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SUBJECT: Audit Report – Los Angeles International Service Center – Inbound
International Mail (Report Number FT-AR-10-001)

This report presents issues concerning inbound international mail volumes at the Los Angeles International Service Center (ISC). We identified these issues during our audit of the fiscal year (FY) 2009 U.S. Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 09BM004FT001). This audit addresses the financial risk associated with not accurately recording revenue. See [Appendix A](#) for additional information about this audit.

Conclusion

Volume data used to bill foreign postal administrations (FPA) for inbound international letter post, Parcel Post®, and Express Mail® service was not always accurate and properly supported.¹ These errors resulted from both manual and system issues. As a result, the Postal Service either understated or overstated its billings to foreign countries. We estimate the Postal Service underbilled foreign countries nearly \$163,000 for the errors related to letter post Registered Mail and missing Parcel Post dispatches for the 4 month period from October 1, 2008, through January 31, 2009. We did not determine monetary impact for other errors found primarily due to limited source documentation available to make the calculation. However, the Postal Service could incur administrative costs to resolve discrepancies with FPAs related to the overstated billings. In addition, the errors could also delay the FPA's acceptance of the billing and, therefore, delay revenues for the Postal Service.

¹ Parcel Post and Express Mail are trademarks of the Postal Service.

Inbound International Billing Data

We traced random samples of billing data² to 155 letter post, 130 Parcel Post, and 85 Express Mail source billing documents (dispatches) and identified 56 errors, 49 errors, and 54 errors, respectively. Specifically, proper source documentation was not always available, and weights and piece counts were not always correct. The projected error rates for these samples are 29.78 percent, 30.74 percent, and 54.2 percent, respectively. See [Appendix C](#) for our statistical analysis of the three types of mail. We also judgmentally traced data from 20 source billing documents to billing data for each mail type and found nine errors with letter post, two errors with Parcel Post, and 12 errors with Express Mail.

These errors resulted from both manual and system issues. Manual issues generally involved documentation not received or lost; policies and procedures not in place, not adequately communicated, or not followed correctly or timely; and item count data not correct when manual barcodes are generated. An overall assessment of the manual causes, with letter post in particular, suggests a need for training, supervisory oversight, and documented policies and procedures.

In addition to manual causes, International Reconciliation System issues caused errors in Parcel Post and Express Mail weights and pieces because it did not reconcile Parcel Post or Express Mail data for billing purposes or summarize Express Mail item count data used for billing purposes. These system issues were previously identified by the Global Business Directorate, the St. Louis Information Business System Solutions Center (IBSSC), and the International Accounting Branch (IAB). Management initiated system change requests (SCR) in August 2008 to correct these issues. However, based on our audit findings, we determined these SCRs are still outstanding 1 year later.

While Los Angeles ISC personnel were not aware of any existing documented procedures, we recently became aware of draft procedures³ that require [REDACTED] to validate system data sources, record exceptions, and timely process paperwork.

As a result, the Postal Service did not accurately bill foreign countries for processing and delivering inbound international mail. In addition, based on our analysis of the inbound international mail dispatches at the Los Angeles ISC, we determined the Postal Service underbilled foreign countries \$80,804 for Registered Mail™ service and an estimated \$81,777 for Parcel Post mail service for the period reviewed. We did not determine monetary impact for other errors found primarily due to limited source documentation available to make the calculation. We consider the \$80,804 in monetary impact as recoverable revenue loss, and \$81,777 as unrecoverable revenue loss. The Postal Service could incur administrative costs to resolve discrepancies with FPAs

² The billing data reviewed originated from the Global Business System (GBS) and resides in the International Web System (IWS).

³ *International Service Center Standard Record Unit Procedures – Draft*, dated January 6, 2009.

related to the overstated billings. In addition, the errors could also delay the FPA's acceptance of the billing and, therefore, delay revenues for the Postal Service. See [Appendix B](#) for our detailed analysis of this topic.

Audit Comment

The Postal Service plans to implement a new international system — the Foreign Postal Settlement (FPS) system — to replace the existing Settlement Management System and IWS at the IAB. This new system will receive volume data from the International Reconciliation System and use it to determine settlement amounts between the Postal Service and the FPAs. The Postal Service plans to implement the new system January 1, 2010. In anticipation of this, the U.S. Postal Service Office of Inspector General (OIG) believes it is increasingly important to address issues within the GBS so they do not have an adverse effect on the data integrity of the new FPS system.

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

1. Finalize and communicate *International Service Center Standard Record Unit Procedures* for international records unit personnel to follow when validating dispatches in the International Reconciliation System.

Management's Comments

Management agreed with the finding and recommendation 1 and stated they updated applicable standard operating procedures addressing billing of inbound international mail and communicated them to relevant parties on September 28, 2009. See [Appendix F](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issue identified.

Management subsequently provided updated revised standard operating procedures finalized on September 29, 2009. Our review of these documents revealed they adequately address our concerns. Therefore, this recommendation can be closed.

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

2. Develop system edit(s) that will capture Registered Mail piece count data for billing.
3. Develop and implement formal policies and procedures to ensure Express Mail manifests are obtained and retained at the International Record Unit.

Management's Comments

Management agreed with the findings and recommendations 2 and 3 and stated that Registered Mail piece counts are currently captured in GBS when sent in the pre-advise message. They also stated they are making changes to capture Express Mail Service (EMS) item counts for Express Mail dispatches. They stated these changes were ready for system testing beginning October 1, 2009, but stated the deployment date depends on FPS implementation.⁴ Management also finalized and communicated standard operating procedures related to obtaining and retaining Express Mail manifests at the ISC on September 29, 2009.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues identified. Regarding the development of system edits to capture Registered Mail piece count data, management stated they are making changes to EMS item counts, but our issue is with letter post Registered Mail piece count. We will follow-up with management to ensure changes include Registered Mail piece count as part of our ongoing financial statement audit work.

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

4. Expedite approved system change requests to enable the International Reconciliation System to reconcile data and provide valid dispatch-level data for billing.

Management's Comments

Management agreed with the finding and recommendation 4 and stated they are including this in the GBS system as part of the IAB/FPS critical change request. They stated this change was ready for system testing beginning October 1, 2009; however, the deployment date depends on FPS implementation.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issue identified.

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

5. Research the system issue regarding missing dispatches and implement appropriate corrective action to resolve it.

⁴ Management's comments do not indicate a specific target date for completion for this action. However, as stated in the Audit Comment section of our report, the FPS is scheduled to be implemented January 1, 2010.

Management's Comments

Management agreed with the finding and recommendation 5. Management stated they completed research and GBS currently provides International Records Units with the ability to estimate for missing dispatches based on same-period-last-year data.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issues identified.

We recommend the Acting Manager, Los Angeles International Service Center:

6. Establish a process to ensure all International Records Unit [REDACTED] attend established training.
7. Establish a process to regularly monitor International Records Unit [REDACTED] work to ensure that they timely and properly process dispatches in the International Reconciliation System.
8. Communicate to all applicable employees (International Records Unit and plant personnel) the importance of obtaining and maintaining supporting documentation for billing inbound international mail.
9. Implement a process to ensure item counts are captured for all receptacles with a manually generated receptacle barcode.

Management's Comments

Management agreed with our findings and recommendations 6 through 9. Management confirmed they provided training to all International Records Unit (IRU) [REDACTED] in May 2007, January 2008, and July 2009, and have scheduled additional training for IRU [REDACTED] to complete by October 5, 2009. Regarding IRU personnel monitoring, currently each employee submits a daily and weekly count sheet and managers do random checks for compliance. Also, management is in the process of implementing an additional tracking system to ensure compliance.

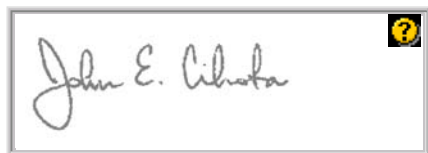
Beginning September 25, 2009, management began providing daily and weekly talks stressing the importance of obtaining and maintaining supporting documentation for billing inbound international mail. In addition, management plans to implement standard operating procedures for the Receipt Verification System unit and require submission of manually generated receptacle information to IRUs on a daily basis.

Evaluation of Management's Comments

The OIG considers management's comments responsive to these recommendations and the corrective actions should resolve the issues identified in the report. Management did not provide an implementation date for the standard operating procedures for the Receipt Verification System unit or submission of manually generated receptacle information to IRUs on a daily basis. Accordingly, we will monitor these areas as part of our annual financial statement audit work.

The OIG considers recommendations 1 and 4 significant, and significant recommendations require OIG concurrence before closure. Recommendation 1 can be closed because management has already addressed the issue to our satisfaction. However, the OIG requests written confirmation when corrective actions addressing recommendation 4 are completed. Recommendation 4 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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

A rectangular box containing a handwritten signature in cursive script that reads "John E. Cihota". In the top right corner of the box, there is a small, square icon with a yellow background and a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Joseph Corbett
Steven J. Forte
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Inbound international mail or dispatch is foreign-originating mail destined for delivery in the U.S.⁵ FPAs pay the Postal Service for sorting and dispatching inbound international mail at the ISCs. Currently, five ISCs in New York, Miami, Chicago, Los Angeles, and San Francisco process international mail. In FY 2008, international revenue for inbound mail was approximately \$268 million.

The Postal Service developed the GBS to assist in streamlining the processing of international mail. The GBS is the overall framework which is comprised of the Receipt System, the Dispatch System, and the International Reconciliation System.

- The Receipt System captures the initial scan of international mail at the inbound receiving terminals.
- The Dispatch System captures the scan of outbound mail.
- The International Reconciliation System was developed for the IRU to capture and validate dispatch records for billing. IRU personnel use the International Reconciliation System to track international mail, identify issues, and reconcile discrepancies.

A mail dispatch may contain more than one receptacle,⁶ and each receptacle has an attached label generated by the country of origin. When inbound international mail arrives at the Los Angeles ISC, it is brought to the receiving unit where ISC personnel scan the label through the Receipt System to capture receptacle information. ISC personnel also collect the billing documents⁷ attached to or enclosed with the receptacles. These billing documents are then delivered to the IRU for processing.

The IRU's primary role is to validate⁸ the billing dispatch records for letter post and Parcel Post in the International Reconciliation System before transmitting the data to the IAB for settlement. When IRU [REDACTED] go through the validation process, they ensure the scanned data captured via the Receipt System, the electronic data interchange (EDI),⁹ and the billing document(s) match. When discrepancies arise, or when there is no record of the dispatch in the International Reconciliation System, the [REDACTED] enter the data from the billing document(s) into the system. In addition, IRU [REDACTED]

⁵ In FY 2008, international revenue for inbound mail was approximately \$268 million.

⁶ Receptacles include trays, sacks, and boxes that usually contain more than one piece of mail.

⁷ Billing documents include Forms CN31 – Letter Bills, Forms CP86 or CP87 – Parcel Bills, Express Mail manifests, and others. They come from the country of origin.

⁸ The validation process is only required for letter post mail and Parcel Post mail. Data for Express Mail Service does not require manual validation as individual Express Mail pieces are scanned and captured via the Receipt System.

⁹ EDI countries provide electronic data to the Postal Service before mail arrives at the ISCs. EDI contains dispatch information, including dispatch date, and is pre-populated into the Receipt System. When ISC personnel scan the EDI mail receptacles through the Receipt System, the scan retrieves the EDI data and associates the receptacle to the EDI dispatch date.

communicate with FPAs to reconcile irregularities or to request billing documents that are missing.

The data from the International Reconciliation System is transferred to the IWS on a daily basis for billing purposes.¹⁰ Inbound international mail is billed by dispatch. Specifically, letter post dispatches are billed based on dispatch weight and the weight and piece count of any additional letter post category, such as International Business Reply Service (IBRS) and Registered Mail. Parcel Post and Express Mail dispatches are billed based on dispatch weight and piece count.

IAB personnel enter letter post, Parcel Post, and Express Mail rates — as published by the Universal Postal Union (UPU) and bilateral agreements — into the IWS. On a quarterly and yearly basis, the IAB submits a request to the Eagan IT/ASC to generate, print, and mail billing reports¹¹ to the IAB. Upon receiving the reports, the IAB splits them into individual billing statements and mails them to the FPAs.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this portion of the audit was to determine whether volume data¹² used to bill FPAs for inbound international mail was accurate and properly supported. We selected the Los Angeles ISC based on the length of time since our last visit to this site, which was in FY 2002.

To accomplish our objective, we traced billing data, originating from the GBS and residing in IWS, to inbound international letter post, Parcel Post, and Express Mail source documents. We used unrestricted random samples of 155, 130, and 85 dispatches, respectively. The universe of transactions for all mail types was from October 1, 2008, through January 31, 2009.¹³ See [Appendix C](#) for our statistical sampling and projections of the three types of mail.

In addition, we judgmentally selected 20 source documents for each type of mail, with dispatch dates between October and December 2008, which we traced to billing data, originating from GBS and residing in IWS. Based on the results of this test, we judgmentally expanded our review to include all Parcel Post billing data for the Los Angeles ISC from October 1 through December 31, 2008.

We conducted this audit from March through October 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as

¹⁰ The International Reconciliation System automatically transfers data to the St. Louis IAB and St. Louis IBSSC. The IBSSC runs edit checks against the data and then loads it into databases, which feed into the IWS.

¹¹ The billing reports are generated separately for each type of mail (letter post, Parcel Post, and Express Mail). They contain individual billing statements for all FPAs that have inbound mail activities during the billing period.

¹² International mail volumes consist of piece count and gross weight.

¹³ We excluded Canada dispatches in the letter post, Parcel Post, and Express Mail universes. We also excluded dispatches from Pay-for-Performance countries from the Express Mail universe. These countries are billed using different processes.

were 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. We interviewed personnel from the Global Business Directorate, the Los Angeles ISC, the St. Louis IBSSC, and the St. Louis IAB. We discussed our observations and conclusions with management officials on July 31 and August 4, 2009, and included their comments where appropriate.

We used computer-generated data from GBS and IWS. We performed specific internal control and transaction tests on these applications to include tracing selected information on inbound international mail volumes to supporting source documents. We relied on the data in these applications to develop our findings.

PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results ¹⁴ |
|---|---------------|-------------------|-----------------|--|
| <i>J.T. Weeker Chicago ISC – Inbound International Mail</i> | FT-AR-06-013 | March 22, 2006 | \$147,729 | We identified a high number of discrepancies between supporting documents and billing data for Express Mail, upgraded Parcel, and Parcel Post. |
| <i>San Francisco ISC – Inbound International Mail</i> | FT-AR-07-012 | March 30, 2007 | \$922,478 | Personnel did not timely enter letter post documents into the system and did not retain Express Mail documentation as required. We also identified a high number of discrepancies between supporting documents and billing data. |
| <i>Interim Audit Report – New York ISC – Inbound International Mail</i> | FT-AR-08-005 | January 24, 2008 | \$13,700,604 | We identified a high number of discrepancies between supporting documents and billing data for Express Mail and letter post mail. |
| <i>Interim Audit Report – Miami ISC – Inbound International Mail</i> | FT-AR-08-012 | September 3, 2008 | \$2,084,620 | We determined that manually entered dispatches for inbound international Express Mail were not always billed to the FPAs. |

¹⁴ Management agreed with all report recommendations. Note that there were no recommendations in the Miami ISC report since management took corrective action during the audit.

APPENDIX B: DETAILED ANALYSIS

Volume data used to bill FPAs for inbound international letter post, Parcel Post®, and Express Mail® service was not always accurate and properly supported. Specifically, proper source documentation was not always available, and weights and piece counts were not always correct. These errors resulted from both manual and system issues. Manual causes are shown in the following table:

Inbound International Mail Conditions and Associated Manual Causes

| Causes (Manual) | Conditions | | | |
|--|---|---|---|--|
| | Proper Source Documentation Not Available | Registered Mail™ Piece Count Not Correct | IBRS Weights and Counts Not Correct | Weight and/or Piece Count Not Correct |
| Los Angeles ISC personnel either did not receive documentation from the foreign country or lost documentation during the recent ISC moves. | LP/PP | | | |
| Policies or procedures were not in place. | EM | | | |
| IRU [REDACTED] were not aware of existing documented policies/procedures. | | LP | | |
| Los Angeles IRU [REDACTED] did not always perform validation correctly or timely, if at all. | LP/PP | LP | LP | LP/PP |
| Item count data was not captured for a receptacle when a manual barcode was generated. | | | | EM |

Legend:

LP = letter post

PP = Parcel Post

EM = Express Mail

In addition to manual causes, system issues caused errors in Parcel Post and Express Mail weights and pieces. Specifically, the International Reconciliation System did not:

- Reconcile Parcel Post or Express Mail data for billing purposes.
- Summarize Express Mail item count data used for billing purposes.

These system issues were previously identified by the Global Business Directorate, the St. Louis IBSSC, and the IAB. Management initiated SCRs in August 2008 to correct these issues. However, based on our audit findings, we determined these SCRs are still outstanding 1 year later.

While Los Angeles ISC personnel were not aware of any existing documented procedures, we recently became aware of draft procedures that require inbound mail entry IRU [REDACTED] to verify system data sources (data captured through the Receipt System or provided electronically through FPAs) against physical dispatch documents

to ensure they are consistent. If they are not, the [REDACTED] must complete validation by updating the International Reconciliation System records using the dispatch document in accordance with UPU guidelines. Finally, IRU [REDACTED] must process the paperwork as they receive it so no backlog exists.

As a result, we estimate the Postal Service underbilled foreign countries nearly \$163,000 for international mail service for the period reviewed.

Inbound International Letter Post Billing Data

Volume data used to bill FPAs for inbound international letter post services was not always accurate or properly supported. We found 56 errors when we traced a randomly selected sample of billing data to 155 source billing documents (dispatches). We also found nine errors when we judgmentally traced 20 source billing documents (dispatches) to the billing data. The most common error was that proper documentation was not available at the Los Angeles ISC IRUs to support the billing data. Errors from the random sample, summarized by type, are in the following table:

| Error Type | Number of Dispatches |
|--|----------------------|
| Proper source documentation not available | 20 |
| Registered mail piece count not correct | 16 |
| Multiple fields of data not correct (i.e., weight, count, IBRS weight, IBRS count, and/or Registered mail piece count) | 10 |
| IBRS weight and IBRS count not correct | 6 |
| Weight not correct | 4 |
| Total Errors | 56 |

These errors occurred because:

- Los Angeles ISC personnel either lost letter post source documentation during recent Los Angeles ISC Operations and Los Angeles ISC IRU moves, or possibly countries did not send the proper supporting documents. In either case, the IRU [REDACTED] did not request the missing documents from the foreign countries of origin. We could not determine the effect of these errors on billing because source documentation was not available.
- The IRU [REDACTED] was not aware of the need to manually enter Registered Mail piece counts for dispatches containing Registered Mail. In addition, when EDI data did not correctly reflect the existence of Registered Mail in the dispatch, the International Reconciliation System did not have the capability to identify those dispatches containing Registered Mail. As a result, information was not captured unless the [REDACTED] manually entered it into the International Reconciliation System. These errors resulted in underbillings.

- The IRU [REDACTED] did not always perform required validations. Additionally, the [REDACTED] sometimes created manual dispatches instead of amending existing ones, which resulted in duplicate dispatches in the International Reconciliation System. These errors resulted in overbillings.
- The IRU [REDACTED] incorrectly entered IBRS weights and counts into the International Reconciliation System, causing IBRS weights to double and IBRS counts to increase by the number of bundles (typically one) for billing. These errors resulted in overbillings.
- The IRU [REDACTED] entered incorrect weights during the validation of the dispatch. These were minimal weight errors; therefore, there is minimal effect on the billing.

The errors identified in our judgmental sample were consistent with those identified previously.

The majority of the error types we found in our review of inbound letter post mail were caused by issues pertaining to Los Angeles letter post IRU personnel. An overall assessment of the manual causes pertaining to letter post mail suggests the need for training, supervisory oversight, and documented procedures.

During our audit, Los Angeles ISC management initiated immediate corrective action regarding the missing dispatch documentation by designating responsibility for dispatch documents to one IRU [REDACTED]. This individual would ensure source documents are transferred from the plant to the IRU on a regular basis. The Los Angeles ISC Plant Manager stated he would contact the New York ISC to gain some insight on best practices. Furthermore, Los Angeles ISC management will place new emphasis on the performance of its IRU.

We estimated, based only on a projection of Registered Mail entry errors, the Postal Service will underbill foreign countries by \$80,804. We consider the \$80,804 as monetary impact, recoverable revenue loss. See [Appendix D](#) for our calculation of monetary benefits.

[Inbound International Parcel Post Billing Data](#)

Volume data used to bill FPAs for inbound international Parcel Post mail was not always accurate or properly supported. We found 49 errors when we traced a randomly selected sample of billing data to 130 source billing documents (dispatches). We also found two errors when we judgmentally traced 20 source billing documents (dispatches) to the billing data. Errors from the random sample, summarized by type, are in the following table:

| Error Type | Number of Dispatches |
|---------------------------------------|-------------------------|
| Source documentation not available | 35 |
| Piece count and/or weight not correct | 14 |
| Total Errors | 49 |

These errors occurred because:

- Similar to the causes for missing letter post source documentation, Los Angeles ISC personnel either did not receive documentation from foreign countries of origin or lost documentation during the recent ISC move. Additionally, the IRU [REDACTED] did not always request the missing documents from the foreign countries. We could not determine the effect of these errors on billing because source documentation was not available.
- The IRU [REDACTED] did not correctly process Parcel Post information in the International Reconciliation System. Specifically, the [REDACTED] entered incorrect data into the system for two items, validated incorrect data for two additional items, and created a new dispatch instead of validating the one already captured in the International Reconciliation System for two more items. Based on our observations and discussions with Los Angeles IRU personnel, we noted these issues mainly stemmed from management not holding the Parcel Post [REDACTED] accountable for the workload and attending all the basic training provided. These errors resulted in overbillings.
- The International Reconciliation System did not have the capability to reconcile data from various sources to generate a valid set of data for billing, which caused incorrect data used in the billing for five items. These errors resulted in overbillings.
- We could not clearly determine the cause of the error for three items, but we believe the error is due to a combination of both manual and system issues because the billing data does not match the source documentation (manifest).

Regarding the two errors from our judgmental sample, one dispatch did not account for returned mail items.¹⁵ The other dispatch could not be found in the billing data, so the FPA was not billed. The missing dispatch error was caused by a combination of manual and system issues. Specifically, the IRU [REDACTED] did not validate this dispatch, dated October 2008, until May 21, 2009. The dispatch had Receipt data with zero piece count and no EDI data. Because it was not timely validated, it was not included in the original billing data extracted in March 2009, which was used for this audit. However, even after

¹⁵ Charge for mail items returned to origin country, which would reduce the receivable. In this case, the amount was nominal.

the validation in May, the dispatch still was not included in the IAB billing statement issued on June 15, 2009. At this time, we have not been able to identify the specific system issue that prevented inclusion of the dispatch in the billing statement.

According to St. Louis IAB and IBSSC personnel, GBS personnel are aware of the International Reconciliation System issues and initiated SCRs in August 2008 to correct the system issues.¹⁶ These SCRs were approved by the St. Louis IAB in October 2008 and by the FPS Information Technology team in March 2009. Although the initial phase of the SCR process has recently been completed for these SCRs, there are still several phases yet to be completed with a final estimated completion date of October 1, 2009.

Inbound International Parcel Post Missing Dispatches

We expanded our work to analyze all Los Angeles ISC Parcel Post dispatches that were missing in the October 1 through December 31, 2008, period based on the billing data as of May 26, 2009,¹⁷ with a subsequent review of the actual IAB billing statement dated June 15, 2009. Our original analysis of May data showed an estimated 228 dispatches missing in this period. Subsequent review of the actual IAB billing statement showed:

- 79 dispatches were ultimately included in the IAB billing statement, although many of them were not validated until late May 2009.
- 31 dispatches were not found in the IAB billing statement. However, they may not be real missing dispatches since they did not exist in the International Reconciliation System.
- 118 were valid dispatches¹⁸ missing in the billing statement.

Although we noted most of the 118 missing dispatches were not validated timely,¹⁹ similar to the error noted above, we continue to believe they were missing due to a system issue. According to Global Business personnel, this occurred because the replacement file sent to the IAB did not contain piece or item count. However, at this time we have not been able to identify the specific system issue that prevented the dispatches from being included in the replacement file used to generate the billing statement.

¹⁶ SCRs related to Parcel Post data are SCR 264 and 296. SCR 264 will enable GBS systems (Receipt System, Dispatch System, and the International Reconciliation System) to validate data prior to transmitting it to the IBSSC to ensure the IBSSC only receives complete and billable records. SCR 296 will enable the International Reconciliation System to reconcile different data sources. Specifically, the International Reconciliation System will compare EDI with Receipt System data and determine if the versions match and whether manual entry is needed to complete the record.

¹⁷ At the time of our original analysis in May 2009, the IAB billing statement was not yet available; therefore, we used billing data extracted in May.

¹⁸ These dispatches were in the International Reconciliation System. Most of them had at least two data sources out of a possible three (EDI data, Receipt System data, and Record Unit data).

¹⁹ Although these 118 missing dispatches were dated between October and December 2008, most of them were not validated until late May 2009.

We estimated the value of these 118 missing dispatches at \$81,777. We consider the \$81,777 as monetary impact, unrecoverable revenue loss. See [Appendix E](#) for details of the calculation of monetary impact.

Inbound International Express Mail Billing Data

Volume data used to bill FPAs for inbound international Express Mail service was not always accurate or properly supported. We found 54 errors when we traced a randomly selected sample of billing data to 85 source billing documents (dispatches). We also found 12 errors when we judgmentally traced 20 source billing documents (dispatches) to the billing data. Errors from the random sample, summarized by type, are in the following table:

| Error Type | Number of Dispatches |
|---|----------------------|
| Proper source documentation not available | 37 |
| Piece count not correct | 16 |
| Weight and piece count not correct | 1 |
| Total Errors | 54 |

These errors occurred because:

- There were no policies or procedures in place at the IRU to ensure Express Mail documents were received for each dispatch.²⁰
- The International Reconciliation System did not provide valid data for Express Mail. Specifically, the International Reconciliation System did not have the capability to summarize Express Mail data at a dispatch level for billing purposes. Therefore, St. Louis IBSSC personnel summarized receptacle data to the dispatch level. In addition, similar to Parcel Post, the International Reconciliation System did not have the capability to reconcile data from various sources. It generated multiple receptacle records for the same receptacle, based on Receipt System and EDI data, which caused duplicate piece counts in the billing data during the summarization process. These errors resulted in overbillings.
- Piece count information was not captured for a receptacle when a manual barcode was generated at the Receipt unit. This error resulted in an underbilling.

We found the errors identified in our judgmental sample were consistent with those identified previously.

²⁰ Los Angeles ISC personnel were also not aware that Postal Service policy requires international Express Mail documentation be retained for 3 years (policy memorandum dated December 22, 2003, *Retention of International Dispatch Documentation*).

As a result, the Postal Service did not accurately bill foreign countries for processing and delivering inbound Express Mail, and the Postal Service may not be able to support disputed billed amounts because settlement can occur as late as 18 months after delivery date. Also, when piece counts for dispatches are overstated on billing statements, FPAs will almost always amend the statements and the Postal Service generally concurs with the amendments. Finally, overbilling can lead to unnecessary administrative work and delayed cash flow.

Similar to system issues effecting Parcel Post data, GBS personnel are aware of the International Reconciliation System issues that affect Express Mail billing data, and they initiated SCRs in August 2008 to correct the system issues.²¹ Although the initial phase of the SCR process has recently been completed for these SCRs, there are still several phases yet to be completed, with a final estimated completion date of October 1, 2009.

²¹ The main SCR related to Express Mail data is SCR 147, which will enable the International Reconciliation System to provide the IAB with dispatch level information for billing.

APPENDIX C: STATISTICAL SAMPLING AND PROJECTIONS FOR INBOUND INTERNATIONAL LETTER POST, PARCEL POST, AND EXPRESS MAIL AT THE LOS ANGELES ISC

The objective of the audit was to determine whether volume data used to bill FPAs for inbound international mail is accurate by tracing the billing data to the source documents at the IRU. In support of this objective, the audit team employed a simple random sample for all three mail types: letter post (CN31), Parcel Post (CP86 & CP87), and Express Mail (CN38). The sample design allowed statistical projection of the number of mail records with errors. We present separate projections for these samples.

The audit universe consisted of 13,895 inbound international mail records processed at the Los Angeles ISC for the period October 1, 2008, through January 31, 2009. We used unrestricted random sampling²² of records for all three mail types. We based our sample sizes on a desired one-tailed²³ 95 percent confidence level and error rates observed in prior audit work: the FY 2006 audit at the San Francisco ISC, the FY 2007 audit at the New York ISC, and the FY 2008 audit at the Miami ISC.²⁴ Our sample sizes for Los Angeles ISC by mail type are shown below:

| Mail Type | Universe | Sample Size | Number of Errors | Lower Bound Error Rate (Percentage) |
|--------------|----------|-------------|------------------|-------------------------------------|
| Letter Post | 6,937 | 155 | 56 | 29.78 |
| Parcel Post | 2,921 | 130 | 49 | 30.74 |
| Express Mail | 4,037 | 85 | 54 | 54.20 |

Evaluation of Sample – Statistical Projections of the Sample Data

Letter Post

Based on the sample results, we are 95 percent confident the error rate in the population is at least as great as 29.78 percent.

Parcel Post

Based on the sample results, we are 95 percent confident the error rate in the population is at least as great as 30.74 percent.

Express Mail

Based on the sample results, we are 95 percent confident the error rate in the population is at least as great as 54.2 percent.

²² Unrestricted random sampling is a sampling methodology that gives all possible sample items an equal chance of being selected.

²³ Under a one-tail confidence interval, either the upper bound or lower bound on the error rate is calculated, but not both.

²⁴ *San Francisco International Service Center - Inbound International Mail* (Report Number FT-AR-07-012, dated March 30, 2007); *New York International Service Center - Inbound International Mail* (Report Number FT-AR-08-005, dated January 24, 2008); and *Miami International Service Center - Inbound International Mail* (Report Number FT-AR-08-012, dated September 3, 2008).

APPENDIX D: CALCULATION OF RECOVERABLE REVENUE LOSS FOR REGISTERED MAIL PIECES COUNT

We used the total Registered Mail piece counts that were in error from our sampled letter post items for existence testing to determine the monetary impact. We multiplied the total Registered Mail piece count by 0.5 Special Drawing Rights (SDR)²⁵ to calculate the total SDR amount. We projected a SDR amount for the entire universe of 6,937 Los Angeles ISC dispatches processed from October 1, 2008, through January 31, 2009. We then used the projected SDR amount and multiplied it by the SDR conversion rate on May 29, 2009, to calculate the dollar impact amount. As a result, we calculated it to be \$80,804.

We calculated this monetary impact based on an assumption that if not for our audit, the Registered Mail piece counts would not have been billed, because the IRU [REDACTED] was not previously aware that during validation she was required to manually enter the Registered Mail piece count.

| Calculation of Monetary Impact | |
|--------------------------------|---|
| 4,455 | Total Registered Mail Piece Count in Error |
| X .5 | Inbound International SDR for Registered Mail Piece |
| 2,227.50 | Total SDR Amount |
| 52,199 | Projected SDR Amount for the Universe |
| X 1.548 | SDR Conversion Rate as of 5/29/2009 |
| 80,804* | Total Dollar Impact Amount |
| *Rounded | |

²⁵ SDR is an international monetary unit, defined as a basket of currencies which today consists of the Euro, Japanese yen, pound sterling, and U.S. dollar. All transactions between the Postal Service and the FPA are recorded in the SDR unit before converting to the U.S. dollar. Currently each Registered Mail piece is worth 0.5 SDR.

APPENDIX E: CALCULATION OF UNRECOVERABLE REVENUE LOSS FOR PARCEL POST MISSING DISPATCHES

We reviewed the Los Angeles ISC Parcel Post billing data for the October through December 2008 period using data updated as of May 26, 2009,²⁶ and the actual data in the IAB billing statement, generated on June 15, 2009. The May 2009 billing data showed 2,573 Los Angeles ISC Parcel Post dispatches existing for this period. We analyzed the data and found 118 valid dispatches were missing from the IAB billing statement even though most of them had at least two sources of data in the International Reconciliation System (EDI data, Receipt data, or IRU data). These were valid dispatches that were not billed and, therefore, counted as missing dispatches.

We estimated the dollar value of these 118 missing dispatches based on the piece count and gross weight of the existing dispatches. See the detailed calculation on the following page.

| Formulas | Parcel Air Dispatches | Parcel Surface Dispatches |
|--|--------------------------|------------------------------|
| Number of Los Angeles ISC existing dispatches in the IAB billing statement issued on June 15, 2009 | 2,173 | 293 |
| Number of dispatches that were missing | 110 | 8 |
| Percent of missing dispatches | 5.1 | 2.7 |
| Total piece count in the existing dispatches | 101,700 | 6,103 |
| --> Estimate piece count for missing dispatch | 5,148 (5.1%) | 167 (2.7%) |
| x Rate per piece (Calendar Year (CY) 2008 rate) | 4.47 | 3.66 |
| = Estimated SDR amount based on piece count | <u>23,012</u> | <u>609.88</u> |
| Total weight (kilo) in the existing dispatches | 307,342 | 31,999 |
| --> Estimate gross weight for missing dispatch | 15,558 (5.1%) | 874 (2.7%) |
| x Rate per kilo (CY 2008 rate) | 1.84 | 1.16 |
| = Estimated SDR amount based on gross weight | <u>28,626.79</u> | <u>1,013.48</u> |
| Total SDR amount of missing dispatches | 51,639.17 | 1,623.37 |
| x SDR daily conversion rate on June 15, 2009 | <u>1.53535</u> | <u>1.53535</u> |
| | \$79,284* | \$2,493* |
| Total dollar amount of all Los Angeles ISC missing dispatches from October through December 2008. | | \$81,777* |
| *Rounded | | |

²⁶ At the time of our original analysis in May 2009, IAB billing statement was not yet available; therefore, we used billing data extracted in May.

APPENDIX F: MANAGEMENT'S COMMENTS

PRANAB SHAH
MANAGING DIRECTOR, GLOBAL BUSINESS
AND VICE PRESIDENT



September 28, 2009

LUCINE M. WILLIS

SUBJECT: Draft Audit Report – Los Angeles International Service Center – Inbound International Mail (Report Number FT-AR-09-DRAFT)

On September 14, 2009, the Office of Inspector General (OIG) issued the attached draft report. The report contains four recommendations which are considered significant and require the OIG's concurrence for closure. Pranab M. Shah, Vice President and Managing Director Global Business, and Ruben Gonzales, Acting Manager, Los Angeles International Service Center have reviewed the report and are submitting this joint response to the OIG recommendations:

Recommendation 1: Finalize and communicate International Service Center Standard Record Unit Procedures for international records unit personnel to follow when validating dispatches in the International Reconciliation System.

Response: Concur.

Policies and procedures to address billing of inbound international mail have been established and posted on the IAMRU SOP and VN SOP since December 31, 2008. With the implementation of the new Payment system, we are updating them and will finalize the standard procedures and communicate them to relevant parties on September 28, 2009.

Recommendation 2: Develop system edit(s) that will capture Registered Mail piece count data for billing.

Response: Concur.

The registered piece count is currently captured in GBS when sent in the pre-advise message. Changes to GBS are being implemented as part of the IAB/FPS Critical CRS to capture the EMS item count for express mail dispatches. This change will be ready for system test on 10/1. The deployment date is dependant on the implementation of the FPS system.

Recommendation 3: Develop and implement formal policies and procedures to ensure Express Mail manifests are obtained and retained at the International Record Unit.

Response: Concur.

Global Business established the policy in December 2003, to instruct all airmail facilities to retain all mail documents for 3 years. See attached letter. Global Business will remind the ISCs of the existing policies and procedures to ensure Express Mail Manifest are obtained and retained at the ISC. We will finalize the standard procedure and communicate it to relevant parties on September 29, 2009.

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Recommendation 4: Expedite approved system change requests to enable the International Reconciliation System to reconcile data and provide valid dispatch-level data for billing.

Response: Concur.

Dispatch level validations provided by IAB are being included in the GBS system as part of the IAB/FPS Critical CRs. This change will be ready for system test on 10/1. The deployment date is dependant on the implementation of the FPS system.

Recommendation 5: Research the system issue regarding missing dispatches and implement appropriate corrective action to resolve it.

Response: Concur.

The research has been completed and the necessary corrective action taken. GBS currently provides the records unit the ability to estimate for a missing dispatch based on SPLY data.

Recommendation 6: Establish a process to ensure all International records Unit clerks attend established training.

Response: Concur

The LAX-ISC agrees with the OIG findings and has begun implementing additional training to all employees effective 9/28/09 ending 10/05/2009. All IRU clerks received the following training in May, 2007. (1). Presentation of forms and daily office data Entry. (2) Instruction on identifying Collection and Distribution of IAMRU mail. (3) Self-study and familiarization of computer Programs. In January, 2008 the following additional training was provided, (1) GBS, IRS Instruction LED training, and assistance was provided in July, 2009 from JFK record Supervisor. (See attachments)

Recommendation 7: Establish a process to regularly monitor International Records unit clerks work to ensure that they timely and properly process dispatches in the International Reconciliation System.

Response: Concur

The LAX-ISC agrees with the OIG finding and has begun to implement additional tracking system to ensure compliance. We currently have a daily/weekly count sheet that each employee submits to the manager. We currently have the manager doing random check to ensure compliance. (See attachment)

Recommendation 8: Communicate to all applicable employees (International Records Unit and Plant personnel) the importance of obtaining and maintaining supporting documentation for billing inbound international mail.

Response: Concur

The LAX-ISC agrees with the OIG finding and has begun to provide weekly Stand-up talks and daily Plan 5 talks with all employees involved effective September 25, 2009. Roster will be kept by unit supervisor for Review.

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Recommendation 9: Implement a process to ensure item counts are captured for all receptacles with a manually generated receptacle barcode.

Response: Concur

The LAX-ISC agrees with the OIG finding and will implement a SOP for the RVS unit and have the information submitted daily to the Air Records Unit. The Unit will check the system to ensure the right data was entered by the RVS unit.

Response on finding of monetary impact

We agree with the finding about the \$81,777 of unrecoverable revenue loss for the period from October 1, to December 31, 2008, because it has passed the due date for billing.

Of the \$163,000 considered as recoverable revenue loss, \$80,804 for calendar year 2008 is recoverable as these account activities are within the timeframe for supplemental billing to foreign postal administrations.

Freedom of Information Act (FOIA)

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act.



Pranab Shah

Attachment

cc: Bill Harris



** When applicable, instructor should note under "Remarks" that additional training is needed.

#1

| | | | | | | | |
|-------------------------|--|--|--|--|--|--|--|
| IAMRU Daily BV's Report | | | | | | | |
| WEEK | | | | | | | |
| EMPLOYEE NAME | | | | | | | |

| | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Sunday |
|----------------|--------|---------|-----------|----------|--------|----------|--------|
| DATE | | | | | | | |
| On- Hand | | | | | | | |
| Received | | | | | | | |
| Total On- Hand | | | | | | | |
| Processed | | | | | | | |
| Balance | | | | | | | |
| | | | | | | | |

Home - Records Unit

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UNITED STATES
POSTAL SERVICE® Records Unit

Global Business > Records Unit

Records Unit

| VN - Weekly Audit | | | | | | | | Cha |
|-------------------|------------|--|---------|--------------------|----------------------|----------------------|-----|-----|
| New ▾ | Actions ▾ | Settings ▾ | | | | | | |
| ISC | Audit Date | Comments | Correct | Modified | VN # | Dispatch ID | | |
| jfk NEW | 9/22/2009 | received in excess | Yes | 9/22/2009 12:54 PM | robuhc vn#2554 | usjfkYROBUHCAU90216 | Ac | |
| jfk NEW | 9/22/2009 | item violated-seal tampered-POI | Yes | 9/22/2009 1:00 PM | gygeoa disp.#0225 | usjfkgygeoaen90255 | Doc | |
| lax NEW | 9/22/2009 | adjusted missent input sdr charged | Yes | 9/22/2009 4:29 PM | zrchc.09.03955 | uslaxachzrhccae90514 | Typ | |
| lax NEW | 9/22/2009 | input sdr charged records amended accordingly | Yes | 9/22/2009 4:38 PM | no 883 | uslaxaitmxp90883 | | |
| MIA NEW | 9/21/2009 | RECIEVED IN EXCESS | Yes | 9/21/2009 11:22 AM | FPA VN# HUBUDA 737 | USMIAAHUBUDAAEM90457 | | |
| MIA NEW | 9/21/2009 | MISSENT PARCEL | Yes | 9/22/2009 9:03 AM | FPA VN# GRATHA 873 | USMIAAGRATHAACN90239 | | |
| jfk | 9/15/2009 | dispatch did not arrive at JFK. | Yes | 9/15/2009 8:59 AM | jfksg00013 | bmsgeausjfkkaun90132 | Ac | |
| jfk | 9/15/2009 | item received in excess | Yes | 9/15/2009 9:06 AM | aubneb vn#1024 | usjfkkaubnebaen90557 | CN | |
| MIA | 9/15/2009 | FPA REQUESTS FINAL DOCS. DISPATCH PARTICULARS VERIFIED AND DOCS WERE SENT. | Yes | 9/15/2009 10:04 AM | FPA VN# ARBUEA 11464 | USMIAAARBUEAAEM90671 | 902 | |
| SFO | 9/15/2009 | EMS Excess Items | No | 9/15/2009 10:31 AM | KUL #1383 08/06/09. | | 900 | |
| SFOA | 9/15/2009 | CP Missent Item | Yes | 9/15/2009 10:33 AM | AKL #126 08/13/09. | | 261 | |
| JEC | 9/14/2009 | Missent | Yes | 9/14/2009 8:49 AM | 455 | | 652 | |
| JEC | 9/14/2009 | Missing parcels | Yes | 9/14/2009 8:49 AM | 984 | | 836 | |
| lax | 9/14/2009 | NIL THE DISPATCH - AMENDED ACCORDINGLY | Yes | 9/14/2009 2:04 PM | #10175 austria | #337 EM | | |
| LAX | 9/14/2009 | Missent-Record Amended | Yes | 9/14/2009 2:07 PM | #1284 | 316 em | | |

<http://globalbusiness.blueshare.usps.gov/sites/Globalbus/Records%20Unit/default.aspx>

9/22/2009