



January 24, 2008

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SUBJECT: Audit Report – New York International Service Center –  
Inbound International Mail (Report Number FT-AR-08-005)

This report presents issues concerning inbound international mail volumes at the New York International Service Center (ISC) located at the John F. Kennedy International Airport in Jamaica, New York. We identified these issues during our audit of the fiscal year (FY) 2007 Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 07BM002FT002).

## **Background**

Inbound international mail or dispatch is foreign-originating mail destined for delivery in the United States. Foreign postal administrations pay the Postal Service terminal dues for sorting and dispatching international mail at ISCs.<sup>1</sup> Currently, there are five ISCs: New York, Miami, Chicago, Los Angeles, and San Francisco.<sup>2</sup> The New York ISC is the largest, based on mail volumes.<sup>3</sup>

When inbound international mail arrives at the New York ISC, personnel immediately move it to Receipt Verification System (RVS)<sup>4</sup> terminals for scanning. A mail dispatch may contain more than one receptacle, and each receptacle has an attached label generated by the country of origin, called a CN35. ISC personnel scan the CN35s

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<sup>1</sup> In FY 2006, total international revenue for both inbound and outbound mail was \$1.79 billion.

<sup>2</sup> The Postal Service also has six international exchange offices that process international inbound and outbound mail.

<sup>3</sup> International mail volumes consist of piece count and weight. Based on FY 2007 data as of June 30, 2007, the New York ISC processed 60 percent of all international inbound and outbound mail.

<sup>4</sup> The Postal Service developed RVS to process all international inbound mail at the ISCs. It captures data at the receptacle level, rather than by individual mailpiece. Receptacles include trays, sacks, and boxes, and usually contain more than one mailpiece.

through RVS to capture receptacle information, including origin country and city, destination country and city, type of mail, dispatch date, dispatch number, receptacle weight, and receptacle number within the dispatch.

For Express Mail®,<sup>5</sup> after ISC personnel scan receptacles through RVS, they move the receptacles to the Automated Inbound International Expedited Products Processing System (AIIEPPS) terminals for additional scanning to capture piece counts.

At the AIIEPPS terminals, ISC personnel use a hand-held scanner to scan the receptacle CN35 label again to retrieve data captured previously by RVS. This scan automatically associates individual mailpieces, processed through AIIEPPS, with their respective receptacles. ISC personnel then place individual mailpieces from the receptacle on the AIIEPPS conveyor belt for scanning to capture piece counts of the receptacle. After all mailpieces associated with the receptacle are scanned through AIIEPPS, unit personnel place a physical divider or block on the conveyor belt to signal that all mailpieces for the receptacle have been processed. ISC personnel repeat this process for all receptacles.

If ISC personnel scan the receptacle CN35 label through RVS but do not scan the label again at the AIIEPPS terminal, RVS and AIIEPPS cannot associate the receptacle with its mailpieces. These receptacles are considered unprocessed. Mailpieces in unprocessed receptacles are not associated with the correct receptacle for subsequent billing.

The Postal Service bills foreign postal administrations by dispatch. Most countries use a dispatch number only once each calendar year. International Record Unit (IRU) personnel at the New York ISC retain inbound international mail documents provided by the country of origin for all mail classes.<sup>6</sup> These documents support billings and are used to resolve billing disputes between the Postal Service and foreign postal administrations.

For inbound Parcel Post®<sup>7</sup> and letter class mail, the Universal Postal Union annually establishes weight and piece rates, which vary among countries. St. Louis International Accounting Branch (IAB) personnel enter this rate data into the international web-based application. Using source documents, New York IRU personnel manually enter inbound air Parcel Post<sup>8</sup> and letter class billing data<sup>9</sup> into the international web-based

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<sup>5</sup> Express Mail is a trademark of the Postal Service.

<sup>6</sup> Source documents include: for letter class services, Form CN31 – *Letter Bill*; for Air Parcel Post service, Form CP87 – *Air Parcel Bill*; and for Express Mail service, manifests. All of these documents come from the country of origin.

<sup>7</sup> Parcel Post is a trademark of the Postal Service.

<sup>8</sup> Although Parcel Post mail includes both air parcels and surface parcels, the New York ISC does not process surface parcels.

<sup>9</sup> Inbound Parcel Post billing data consists of dispatch weight and piece count. Inbound letter class data consists of the dispatch weight of the letter post. It may also have the weight or number of pieces of additional letter class categories, such as International Business Reply Coupons (IBRS) or Registered Mail™. These categories generate additional revenue for the Postal Service.

application.<sup>10</sup> Each quarter, the Eagan Integrated Business Systems Solution Center (IBSSC) uses this volume and rate data to generate billing reports, prints them,<sup>11</sup> and mails them to the St. Louis IAB for distribution to the foreign postal administrations.

For inbound Express Mail items, the IAB bills foreign countries based on piece count and weight<sup>12</sup> at annual rates determined by bilateral agreements between the Postal Service and foreign postal administrations. St. Louis IAB personnel enter this rate data into the international web application. Express Mail weight data, captured by RVS, and piece count data, captured by AIIEPPS, are stored in the Military and International Dispatch Accounting System (MIDAS). Each week, MIDAS program personnel electronically transmit inbound Express Mail weight and piece count data to the St. Louis IBSSC, which processes and prepares Express Mail billing data. As with the inbound Parcel Post and letter class mail, the Eagan IBSSC generates billing reports quarterly for the inbound Express mail, prints the reports, and mails them to the St. Louis IAB for distribution to the foreign postal administrations.

### **Objective, Scope, and Methodology**

The objective of this portion of the audit was to determine whether volume data used to bill foreign postal administrations for inbound international mail was accurate. We selected the New York ISC based on both the length of time since our last visit and its inbound mail volume.

To accomplish our objective, we traced billing data recorded by the international web-based application and MIDAS to source documents for three inbound mail types: letter class, air Parcel Post, and Express Mail. We used an unrestricted random sample for each mail type. For our inbound Express Mail review, we generated two samples: one for the People's Republic of China (China) and one for all other countries. We generated a separate sample for China because approximately 39 percent of inbound Express Mail items arriving at the New York ISC originated from China and because of errors we identified during our FY 2006 audit.<sup>13</sup> The universe of transactions for all mail types was from October 1, 2006, through February 28, 2007.<sup>14</sup> Based on the results of our analysis of the inbound Express Mail sampled items, we judgmentally expanded our review to include inbound Express Mail data for all ISC locations from October 1, 2006, through May 31, 2007.

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<sup>10</sup> The purpose of the International web-based application is to determine the weight and pieces of exported and imported international mail to settle accounts between the Postal Service and foreign postal administrations.

<sup>11</sup> Eagan has large-scale printers capable of handling the size of these billing reports, so they are printed at Eagan and mailed to St. Louis.

<sup>12</sup> For Express Mail, all countries are billed based on piece count and weight except for countries under the Pay-for-Performance system that links Express Mail payments to the quality of service provided.

<sup>13</sup> *San Francisco International Service Center – Inbound International Mail* (Report Number FT-AR-07-012, dated March 30, 2007).

<sup>14</sup> See Appendix B for more information on our statistical sampling methodology.

We also traced inbound letter class and Express Mail source documents through the systems to ensure completeness and accuracy.<sup>15</sup> We judgmentally selected and traced 20 inbound letter class mail and 23 inbound Express Mail source documents, processed between October 2006 and May 2007, to billing data recorded in the international web-based application and MIDAS, respectively.

We conducted this performance audit from March 2007 through January 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as 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 conclusions based on our audit objective. We discussed our observations and conclusions with management officials on November 7, 2007, and included their comments where appropriate.

We used computer-generated data from MIDAS and the international web-based application. We interviewed personnel from the New York ISC, the St. Louis IBSSC, and the St. Louis IAB. We performed specific internal control and transaction tests on these applications to assess the reliability of the data. For example, we traced selected information on inbound international mail volumes to supporting source documents. We were able to rely generally on the data in these applications, except for data related to inbound Express Mail volume and letter class service mail, which we discuss in the Results section of the report.

### **Prior Audit Coverage**

The OIG issued seven audit reports related to inbound international mail at the ISCs. We have included the details of these reports in Appendix A – Prior Audit Coverage.

### **Results**

Volume data used to bill foreign postal administrations for inbound air Parcel Post mail at the New York ISC was accurate. However, volume data used to bill foreign postal administrations for inbound Express Mail and letter class service was not always accurate.

#### **Inbound International Express Mail Volume**

Volume data used to bill foreign postal administrations for inbound Express Mail service was not always accurate. We found errors in 97 of 120 items reviewed for China. For all other countries, we found errors in 57 of 78 items reviewed. The most common

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<sup>15</sup> We did not trace inbound air Parcel Post source documents through the system because of the low error rate found in the initial sample.

discrepancy was piece counts in the billing data that did not match piece counts in the manifests received from the countries of origin. Specifically, 60 of 97 errors for China and 30 of 57 errors for all other countries were piece count discrepancies.<sup>16</sup> Other errors included discrepancies in both piece and weight data, weight data only, and inadequate or missing documentation.

The table below summarizes the projected inbound Express Mail error rates:

<b>Projected Inbound Express Mail Error Rate by Mail Type</b>		
Type	Point Estimate	Error Limits <sup>17</sup>
Express Mail – China	80.8%	74.9 to 86.7%
Express Mail – All Other	73.1%	64.8 to 81.4%
See Appendix B for the statistical analysis of our review of inbound international mail at the New York ISC.		

These errors occurred primarily because:

- The IBSSC computer program to prepare inbound Express Mail data for billing used the RVS receptacle scan date to find the matching pieces in AIIPPS, although the AIIPPS scan date could differ from the RVS scan date. If the RVS and AIIPPS scan dates were not identical, the computer program could not match the receptacle with its pieces. In these cases, the system defaulted to a piece count of one for billing, regardless of the actual number of pieces in the receptacle.

For example, in one of our sampled items, an inbound Express Mail receptacle arrived at the New York ISC late one night and was processed through RVS. The receptacle was processed through AIIPPS early the next day. Because the RVS and AIIPPS scans fell on different dates, the data could not be matched, and the program assigned one piece to the receptacle. The manifest showed the receptacle actually contained seven inbound Express Mail pieces.

- Although local procedures exist for AIIPPS processing at the New York ISC,<sup>18</sup> and certain international mail operations are outlined in a Postal Service manual,<sup>19</sup> the Postal Service does not have comprehensive policies and procedures to address the complete processing and billing cycle for inbound international mail.
- New York ISC employees at the Express Mail unit did not process inbound Express Mail pieces through AIIPPS correctly. Specifically, they did not scan the CN35 tag prior to processing receptacle pieces through AIIPPS.

<sup>16</sup> In our Express Mail completeness test, 10 of 23 errors were also piece count discrepancies.

<sup>17</sup> Error limits reported are for a 90 percent confidence level.

<sup>18</sup> *Standard Operating Procedures, Automated Inbound International Expedited Products Processing System (AIIPPS)*, no date.

<sup>19</sup> Postal Service Handbook T5 – *International Mail Operation*, updated July 2007.

- China's postal administration used the same dispatch number more than once in the same calendar year, and in many instances, repeated dispatch numbers within the same month. This complicated the billing process and may have caused discrepancies in billing data. In one instance, the same dispatch number, used for two separate mailings, included the correct piece count for both, but the weights were reversed so the pieces were not properly matched to associated weights. We also noticed that sequential dispatch numbers were not repeated the same number of times. As a result, the risk that some dispatches were not billed, or were billed incorrectly, increases.

Internal control standards require management to ensure that controls over financial reporting are in place and operating effectively. All financial statement line items and the supporting transactions that generate the line items should be recorded accurately and timely and stated by management.

As a result, the Postal Service did not accurately bill foreign countries for inbound Express Mail services. Based on our analysis of the actual inbound international mail volume processed and delivered by all sites,<sup>20</sup> we determined that the Postal Service underbilled foreign countries \$1,233,066 from October 1 through December 31, 2006, because of the scanning date issue with the IBSSC computer program. When the IBSSC was notified about this issue, they stated they modified the program used to bill foreign countries retroactive to January 1, 2007.<sup>21</sup> Using actual volume data for January 1 through May 31, 2007, we calculated that the Postal Service underbilled foreign countries \$2,192,085 for this period prior to the retroactive modification. In addition, if this issue had gone undetected, we project that underbillings would have been \$10,275,453 over a 2-year period.<sup>22</sup>

Refer to Appendix C for our calculation of underbilled amounts. We will report \$1,233,066 as monetary impact, unrecoverable revenue loss, and \$12,467,538 as monetary impact, recoverable revenue loss, in our *Semiannual Report to Congress*.

Prior to our audit, New York ISC management recognized the significant number of unprocessed receptacles and established written procedures for processing mail through AIIEPS, trained employees on the procedures, and emphasized the revenue impact of incorrectly processing inbound Express Mail items. Since then, inbound Express Mail processing has improved significantly. Based on Postal Service progress reports, unprocessed inbound Express Mail items were reduced from an average of 34 percent for the week ending April 27, 2007, to less than 6 percent for the week ending June 8, 2007. Accordingly, we are not making a recommendation regarding

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<sup>20</sup> Piece count information only.

<sup>21</sup> We were unable to verify that the actions taken by the IBSSC addressed the issue because documentation was not provided to support the program modification and subsequent testing before our fieldwork ended.

<sup>22</sup> We used the 2-year period of June 2007 through May 2009 for our projection.

scanning the CN35 tag before processing through AII EPPS. However, we will continue to monitor this issue as part of our ongoing financial statement audit work.

### **Recommendation**

We recommend the Managing Director, Global Business, in conjunction with the Vice President, Controller:

1. Establish and communicate policies and procedures to address the complete processing and billing cycle for inbound international mail.

### **Management's Comments**

Management agreed with our recommendation. They stated that Accounting Policy and Global Business will work together to establish policies and procedures to address billing for inbound international mail and communicate with relevant parties 3 months after the implementation of the new settlement systems, which is tentatively scheduled for December 31, 2008. This effort will also evaluate, test, and place control points for accurate billing processes and incorporate these into the new settlement system. Management also agreed with our monetary impact, adding that the \$10,275,453 projected revenue loss will be billed as actual dispatch data as verified within the appropriate timeframes. Management's comments, in their entirety, are included in Appendix D.

### **Recommendation**

We recommend the Acting Chief Technology Officer direct the Manager, St. Louis Integrated Business Systems Solution Center, to:

2. Evaluate, modify, and test the program used to prepare inbound Express Mail data for billing.

### **Management's Comments**

Management agreed with our recommendation. They stated that St. Louis IBSSC management modified the Express Mail Service (EMS) database load and error reporting within the IAB system to loosen the edits (i.e., reduce restrictions) on how data matching is performed for applicable international mail systems. This change has been implemented and allows all relevant data to be included in the EMS billing process. St. Louis IBSSC management will review and verify that the EMS database load and error transmission reports and EMS billing program are functioning according to specifications. St. Louis IBSSC management will also ensure reports are run on the appropriate schedule. They expect to have all actions completed by March 31, 2008.

### **Recommendation**

We recommend the Managing Director, Global Business, and acting Chief Technology Officer, coordinate with the Vice President, Controller, to:

3. Direct International Accounting Branch and appropriate systems personnel to establish controls to ensure that foreign postal administrations are correctly billed for all valid dispatches, including dispatch numbers used more than once in a calendar year.

### **Management's Comments**

Management agreed with our recommendation. The St. Louis IBSSC and IAB will establish controls to ensure that foreign postal administrations (FPA) are correctly billed for valid dispatches. IBSSC management will review and verify that the appropriate missing dispatch, duplicate dispatch, and EMS error reports are functioning according to specifications. This task is expected to be completed by December 31, 2008.

### **Recommendation**

We recommend the Managing Director, Global Business, direct the Executive Director, International Postal Affairs, to:

4. Work with foreign postal administrations to eliminate the use of duplicate dispatch numbers in a single calendar year.

### **Management's Comments**

Management agreed with our recommendation. International Postal Affairs (IPA) will continue to communicate with FPAs, while Information Technology and Global Business will work to enhance the validation process of Pre-Advice of Despatch Prepared messages (PREDES)<sup>23</sup> to aid in identifying duplicate dispatch numbers. IPA will evaluate the situation and follow up with FPAs on a quarterly basis throughout FY 2008.

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

Management's comments are responsive to our recommendations, and the actions taken or planned should correct the issues identified in the finding. We will follow up on these issues as part of our annual financial statements audit.

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<sup>23</sup> The PREDES message contains information about a despatch (dispatch) of mail, which has been prepared by an exchange office for delivery to an exchange office in another country.



## Letter Class

Data used to bill foreign postal administrations for inbound letter class mail, particularly Registered Mail™,<sup>24</sup> was not always accurate. We found errors in 25 of 156 letter class items reviewed; 20 of these errors involved Registered Mail pieces.<sup>25</sup> Specifically, New York IRU personnel included exempted registered piece counts with regular registered piece counts in the web-based application used for billing.<sup>26</sup>

The projected error limits<sup>27</sup> for inbound letter class mail were between 11.0 and 21.0 percent with a point estimate of 16 percent. See Appendix B for the statistical analysis of our review of inbound international mail at the New York ISC.

The Postal Service's *International Web System Manual* outlines procedures for entering data for billing international mail, including inbound letter class Registered Mail.<sup>28</sup> The manual requires personnel to enter the number of Registered Mail pieces in the registered piece count field but does not specify that exempt items returned to the country of origin, including Registered Mail items, be excluded from the count.

The IRU clerks relied on informal training for data entry of inbound Registered Mail pieces. According to the IRU manager, personnel were trained to include exempt items in the total number of Registered Mail pieces.

As a result, the Postal Service did not accurately bill foreign countries for processing and delivering inbound letter class mail, specifically Registered Mail items. These inaccuracies did not have a significant impact on billing amounts. However, the IAB could incur administrative costs to resolve discrepancies with foreign postal administrations related to inaccurate Registered Mail billing.

During our audit, the IRU manager took corrective action to ensure accurate data entry. Specifically, the manager instructed clerks to exclude exempt Registered Mail pieces from data entry. In addition, in August 2007, the Global Finance and Business Analysis group began conducting weekly meetings with IRUs to discuss various issues and to communicate possible solutions. They advised this issue was discussed and communicated during these meetings. As a result of corrective actions already taken and the immaterial impact, we are not making a recommendation at this time. We will continue to monitor the issue as part of future financial statement audit work.

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<sup>24</sup> Registered Mail is a trademark of the Postal Service.

<sup>25</sup> The remaining five errors included two items with missing documents (no Form CN31 found) where letter post/Register Mail data could not be verified, and three items with entry errors for the weight of letter post mail.

<sup>26</sup> According to *Form CN31 – Letter Bill*, registered items returned to the country of origin are exempt from terminal dues.

<sup>27</sup> Error limits reported are for a 90 percent confidence level.

<sup>28</sup> *International Web System Manual*, Draft Version 7.3, August 2006.

The Office of Inspector General (OIG) considers recommendations 1, 2, and 3 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations 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 that reads "John E. Cihota". In the top right corner of the box, there is a small yellow circular icon with a black question mark.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

cc: H. Glen Walker  
William P. Galligan, Jr.  
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## APPENDIX A. PRIOR AUDIT COVERAGE

From FY 2004 to FY 2006, we issued four individual reports regarding the efficiency at the Airmail Records Units at the New York,<sup>29</sup> Los Angeles,<sup>30</sup> San Francisco,<sup>31</sup> and J.T. Wecker Chicago International Service Centers.<sup>32</sup> During FY 2006, we issued a capping report summarizing issues associated with the IRUs' operations<sup>33</sup> and identified opportunities to improve operations.<sup>34</sup> That report concluded that overall, IRUs across the country operate in an antiquated, inefficient, and manual work environment. The Postal Service addressed the recommendations we made in individual reports and took action to improve the efficiency at the individual IRUs.

In the last several years, we issued three other audit reports discussing inbound international mail issues at the ISCs:

- *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).
- *Interim Audit Report – J.T. Wecker Chicago ISC – Inbound International Mail* (Report Number FT-AR-06-013, dated March 22, 2006).
- *Interim Audit Report – San Francisco ISC – Inbound International Mail* (Report Number FT-AR-07-012, dated March 30, 2007).

These audits cited various issues, including the following, which appeared in multiple reports:

- Inbound international mail volume was not always accurate. Specifically, we found discrepancies with the weight and number of pieces between source documents and billing information recorded in the international systems.
- Inbound international mail volume was not always supported. Specifically, source documents were not available at the ISC's for review.
- Inbound international mail records were not adequately retained. During the FY 2002 audit, we noted that Postal Service policy established the record

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<sup>29</sup> *Efficiency of the Airmail Records Unit at the New York International Service Center* (Report Number NO-AR-04-011, dated September 24, 2004).

<sup>30</sup> *Efficiency of the Airmail Records Unit at the Los Angeles International Service Center* (Report Number NO-AR-05-010, dated April 28, 2005).

<sup>31</sup> *Efficiency of the Airmail Records Unit at the San Francisco International Service Center* (Report Number NO-AR-05-012, dated September 6, 2005).

<sup>32</sup> *Efficiency of the Airmail Records Unit at the Chicago International Service Center* (Report Number NO-AR-06-002, dated December 22, 2005).

<sup>33</sup> IRUs were formally referred to as Airmail Records Units.

<sup>34</sup> *Capping Report on the Efficiency of the International Records Unit Operation* (Report Number NO-AR-06-008, dated September 27, 2006).

retention period for inbound Express Mail manifest at 6 months, although the business cycle for Express Mail settlement can be as long as 18 months. The Postal Service issued and updated its record retention policy, which requires the ISC to retain documentation for 3 years. However, during the FY 2006 audit at the San Francisco ISC, the record unit clerk retained inbound Express Mail documentation only for 6 months before disposing of it.

- Documents were not properly processed. During the FY 2006 audit at the San Francisco ISC, we found that personnel did not properly process inbound letter class mail documents and enter the information into the international web-based application timely.

Management agreed with our findings and recommendations and has planned or taken corrective actions to address the issues.

## APPENDIX B

### STATISTICAL SAMPLING AND PROJECTIONS FOR THE AUDIT OF INTERNATIONAL INBOUND MAIL AT THE NEW YORK INTERNATIONAL SERVICE CENTER

One of the objectives of this audit was to assess factors related to the correct entry of inbound international mail into the international web-based application and MIDAS. In support of this objective, the audit team employed a random sample of each of the three mail types. The sample design allows statistical projection of the number of mail records with errors. We present separate projections for each of the three mail types: letter class/other mail (CN31), Express Mail (CN38), and Parcel Post – air (CP87).

The audit universe consisted of 78,603 inbound international mail records at the New York ISC for the period from October 1, 2006, through February 28, 2007:

- Letter class/other: 21,170 records
- Parcel Post – air: 9,571 records
- Express Mail: 47,862 records; 18,519 records for China and 29,343 records for all other countries combined

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

We used unrestricted random sampling of records for the inbound letter class and air Parcel Post mail types. For inbound Express Mail services, we used a stratified design, with unrestricted random sampling within each stratum.

We based our sample sizes on a desired 90 percent confidence level or a 10 percent risk of overreliance, as appropriate, and error rates observed in prior audit work: the FY 2005 audit at the Chicago International Record Unit and the FY 2006 audit at the San Francisco ISC.<sup>35</sup> Our sample sizes by mail type are shown on the next page.

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<sup>35</sup> *J.T. Wecker (Chicago) International Service Center – Inbound International Mail* (Report Number FT-AR-06-013, dated March 22, 2006), and *San Francisco International Service Center – Inbound International Mail* (Report Number FT-AR-07-012, dated March 30, 2007).

Mail Type	Universe	Sample Size
Letter Class/Other (form CN31) – Terminal Dues	21,170	156
Parcel Post – air (form CP87)	9,571	45
Express Mail (CN38 and manifest) – China	18,519	120
Express Mail (CN38 and manifest) – All other countries	29,343	78

Statistical Projections of the Sample Data

Evaluation of Sample

Parcel Post – Airmail only:

The sample contained zero errors. Therefore, for projection of the number of deviations, we analyzed the upper occurrence limits for each sample using the cumulative binomial methodology, as used in past Government Accountability Office *Financial Audit Manual* work. The finite population correction factor is negligible because of the large universe.

Letter Class Mail and Express Mail Service (China and All Others):

The samples for these mail types exhibited high deviation rates in virtually all of the compliance tests. Therefore, we analyzed the sample data using the formulae for estimating a population proportion for a simple random sample, as described in Chapter 4, *Elementary Survey Sampling*, Scheaffer, Mendenhall, and Ott, 1990.

Results

Parcel Post Mail – air

Based on the sample results, we project an upper error limit of 5 percent, with a 10 percent risk of overreliance. The point estimate is that there are no errors.

Letter Class Mail

Based on projection of the sample results, we report, at a 90 percent confidence level, that 11 percent to 21 percent of the records contain errors. The point estimate is that 16 percent contain errors.

Express Mail Service – China

Based on projection of the sample results, we report, at a 90 percent confidence level, that 74.9 percent to 86.7 percent of the records contain errors. The point estimate is that 80.8 percent contain errors.

<b>Results Summary for Express Mail, China</b>					
<b>Error Type (Deviation from Source Document)</b>	<b>Number of Errors in Sample</b>	<b>Error Rate, Percent</b>	<b>Precision (Margin of Error), Percent</b>	<b>Lower Limit of 90 Percent Confidence Interval, Percent</b>	<b>Upper Limit of 90 Percent Confidence Interval, Percent</b>
Piece Count	75 (1)	62.5 (2)	7.3	55.2	69.8
Weight	18 (1)	15.0 (2)	5.4	9.6	20.4
No document	13	10.8	4.7	6.2	15.5
Document found but inadequate	6	5.0	3.3	1.7	5.9
<b>Overall</b>	<b>97</b>	<b>80.8</b>	<b>5.9</b>	<b>74.9</b>	<b>86.7</b>

(1) Includes 15 records for which both the piece count and weight information did not match source documents.

(2) Includes 12.5 percent for which both the piece count and weight information did not match source documents.

Express Mail Service – All Other Countries

Based on projection of the sample results, we report, at a 90 percent confidence level, that 64.8 percent to 81.4 percent of the records contain errors. The point estimate is that 73.1 percent contain errors.

<b>Results Summary for Express Mail service, All Other Countries</b>					
<b>Error Type (Deviation from Source Document)</b>	<b>Number of Errors in Sample</b>	<b>Error Rate, Percent</b>	<b>Precision (Margin of Error), Percent</b>	<b>Lower Limit of 90 Percent Confidence Interval, Percent</b>	<b>Upper Limit of 90 Percent Confidence Interval, Percent</b>
Piece Count	45 (1)	57.7 (2)	9.2	48.5	66.9
Weight	17 (1)	21.8 (2)	7.7	14.1	29.5
No document	5	6.4	4.6	1.8	11.0
Document found but inadequate	7	9.0	5.3	3.6	14.3
<b>Overall</b>	<b>57</b>	<b>73.1</b>	<b>8.3</b>	<b>64.8</b>	<b>81.4</b>

(1) Includes 15 records for which both the piece count and weight information did not match source documents.

(2) Includes 19.2 percent for which both the piece count and weight information did not match source documents.

## APPENDIX C

### EXPRESS MAIL MONETARY IMPACT CALCULATIONS<sup>36</sup>

**October 1 to December 31, 2006:**

CALCULATION	AMOUNT
Total pieces	263,978
Deduct one piece for each receptacle count (since the program defaulted to one piece per receptacle)	(27,532)
Difference (pieces not billed)	236,446
x Rate per piece	3.50
= SDR amount <sup>37</sup>	827,561
x SDR average daily conversion rate	1.49
Underbilled dollar amount	\$1,233,066

This amount is not recoverable. Foreign countries are not required to pay because of the amount of time elapsed.

**January 1 to May 31, 2007:**

As a result of our audit, in June 2007, the St. Louis IBSSC stated they modified the program used to prepare inbound Express Mail billing data. The modification was retroactively applied to dispatches beginning January 1, 2007. The amount below reflects the underbilled amount as if the program had not been modified. The amount is recoverable.

DATA SUMMARY	
<b><u>Piece Count:</u></b>	
Total piece count	466,488
Less: China pieces	180,316
--> Total all other countries	286,172
<b><u>Receptacle Count:</u></b>	
Total receptacles	46,358
Less: China receptacles	21,785
---> All other countries	24,573

<sup>36</sup> Calculation does not include the issue pertaining to China duplicate dispatches since those errors could not be quantified.

<sup>37</sup> Special Drawing Rights monetary unit designed by the International Monetary Fund and used by the Universal Postal Union.



CALCULATION	CHINA	ALL OTHER COUNTRIES
Total pieces	180,316	286,172
Deduct one piece for each receptacle count	(21,785)	(24,573)
Difference (pieces not billed if the IBSSC program had not been modified)	158,531	261,599
x Rate per piece *	3.40	3.50
= SDR amount	539,005	915,596.50
x SDR average daily conversion rate	1.507	1.507
Dollar amount	\$812,281	\$1,379,803.93
Total amount underbilled if program was not modified		\$2,192,085

\* Effective April 2007, China received a special rate of 3.40 SDR per piece instead of the regular 3.50 SDR per piece for other countries. To simplify the calculation, we applied the rate of 3.40 to all China dispatches in calendar year (CY) 2007.

**Forecast - period after May 31, 2007:**

We used actual billing data from Quarter 1, CY 2006 to Quarter 1, CY 2007 (9 quarters) to determine the trend of mail volume. Our analysis showed a consistent increase in mail volume each quarter. Using a conservative approach, we projected underbilled amounts for the 2-year period June 2007 to May 2009 based on volumes from the 8-month period October 2006 to May 2007. The table below summarizes our calculation of projected underbilled amounts.

CALCULATION	AMOUNT
Actual underbilled amount from October 1 to December 31, 2006	\$1,233,066
Actual underbilled amount from January 1 to May 31, 2007, if program not modified	\$2,192,085
→Total amount for 8-month period:	\$3,425,151
Divided by 8	8
→Average underbilled amount per month	\$428,143.87
Number of months in 2 years	x 24
→Projected underbilled amount for 2 years (June 1, 2007, to May 31, 2009)	\$10,275,453

This amount is recoverable.

## APPENDIX D. MANAGEMENT'S COMMENTS

PAUL VOGEL  
MANAGING DIRECTOR, GLOBAL BUSINESS  
AND SENIOR VICE PRESIDENT



January 9, 2008

John E. Cihota  
DEPUTY ASSISTANT INSPECTOR GENERAL  
For Financial Accountability

SUBJECT: Draft Audit Report – New York International Service Center – Inbound International Mail  
(Report Number FT-AR-08-DRAFT)

On December 18, 2007, the OIG issued the attached draft report. The report contains 4 recommendations which are considered significant and require the OIG's concurrence for closure. Lynn Malcolm (VP, Controller), Paul E. Vogel (Managing Director, Global Business), and George W. Wright (Acting Chief Technology Officer) have reviewed the report and are submitting this joint response to OIG recommendations:

**Recommendation 1:** Establish and communicate policies and procedures to address the complete processing and billing cycle for inbound international mail.

**Response:** Concur.

Accounting Policy and the Global Business will work together to establish policies and procedures to address billing of inbound international mail and communicate with relevant parties three months after the implementation of new settlement systems, which is tentatively scheduled for December 31, 2008. This effort will also evaluate, test, and place control points for accurate billing process and incorporate these into our new settlement system.

**Recommendation 2:** Evaluate, modify, and test the program used to prepare inbound Express Mail data for billing.

**Response:** Concur.

The St. Louis Integrated Business Systems Solution Center (IBSSC) Manager agrees with this recommendation and has modified the EMS database load and error reporting within the IAB system to loosen the edits on how we match Receipt Verification System (RVS) receptacle data to Automated Inbound International Expedited Products Processing System (AIIPEPPS) item data. This change has been implemented and now allows for all relevant data to be included in the billing process.

The St. Louis IBSSC will review and verify that the EMS database load and error transmission reports and EMS billing program are functioning according to specifications. The St. Louis IBSSC will assure that these reports are run on the appropriate schedule, and we expect to have all actions completed by March 31, 2008.

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**Recommendation 3:** Direct International Accounting Branch and appropriate systems personnel to establish controls to ensure that foreign postal administrations are correctly billed for all valid dispatches.

**Response:** Concur.

The International Accounting Branch and IBSSC will establish controls to ensure that foreign postal administrations are correctly billed for valid dispatches, including dispatch numbers used more than once in a calendar year.

The St. Louis IBSSC Manager is in agreement with this recommendation and will review and verify that the appropriate missing dispatch, duplicate dispatch and EMS error reports are functioning according to specifications. This task is expected to be completed by December 31, 2008.

**Recommendation 4:** Work with foreign postal administrations to eliminate the use of duplicate dispatch numbers in a single calendar year.

**Response:** Concur.

International Postal Affairs (IPA) will continue to communicate with foreign postal administrations (FPAs) while IT and Global Business work to enhance the validation process of PREDES messages to aid in identifying duplicate dispatch numbers. IPA will evaluate the situation and follow up with FPAs on a quarterly basis throughout FY 08.

**Response on finding of monetary impact:**

We agree with the finding about the \$1,233,066 of unrecoverable revenue loss for the period from October 1 to December 31, 2006 because it has passed the due date for billing.

Of the \$12,467,538 considered as recoverable revenue loss, \$2,192,085 for calendar year 2007 is recoverable as these account activities are within the timeframe for billing foreign postal administrations. The remaining \$10,275,453 which is a projected revenue loss for two years in the future will be billed as actual dispatch data as verified within appropriate timeframes.

**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.

  
\_\_\_\_\_  
Paul E. Vogel  
Managing Director, Global Business

cc: Lynn Malcolm  
George W. Wright