



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

**New Jersey Network Distribution
Center – International Air Mail
Records Unit**

Audit Report

August 10, 2012

Report Number FT-AR-12-011



BACKGROUND:

Six international service centers and the New Jersey Network Distribution Center process international mail for the U.S. Postal Service. Five international air mail records units (records unit) ensure records associated with this mail are forwarded for billing.

Inbound international mail (or dispatch) is foreign-originating mail destined for delivery in the U.S. Foreign postal administrations pay the Postal Service for sorting, dispatching, and delivering inbound international mail. In fiscal year 2011, revenue for international inbound mail was about \$468 million. The International Reconciliation System, which tracks international mail records, assesses all dispatch records based on a set of validation rules and assigns a validation status (pass or fail) to each record. Records unit clerks are required to correct failed records within established timelines to complete the validation process.

Our objective was to determine if the New Jersey records unit processes international mail transactions timely and accurately to ensure that the St. Louis International Accounting Branch can correctly and timely bill (and collect payment from) foreign postal administrations.

WHAT THE OIG FOUND:

New Jersey records unit personnel did not always correct failed records in accordance with Postal Service procedures. Specifically, records unit clerks did not always nil, or render non-existent, duplicate dispatch records and did not always issue verification notes (formal messages between postal administrations that relay information regarding the exchange of mail) as required by Postal Service procedures. Further, the New Jersey records unit supervisor did not properly document weekly verification note audits, and Headquarters International Accounting did not properly document oversight of these audits. When personnel do not follow established procedures, revenue could be inaccurately recorded, and foreign postal administrations could delay acceptance of the billing and, therefore, delay cash collection.

WHAT THE OIG RECOMMENDED:

The errors identified were the result of staff oversights. Management took corrective action during the audit to address the issues identified in this report. Therefore, we are not making any recommendations at this time.

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



August 10, 2012

MEMORANDUM FOR: GEORGE S. RUDY, JR.
ACTING MANAGER, INTERNATIONAL ACCOUNTING

DANIEL C. HEALY
PLANT MANAGER, NEW JERSEY NETWORK
DISTRIBUTION CENTER

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Audit Report – New Jersey Network Distribution Center –
International Air Mail Records Unit
(Report Number FT-AR-12-011)

This report presents the results of our audit of the New Jersey Network Distribution Center – International Air Mail Records Unit (Project Number 12BM004FT003).

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.

Attachments

cc: Megan J. Brennan
Stephen J. Masse
Timothy F. O'Reilly
Richard P. Uluski
Steven R. Phelps
Corporate Audit and Response Management

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Introduction

This report presents issues pertaining to inbound international mail at the New Jersey Network Distribution Center (NDC) – International Air Mail Records Unit (records unit) (Project Number 12BM004FT003). We identified these issues during our audit of fiscal year (FY) 2012 U.S. Postal Service Financial Statements – St. Louis Accounting Services. The objective was to determine whether the New Jersey records unit processes international mail transactions timely and accurately to ensure that the St. Louis International Accounting Branch can correctly and timely bill (and collect payment from) foreign postal administrations.¹ This audit was self-initiated and addresses financial risk. See [Appendix A](#) for additional information about this audit.

Inbound international mail (or dispatch) is foreign-originating mail destined for delivery in the U.S. Foreign postal administrations pay the Postal Service for sorting, dispatching, and delivering inbound international mail. The Postal Service developed the Global Business System to assist in streamlining the processing of international mail, and it is comprised of the Receipt System, the Dispatch System, and the International Reconciliation System.² The International Reconciliation System assesses all dispatch records based on a set of validation rules and assigns a validation status (pass or fail) to each record. For example, one reason records may fail initial validation status is that scan data from the Receipt System does not match the electronic data interface (EDI) data³ received from foreign postal administrations. When this occurs, records unit clerks are required to resolve the failed record.⁴ Specifically, records unit clerks update International Reconciliation System records with the most reliable data within established timelines to complete the validation process. Records unit clerks sometimes use a verification note⁵ as a tool in this process.

Conclusion

New Jersey records unit personnel did not always resolve failed records in accordance with Postal Service procedures. Specifically, records unit clerks did not always nil⁶ duplicate dispatch records and did not always issue verification notes. Further, the New Jersey records unit supervisor did not properly document weekly verification note

¹ Posts outside the U.S. where mail is sent and received.

² 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 supports records units in completing their work and aids in tracking international mail records, identifying issues, and reconciling discrepancies. The New Jersey NDC does not have the Receipt System for scanning dispatches; however, they frequently process dispatch records scanned by the New York International Service Center (ISC).

³ Foreign postal administrations can provide EDI data to the Postal Service before mail arrives. EDI data contains dispatch information, including the dispatch date, and is pre-populated into the Receipt System. When receiving unit personnel scan the bar code on mail upon arrival, the scan retrieves the EDI data and compares it to the receiving unit data.

⁴ Records that failed validation checks and must be corrected by the records unit so the St. Louis International Accounting Branch can bill foreign postal administrations accurately.

⁵ These notes are formal messages between postal administrations that relay information regarding the exchange of mail, in particular irregularities in the preparation, dispatch, and receipt of mail.

⁶ The Postal Service does not delete records but, instead, renders them non-existent and retains them for informational purposes.

audits, and International Accounting did not properly document oversight of these audits. When personnel do not follow established procedures, revenue could be inaccurately recorded and foreign postal administrations could delay acceptance of the billing and, therefore, delay cash collection.

Duplicate Dispatch Records

We found seven instances out of 22,107 inbound dispatch records⁷ where records unit clerks did not nil, or render non-existent, duplicate records. Specifically, records unit clerks created new dispatch records instead of updating existing ones when they received updated information on previously corrected failed records. When duplicate records exist, Postal Service procedures⁸ require records unit clerks to nil one of the records. Further, internal control standards⁹ require accurate records for billing.

This occurred due to records unit clerks' oversight. As a result, the St. Louis International Accounting Branch generated duplicate bills for two records totaling \$1,548.¹⁰ When personnel do not follow established procedures, revenue could be inaccurately recorded and foreign postal administrations could delay acceptance of the billing and, therefore, delay cash collection.

Based on our audit, the records unit supervisor brought the errors to the attention of the respective clerks. Further, the supervisor nilled the five remaining duplicate records identified and instructed the records unit clerks to more closely examine the International Reconciliation System when updating previously corrected records.

Verification Note Issuance

New Jersey records unit personnel did not always issue verification notes as required by Postal Service procedures. Of the 90 international inbound billing records we tested for proper verification note issuance, we found eight instances where New Jersey records unit personnel did not issue verification notes for failed Parcel Post[®] dispatch records when only EDI data was available for billing. See [Appendix B](#) for statistical sampling and projection information.

According to Postal Service procedures¹¹ for failed Parcel Post dispatch records, when EDI data exists but data is not available from the Receipt System, the clerk must issue a verification note to the appropriate foreign postal administration.¹² All eight errors

⁷ Inbound dispatch records that pass directly to the St. Louis International Accounting Branch for billing or were corrected by the New Jersey records unit and then sent for billing from July 1, 2011, through March 31, 2012.

⁸ *International Air Mail Records Unit Standard Operating Procedures*, Section 7.6, Editable Errors.

⁹ *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, dated November 1999.

¹⁰ For the remaining five duplicate records, the Postal Service had not yet billed the respective foreign postal administrations. For this reason, we were unable to determine the total dollar amount associated with our audit universe of 22,107 inbound dispatch records.

¹¹ *International Air Mail Records Unit Standard Operating Procedures*, Section 7.2, Non-Exclusion Failed Records for Express Mail[®] Service and Parcel Post.

¹² The verification note required to be issued will either indicate that the billed amount is based on event scans/EDI data or will request documentation from the foreign postal administration.

occurred because the supervisor incorrectly believed that, similar to letter post, the clerks are not required to issue a verification note when only EDI data exists. When verification notes are not properly issued, there is a risk the foreign postal administration could delay its acceptance of the billing and, therefore, delay revenue receipt for the Postal Service.

As a result of our audit, the supervisor issued verification notes for all eight instances and notified his employees that, henceforth, they must issue verification notes for every missing document and indicate in the International Reconciliation System whether the verification note is for an estimated dispatch, dispatch with only EDI data, or dispatch with only receiving scan data. Because we previously identified this issue,¹³ Headquarters International Accounting also provided guidance to all records units on proper issuance of verification notes.

Verification Note Audits

The New Jersey records unit supervisor did not always properly document weekly verification note audits,¹⁴ and Headquarters International Accounting did not always properly document oversight of these audits. Specifically, the New Jersey records unit supervisor did not keep hard copy documentation of the weekly audits with initials and dates. In addition, Headquarters International Accounting did not properly document completion of weekly reviews in accordance with Postal Service procedures.

The records unit supervisor was not aware of the requirement to keep initialed and dated hard copy documentation of weekly verification audits. Additionally, Headquarters International Accounting chose to send emails only to records units for which they found errors or sought clarification.

Postal Service procedures and a key Sarbanes-Oxley (SOX) control¹⁵ require supervisors to keep hard copy documentation of the weekly verification note audits and initial and date this documentation. The procedures also require supervisors to post audit results on the Blue Share website¹⁶ by Wednesday of each week. In addition, Headquarters International Accounting is required to monitor and document weekly reviews of verification note audits. Documented weekly verification note audits and monitoring of the audits are important to ensure that communications to foreign postal administrations are adequate and that the St. Louis International Accounting Branch has the evidence needed to support the billing settlement process.

¹³ *J.T. Weeker (Chicago) International Service Center – International Air Mail Records Unit* (Report Number FT-AR-12-002, dated October 31, 2011).

¹⁴ Record unit supervisors conduct weekly audits of verification notes to verify accuracy and timeliness.

¹⁵ *International Air Mail Records Unit Standard Operating Procedures*, Section 14, and Postal Service SOX key control number 114.CA010. A key control is a control that, if it fails, there is at least a reasonable likelihood that a material error in the financial statements would not be prevented or detected on a timely basis.

¹⁶ Website available to records units, International Accounting, and others to obtain current procedures and other information to assist and monitor records units.

Based on our audit, the records unit supervisor created a hard copy binder with the required documentation and his initials and dates. Also, Headquarters International Accounting began documenting weekly reviews for all records units on the Blue Share website.

Recommendations

Management took corrective action during the audit to address the issues identified in this report. Therefore, we are not making any recommendations at this time.

Appendix A: Additional Information

Background

Inbound international mail (or dispatch) is foreign-originating mail destined for delivery in the U.S. Currently, six ISCs in New York, Miami, Chicago, Los Angeles, San Francisco, and Honolulu, as well as the New Jersey NDC, process international mail. Foreign postal administrations pay the Postal Service for sorting and dispatching inbound international mail at the ISCs and the NDC. In FY 2011, revenue for international inbound mail was about \$468 million.

The Postal Service developed the Global Business System to assist in streamlining the processing of international mail. The overall framework of the system 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 inbound receiving terminals.
- The Dispatch System captures the scan of outbound mail.
- The International Reconciliation System supports records units in completing work by tracking international mail records, identifying issues, and reconciling discrepancies.

A mail dispatch may contain more than one receptacle¹⁷ and each receptacle has an attached label generated by the country of origin. When inbound international mail arrives at an ISC, the airline provides the mail to the receiving unit where personnel scan the label through the Receipt System to capture receptacle information. They then collect the billing documents¹⁸ attached to or enclosed with the receptacles and provide them to the appropriate records unit personnel.

Currently, records units in Chicago, Los Angeles, New York, Honolulu, and New Jersey validate mail records for the six ISCs and the one NDC¹⁹ before the data is transmitted from the International Reconciliation System to the Foreign Post Settlement system²⁰ and, subsequently, to the St. Louis International Accounting Branch for billing the appropriate foreign postal administrations. The major responsibility of records unit clerks is to correct failed dispatch records²¹ in the International Reconciliation System.

¹⁷ Receptacles include trays, sacks, and boxes that usually contain more than one piece of mail.

¹⁸ Billing documents include CN31 – Letter Bills; and CP86 or CP87 – Parcel Bills, Express Mail manifests, and others. They come from the country of origin.

¹⁹ The Chicago records unit is responsible for the Chicago and San Francisco ISC records. The Los Angeles records unit is responsible for the Los Angeles and Miami ISC records. The other three records units are responsible for the corresponding city ISC/NDC records.

²⁰ The Foreign Post Settlement system is the primary system that supports the processing of international accounts. The volume data used in this system comes from the Global Business System.

²¹ These are records that failed validation checks and must be corrected by the records unit so the St. Louis International Accounting Branch can bill foreign postal administrations accurately.

The International Reconciliation System accesses all of the records based on a set of validation rules and assigns a validation status (pass or fail) to each record. One reason records may fail the initial validation status is because the scan data from the Receipt System does not match the EDI data received from foreign postal administrations. When this occurs, records unit clerks are required to update International Reconciliation System records within established timeframes, with the most reliable data source, to complete the validation process. Records unit clerks sometimes use verification notes as a tool in this process. Records unit supervisors are responsible for monitoring the resolution of failed records, tracking verification notes,²² and performing audits of verification notes.²³

Inbound international mail, the focus of this audit, is billed by dispatch. 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 and Registered Mail™. Parcel Post and Express Mail dispatches are billed based on dispatch weight and piece count.

Objective, Scope, and Methodology

Our objective was to determine whether the New Jersey records unit processes international mail transactions timely and accurately to ensure that the St. Louis International Accounting Branch can correctly and timely bill foreign postal administrations.

To accomplish our objective, we traced billing data residing in the Foreign Post Settlement system to inbound international letter post and Parcel Post source documents,²⁴ verification notes, and/or International Reconciliation System data. We analyzed 22,107 inbound international mail dispatch records passed and corrected for billing from July 1, 2011, through March 31, 2012. Since records unit clerks are not required to correct failed records for exclusion countries²⁵ and other special case exceptions,²⁶ we excluded them from our universe. We then analyzed duplicate records from this universe. We also randomly selected a sample of 90 dispatch records for the New Jersey NDC. See [Appendix B](#) for our statistical sampling of the two mail types (international letter post and Parcel Post) dispatched at this facility. In addition, we tested the timeliness of failed record resolution and the issuance of verification notes for

²² To track verification notes, records unit supervisors complete *Verification Note Volume* reports weekly. They must indicate the number of verification notes that are outstanding according to the age of the verification note. The goal is to reduce to zero the number of verification notes that are over 30 days old.

²³ On a weekly basis, the records unit supervisor audits six verification notes of adjusted mail data to verify the accuracy and timeliness of verification notes created and responded to in accordance with Postal Service policy.

²⁴ New Jersey NDC does not process Express Mail.

²⁵ Exclusion countries (there are currently over 70 of them) agree to settle some, if not all, of their mail types using EDI messaging; therefore, manual adjustments by the records unit are not necessary.

²⁶ Special case exceptions for failed records include the Netherlands and Canada for all mail sub-classes, China for Express Mail, and all inbound international direct entry records. Inbound international direct entry is an international mail service in which a foreign-based customer pays postage to his or her home postal administration for dispatch and entry into the Postal Service's domestic system. Items are prepared in accordance with Postal Service domestic requirements and bear Postal Service postal markings and a U.S. return address.

compliance with procedures. Further, we reviewed a random sample of 5 weekly verification note audits for the same timeframe for compliance with procedures.

We conducted this performance audit from April through August 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit 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 on July 24, 2012, and included their comments where appropriate.

We assessed the reliability of Foreign Post Settlement system data by reviewing the reasonableness of data elements in our audit universe and applicable Postal Service data reliability tests. We determined that the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|--|---------------|-------------------|-----------------|--|
| <i>Los Angeles International Service Center – Inbound International Mail</i> | FT-AR-10-001 | 10/13/2009 | \$163,000 | Volume data used to bill foreign postal administrations for inbound international letter post, Parcel Post, and Express Mail service was not always accurate and properly supported. Management agreed with our recommendations to finalize and communicate procedures for validating dispatches and expediting approved system change requests. |

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|---|---------------------|-------------------|-----------------|--|
| <p><i>Fiscal Year 2010 Postal Service Financial Statements Audit – St. Louis Information Technology & Accounting Service Center</i></p> | <p>FT-AR-11-009</p> | <p>3/31/2011</p> | <p>None</p> | <p>The Chicago records unit supervisor did not review inbound verification notes created by record unit clerks. Because the supervisor took corrective action by starting to review verification notes, we made no recommendations.</p> |
| <p><i>Los Angeles International Service Center – International Air Mail Records Unit</i></p> | <p>FT-AR-12-001</p> | <p>10/26/2011</p> | <p>None</p> | <p>The records unit generally processed international mail transactions timely and accurately. However, it did not always maintain supporting documentation and did not always perform a complete weekly audit of verification notes. Further, management did not always perform a complete review of System for International Revenue and Volume Inbound (SIRVI) test data or review and approve SIRVI tests daily. Management agreed with our findings and recommendations and stated they will begin a monitoring process to assess compliance with document filing and retention policies. Management also conducted training.</p> |

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|--|-------------------------------------|-------------------|-----------------|---|
| <p><i>J.T. Wecker (Chicago) International Service Center – International Air Mail Records Unit</i></p> | <p>FT-AR-12-002</p> | <p>10/31/2011</p> | <p>None</p> | <p>The records unit generally processed international mail transactions timely and accurately; however, system access identifications and passwords were not always properly controlled. Also, records unit personnel did not always perform a complete weekly audit of verification notes and submit them. Management agreed with our findings and recommendations. They reiterated password security requirements, began conducting and documenting training, and had employees change their passwords. Also, management began monitoring weekly audits and agreed to issue revised procedures.</p> |
| <p><i>New York International Service Center – International Air Mail Records Unit</i></p> | <p>FT-AR-12-006</p> | <p>12/19/2011</p> | <p>None</p> | <p>Management did not always completely review SIRVI test data. In addition, the Global Business System was not configured to log a user off the network after a predetermined period of inactivity and it did not reject manual entry of the same receptacle multiple times. Management agreed with our findings and recommendations. They agreed to update the SIRVI policy and also planned to activate the Global Business System time-out feature.</p> |

Appendix B: Statistical Sampling and Projections

The overall objective of the audit was to determine if the New Jersey records unit processes international mail transactions timely and accurately to ensure that the St. Louis International Accounting Branch can correctly and timely bill foreign postal administrations.

In support of the objective, we employed a simple random sample for these audit tests. The sample design allowed statistical projection of the number of errors within the audit tests.

The audit universe consisted of 22,107 inbound international mail dispatch records,²⁷ passed and corrected for billing, from July 1, 2011, through March 31, 2012. We used unrestricted random sampling of records for the New Jersey NDC. We based our sample size on hypothesis testing sampling theory, which is a type of simple random attribute sampling. Our sample size, evaluation of sample, and statistical projections of the sample data are shown below.

| Audit Test | Universe | Sample Size | Number of Errors | Upper Limit of Error Rate (Percentage) |
|-------------------------------------|----------|-------------|------------------|--|
| Accuracy of Volume Data | 22,107 | 90 | 3 | 8.38% |
| Verification Note Issuance | 22,107 | 90 | 8 | 15.45% |
| Timely Resolution of Failed Records | 22,107 | 90 | 0 | 3.27% |

Accuracy of Volume Data

Based on the sample results, the error rate for accuracy of volume data is reasonable.

Verification Note Issuance

Based on the sample results, we are 95 percent confident that the error rate for issuance of verification notes is not greater than 15.45 percent.

Timely Resolution of Failed Records

Based on the sample results, the error rate for the timely resolution of failed records is reasonable.

²⁷ The New Jersey NDC dispatches international letter post and Parcel Post mail.