279.73	15,105.27	51,899.64	80,600
					<b>TOTAL RECOVERABLE AMOUNT:</b>			<b>\$865,232</b>
<b><u>UNRECOVERABLE REVENUE LOSS:</u></b>								
2004	BJSA	Beijing	China	62	93.30	5,784.75	19,824.34	\$30,787
2004	BKRA	Boroko	Papua New Guinea	11	16.41	180.47	618.47	961
2004	INUA	Nuru	Rep. of Nauru	10	0.44	4.38	15.02	23
2004	MNLA	Manila	Philippines	15	13.75	206.32	707.05	1,098
2004	RGNA	Union of Myanmar	Union of Myanmar	11	68.21	750.28	2,571.22	3,993
2004	SALA	El Salvador	El Salvador	36	25.61	922.10	3,160.03	4,900
2004	SINA	Singapore	Singapore	67	43.40	2,907.89	9,965.34	15,476
					<b>TOTAL UNRECOVERABLE AMOUNT:</b>			<b>\$57,246</b>
					<b>TOTAL AMOUNT:</b>			<b>\$922,478</b>

\* SDR (Special Drawing Rights) monetary unit is designed by International Monetary Fund and is used by the UPU.

\*\* Rounded to nearest dollar.

## APPENDIX C. MANAGEMENT'S COMMENTS

PLANT MANAGER  
SAN FRANCISCO INTERNATIONAL SERVICE CENTER



March 28, 2007

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Operations  
Office of Inspector General

**SUBJECT:** Response for Draft Audit Report - San Francisco International Service Center - Inbound International Mail (Report Number FT-AR-07-DRAFT)

San Francisco International Service Center (ISC) management agrees in part with the findings of Office of Inspector General (OIG) audit performed for FY06 which was conducted from June 26, 2006, thru June 29, 2006. We are currently largely in compliance with the findings of the OIG audit. Response and actions taken toward the issues addressed by the OIG audit are explained below:

**Letter Class Inbound International Mail Documents:**

**Findings:**

- Approximately 500 billing documents, dating back to January 2, 2006, had been received and verified but had not been entered into the international web-based application as of the end of June.

**Response:**

- Management partially agrees. The reason for these documents not being entered into the CN-31 application was due to computer system issues that prevented data entry beginning in January 2006. Records Unit personnel and supervisor were instructed not to enter any billing documents as they were advised that the CN-31 computer web-based application was being upgraded. The situation created a back log of un-entered billing documents and adjustments from Verification Notes (VNs). However, an issue with slow response time in the CN-31 web-based application resulted in views not being provided of entered data; this would create the appearance of data not having been entered when in fact, it had.
- After the system was again operational, Record Unit personnel processed all of the current billing documents (Form CN31 – Letter Bill), Verification Notes (Form CN43), and other supporting documentation, as well as all of the back logged billing documents discussed above. This issue was resolved in October 2006.

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**Findings**

- Approximately 260 billing documents, dating back to February 6, 2006, had been received but had not been verified and entered into the international web-based application as of the end of June.

**Response:**

- Management partially agrees with the OIG for the reasons described above.

**Findings:**

- Approximately 400 miscellaneous documents needed to be completed, matched and filed, or reviewed.

**Response:**

- Management is unclear on how the finding regarding the 400 miscellaneous document differ from the other findings. We believe that our response below covers the issue. This issue was resolved in March 2007.

**Findings:**

- Two flat trays of billing documents and supporting documentation from the FPAs (Foreign Postal Administrations) from CYs 2001 through 2004 were considered trash by a Records Unit employee and not entered into the international web-based application.

**Response:**

- Management disagrees in part with the OIG report regarding the two flat trays of billing documents and supporting documentation from the Foreign Postal Administrations (FPAs) from CYs 2001 thru 2004 that the OIG reported being considered "trash." We were not in complete compliance with the Policy memorandum dated December 22, 2003, Subject: Retention of International Dispatch Documentation which states that all documents are to be held for three years only. Anything beyond the three year retention policy should have been purged, which would have been documents from CY 2001 and CY2002. However, the billing documents less than three years old that had not been entered into the CN-31 web-based application were pending documentation or responses from the FPAs. The CY2001 and CY2002 documents were beyond the time limit for entry into the CN-31 web-based application. All CY2003 and CY 2004 documents had been entered into the web-based application by October 2006.

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**Findings:**

- Approximately 100 billing documents, dating back to April 2005, required responses/documentation from the FPAs.

**Response:**

- Management agrees with the above finding. All CY 2005 pending documents will be entered into the web-based application by the end of April 2007.

**Findings:**

- Approximately 390 requested documents received from foreign countries, dating back to May 2004, were not entered into the international web-based application. This included a significant number of FPA refusals to provide the requested billing documents due to elapsed time.

**Response:**

- Management disagrees with the above finding. The approximately 390 requested documents received from foreign countries, dating back to May 2004, were not entered into the web-based application CN-31 due to FPAs failure to respond to the inquiries issued by the VN process. Escalation procedures up to International Postal Affairs at Headquarters will be addressing this issue with non-compliant FPAs in the future. These procedures will be established by September 2007. All CY 2004 pending documents had been entered into the web-based application by January 2007

**Express Mail Dispatch Document Retention:**

**Finding:**

- Personnel did not retain Express Mail documentation at the San Francisco Records Unit as required. Specifically, the Records Unit clerk retained Express Mail documentation for 6 months before disposing of it. This occurred because San Francisco Records Unit personnel were not aware of the updated record retention policy.

**Response:**

- Management agrees with the OIG finding. The record retention policy has been communicated to Record Unit employees and Express Mail manifest documentation is currently being retained for three years. This issue was resolved in July 2006.

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**Recommendations:**

1. Management agrees with OIG to implement a procedure requiring adequate management oversight to ensure proper processing of inbound international letter class documents.

**Response:**

ISC Management agrees with the recommendation that there should be adequate management oversight to ensure proper processing of inbound international letter class documents and/or billing documents, Verification Notes (VNs), and other related documentation. At the time of the audit the ISC did not have a supervisor position to manage the Records Unit. Shortly after the audit the San Francisco ISC assigned a supervisor to the Records Unit to oversee the proper processing of documents.

2. Communicate the current record retention policy to San Francisco international record unit employees.

**Response:**

ISC Management has given a service talk to Record Units employees regarding the current record retention policy. ISC management will also post the record retention requirements and conduct periodic reviews to ensure compliance.

**Recoverable/Unrecoverable Revenue**

We have reviewed the recoverable and unrecoverable revenue loss numbers provided by the OIG and the supporting calculations. We believe that, in total, these numbers represent a reasonable approximation of the value of the documents that were identified by the OIG. Since all documents were later entered by records unit staff, we believe that much, if not all, of these values were subsequently included in the records unit data base and billing weights files, and have been or will be included in settlements with the FPAs.

**Special Note:**

We regard any country specific data to be confidential and request that it be redacted from the document in any public filing.

**Other Observation:**

Delivery bill documentation generated by foreign countries sometimes differed from weight information scanned into RVS based on barcode tags generated by those same countries. Of 109 international Express Mail pieces reviewed, we found 33 discrepancies, including five where the recorded weight in RVS differed from the weight on delivery bill documentation by one decimal place.

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**Response:**

Records Unit personnel, as part of their existing duties, are charged with resolving these types of differences if they fall outside of established UPU tolerance thresholds. This resolution can occur via the review of receipt records and, if appropriate, the VN process. Resulting adjustments will be entered in a timely manner.

In summary, ISC management has developed a process for data entry to ensure all billing documents, VN's, and other related documentation is entered into the web-based applications in a timely and comprehensive manner.

Any questions or concerns may be addressed to Blanca Alas at (415) 405-4722 or me at 415-405-4700.

Sincerely,

  
Ana Milano  
Plant Manager

cc: Mike Nappi, Executive Director, International Networks Operations  
Joseph Nash, Executive Director, Global Finance and Business Analysis  
Lorie Siewert, Director, Financial Reporting  
Isidore Szczepaniak, MIPS, SF ISC  
Blanca Alas, TANS, SF ISC  
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