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SUBJECT:  Audit Report – Miami International Service Center – Inbound
International Mail (Report Number FT-AR-08-012)

This report presents issues concerning inbound international mail volumes at the Miami
International Service Center (ISC).  We identified these issues during our audit of the
fiscal year (FY) 2008 Postal Service Financial Statements – St. Louis Information
Technology and Accounting Service Center (IT/ASC) (Project Number
08BM001FT002).  This audit addresses the financial risk associated with not recording
revenue.  Click here to go to Appendix A for additional information about this audit.

## Conclusion

Volume data used to bill foreign postal administrations (FPA) for inbound international
letter class and Parcel Post® mail at the Miami ISC was accurate.  However, volume
data used to bill FPAs for inbound international Express Mail® service was not always
accurate.

## International Express Mail Billing Data

Data used to bill FPAs for inbound international Express Mail service was not complete.
Based on Express Mail billing data analyzed for the Miami ISC for the period October 1
to December 31, 2007, we determined that 1,058 manually entered dispatches[1] were
not billed to the FPAs.

This occurred because the new Receipt Application[2] did not always capture necessary
scanned data from Express Mail dispatches.  Specifically, Postal Service employees
stated that initial system requirements for the Receipt Application did not include the
need to capture the dispatch date.  Without the dispatch date, the dispatch data

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[1] At the time of our review, there were a total of 1,413 dispatches in the billing data.
[2] The Receipt Application is a web-based application that replaced the Receipt Verification System (RVS) for initial
scanning of inbound mail.  The application was first deployed at the Miami and Chicago ISCs on October 9 and
October 27, 2007, respectively.  The Postal Service is gradually deploying it at other ISCs.

captured by the Receipt Application were incomplete; therefore, the records were invalid when the data was transmitted to the St. Louis International Accounting Branch (IAB) for billing.

Prior to our audit, management directed Miami ISC record unit clerks to manually enter Express Mail dispatch data, including the dispatch date, so the invalid dispatches would be billed.  However, once the manually entered data was electronically transmitted to the St. Louis Integrated Business Systems Solution Center (IBSSC) for billing, the computer program used to prepare billing data for inbound international Express Mail did not capture these manually entered dispatches to include them in the billing statements.

As a result, the Postal Service under billed foreign countries for processing and delivery of inbound international Express Mail items by $2,084,620 for the period October 9 to December 31, 2007.  Click here to go to Appendix B for our detailed analysis of this topic.

Management stated that effective February 11, 2008, they made software changes to the Receipt Application, to allow the dispatch date to be manually entered into the application.  Also, after this change, management verified that personnel at the receiving unit were able to enter the dispatch date when scanning data from mail receptacles from non-Electronic Data Interchange (EDI) countries,[3] and they noted a significant improvement in the billing data captured by the Receipt Application.

Further, the IBSSC updated the records on April 28, 2008, to include the manually entered data in the billing.  On May 29, 2008, the St. Louis IAB issued a supplemental billing to FPAs that included all dispatches manually entered at both Miami and Chicago ISCs for October through December 2007.  The first quarter supplemental billing was approximately $2.1 million.

This issue affected Express Mail data from the Miami and Chicago ISCs only after the Receipt Application was implemented, but before the International Reconciliation System (IRS) was implemented on February 1, 2008.  Therefore, this issue does not affect future billing periods.[4]

Because of the corrective actions taken, we are not making any recommendations at this time.  However, we will continue to monitor this area during future audit work.

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[3] EDI countries provide electronic data to the Postal Service before mail arrives at the ISCs.  EDI data contains dispatch information, including dispatch date, and is pre-populated into the Receipt Application upon receipt. Therefore, when the clerks at the receiving unit scan the EDI mail receptacles through the Receipt Application, the scan would retrieve EDI data and associate the receptacle to the EDI dispatch date.  Non-EDI countries do not send an EDI message, so the clerk must enter dispatch date when scanning the mail receptacle.
[4] January 2008 Express Mail data was included in the second quarter billing, and the issue was corrected before the billing was issued.

We will report the $2,084,620 of under billing as recoverable revenue loss[5] in our *Semiannual Report to Congress*.  Click here to go to Appendix D for our calculation of under billed amounts.

We did not make any recommendations in this report and, therefore, management chose not to submit a formal response.  However, management agreed with the monetary impact and did not identify any information that should be exempt under the Freedom of Information Act.

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.
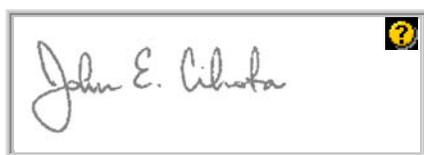
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Attachments

cc:     H. Glen Walker
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[5] Revenue that can be collected for goods delivered or services rendered.

# APPENDIX A:  ADDITIONAL INFORMATION

## BACKGROUND

Inbound international mail or dispatch is foreign-originating mail destined for delivery in the United States.  FPAs pay the Postal Service terminal dues for sorting and dispatching international mail at ISCs.  Currently, five ISCs in New York, Miami, Chicago, Los Angeles, and San Francisco process inbound international mail.

When inbound international mail dispatches arrive at the Miami ISC, employees move them to receiving terminals for scanning.  A mail dispatch may contain more than one receptacle;[6] and each receptacle has an attached label generated by the country of origin, called an Airmail Bag Label (CN35).  ISC personnel scan CN35s through the new Receipt Application to capture receptacle information, including origin country and city, destination country and city, type of mail, dispatch number, receptacle number, and receptacle weight.

For Express Mail items, after Miami ISC personnel scan data from the CN35 labels in receptacles to the Receipt Application, they move the receptacles to the Express Mail unit for additional scanning to capture the piece count.  Employees in the Express Mail unit use hand-held scanners to scan the CN35 labels again, then open the receptacles and scan each mailpiece in the receptacle.  These scans associate the individual mailpieces to the receptacle-level data that was captured a few minutes earlier by the Receipt Application.  The scanned data for Express Mail items processed from October through December 2007 was stored in the IRS.[7]

The St. Louis IAB bills foreign countries quarterly, based on piece count and weight.[8] Express Mail data in the IRS is electronically transmitted to the IAB and St. Louis IBSSC, which prepare the data for billing.  Using this data, which is maintained on the international web-based application, employees at the Eagan IT/ASC generate, print, and mail[9] quarterly Express Mail billing reports to the IAB for distribution to the FPAs.

For inbound international Parcel Post and letter class mail, employees in the Miami ISC record unit manually enter Parcel Post and letter class billing data[10] from the source

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[6] Receptacles include trays, sacks, and boxes that usually contain more than one mailpiece.

[7] Before the IRS was fully implemented in February 2008, it was used as a batch processing system to store Express Mail scanned data.  Prior to the IRS, the Express Mail data was stored in the Military and International Dispatch Accounting System (MIDAS).

[8] For Express Mail, all countries are billed based on piece count and weight, except for countries under the Pay-For-Performance program (PFP), which links Express Mail payments to the quality of service provided.  As of May 2008, 37 countries were in this program.

[9] Eagan has large-scale printers capable of handling the size of these billing reports, so they are printed at the Eagan IT/ASC and mailed to the St. Louis IT/ASC.

[10] Inbound Parcel Post billing data consists of dispatch weight and piece count.  Inbound letter class data consists of the dispatch weight.  It may also include the weight or number of pieces of additional letter class categories, such as International Business Reply Service (IBRS) or Registered Mail.  These categories generate additional revenue for the Postal Service.

documents[11] into the international web-based application.[12]  IAB personnel also enter Parcel Post and letter class mail weight and piece rates, as published by the Universal Postal Union, into the international web-based application.  The IAB and IBSSC use data from this application to prepare the billing data.  As with the Express Mail billing process, employees at the Eagan IT/ASC generate, print, and mail quarterly and yearly billing reports to the St. Louis IAB for distribution to the FPAs.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this part of our audit of the FY 2008 Postal Service Financial Statements – St. Louis IT/ASC was to determine whether volume data used to bill FPAs for inbound international mail were accurate.[13]  We selected the Miami ISC based on both the length of time since our last visit and because it was the first site to implement the Receipt Application.

To accomplish our objective, we traced billing data recorded in the international web-based application to inbound international letter class and Parcel Post source documents, using unrestricted random samples of 152 and 129 items, respectively. Click here to go to Appendix C for our statistical analysis of letter class and Parcel Post mail.  For our review of inbound international Express Mail, we used billing data originally stored in the IRS and generated a random sample of 10 items.  Based on the results of our analysis of these sampled items, we expanded our review to analyze the Express Mail billing data for all 1,413 dispatches at the Miami ISC from October through December 2007.  Of the 1,413 dispatches, we focused on 1,058 dispatches that were manually entered and tested a randomly selected sample of 50 dispatches.  The universe of transactions for all mail types was from October 1 through December 31, 2007.

We conducted this audit from March through September 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 finding and conclusion based on our audit objective.  We interviewed personnel from the Miami ISC, the St. Louis IBSSC, and the St. Louis IAB.  We discussed our observations and conclusions with management officials on August 13, 2008, and included their comments where appropriate.

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[11] Source documents include Form CN31, Letter Bill, for letter mail; Form CP86, Parcel Bill, for surface Parcel Post; and Form CP87, Air Parcel Bill, for air Parcel Post.  All of these documents come from the country of origin.
[12] This process was applicable only through February 1, 2008, when the IRS was implemented.  After that date, record unit personnel entered data directly into the IRS.
[13] International mail volumes consist of piece count and weight.

We relied on computer-generated data from the international web-based application. We performed specific internal control and transaction tests on this application to assess the reliability of the data. For example, we traced selected information on inbound international mail volumes to supporting source documents. We were generally able to rely on the data in this application, except for data related to inbound Express Mail volume.

## PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|---|---|---|---|---|
| *Fiscal Year 2002 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center* | FT-AR-03-008 | January 30, 2003 | N/A | We identified discrepancies between information entered into the MIDAS and manifests of inbound international Express Mail and Coventry upgraded parcels. |
| *J.T. Weeker (Chicago) ISC – Inbound International Mail* | FT-AR-06-013 | March 22, 2006 | $147,729 | Inbound international mail volumes were not always accurate and internal controls for recording inbound international mail at the J.T. Weeker (Chicago) ISC needed strengthening. Specifically, we identified a high number of discrepancies between supporting documents and billing data for Express Mail, upgraded Parcel, and Parcel Post. |
| *San Francisco ISC – Inbound International Mail* | FT-AR-07-012 | March 30, 2007 | $922,478 | Inbound international mail volumes used to bill FPAs were not always accurate, and internal controls for recording inbound international mail at the San Francisco ISC record unit needed strengthening. Specifically, personnel did not enter letter class documents into the system in a timely manner and did not retain Express Mail documentation as required. In addition, we identified a high number of discrepancies between |

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|---|---|---|---|---|
| | | | | supporting documents and the RVS scanned data used for billing. |
| *New York ISC – Inbound International Mail* | FT-AR-08-005 | January 24, 2008 | $13,700,604 | Volume data used to bill FPAs for inbound Express Mail and letter class mail was not always accurate.  Specifically, we identified a significant number of discrepancies in the Express Mail samples (97 errors in the sample of 120 China dispatches and 57 errors in the sample of 78 dispatches from all other countries).  For letter class mail, we found errors in 25 of 156 items reviewed. |

## APPENDIX B:  INTERNATIONAL EXPRESS MAIL BILLING DATA

Data used to bill FPAs for inbound international Express Mail service were not complete.  Based on Express Mail billing data analyzed for the Miami ISC for the period October 1 to December 31, 2007, we determined that 1,058 manually entered dispatches were not billed.[14]

This occurred because the new Receipt Application did not always capture scanned data from Express Mail dispatches.  Specifically, according to Postal Service personnel, initial system requirements for the new Receipt Application did not include the need to capture the dispatch date.  Therefore, receiving employees at the Miami ISC did not have the option of entering dispatch date information when scanning mail receptacles received from non-EDI countries.  Without a dispatch date, the dispatch data captured by the Receipt Application was invalid for billing.

Prior to our audit, management recognized the problem and, in an effort to complete the data for billing, directed the Miami ISC record unit clerks to manually enter Express Mail dispatch data, including the dispatch date, piece count, and gross weight, into the international web-based application so that the invalid dispatches would be billed.  However, after the data were electronically transmitted to the St. Louis IBSSC for billing, the computer program used to prepare inbound Express Mail billing data did not capture these manually entered dispatches to include them in the billing statements.  Specifically:

- For dispatches that were successfully scanned through the Receipt Application, the scanned data were stored in the "Actual" weight and piece count data fields.  However, for manually entered dispatches, the data were inadvertently stored in the "Plan" weight and piece count data fields.

- The IBSSC billing program extracted data only from the "Actual" weight and piece count data fields (scanned data) for billing.

- IBSSC employees did not know the manually entered data were stored as "Plan" data; therefore, they did not include the data for billing.[15]

Internal control standards require management to establish and maintain an adequate internal control structure that provides reasonable assurance that controls over financial reporting are in place and operating effectively and efficiently.  All financial statement

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[14] With regard to the 10 randomly selected Express Mail items reviewed, 2 of 10 were in error.  While this is a high rate when considering the sample, it is not significant to the finding.
[15] To verify, we tested a sample of 50 of 1,058 manual dispatches and confirmed that the manual dispatches were not billed in the original billing statement issued in March 2008.

line items and supporting transactions that result in the line items should be maintained accurately and in a timely manner in accordance with Generally Accepted Accounting Principles.

Because the manually entered dispatches were not included in billing statements, the Postal Service under billed foreign countries for processing and delivery of inbound international Express Mail items for the period October 9 through December 31, 2007.[16]

IAB and IBSSC personnel stated that when analyzing billing data to prepare for the initial billing, they were aware that a problem existed with the billing data because the billing amounts seemed low. However, at the time of our audit, they had not yet determined that the computer program was not capturing the manually entered dispatches. When we notified the IAB and IBSSC, the IAB stated it planned to issue a supplemental billing to the FPAs after Miami ISC personnel finished entering all the dispatches into system. The IAB also stated that the Chicago ISC experienced the same issue during this period. However, at the time of our audit, the Chicago record unit personnel had not begun manually entering these dispatches into the system.

The IBSSC updated the records on April 28, 2008, to include the manually entered data in the billing. In addition, on May 21, 2008, the Miami and Chicago ISCs completed entering the Express Mail dispatches into the system for the October through December 2007 period. Further, after personnel in the Miami and Chicago ISCs completed the manual entries for all dispatches, the St. Louis IAB issued the supplemental billing to FPAs on May 29, 2008, to include all dispatches manually entered by both Miami and Chicago ISCs for October through December 2007. The supplemental billing was approximately $2.1 million.[17]

Management stated that effective February 11, 2008, they made software changes to the Receipt Application, to allow the dispatch date to be manually entered into the application. Also, after this change, management verified that personnel at the receiving unit were able to enter the dispatch date when scanning data from mail receptacles from non-EDI countries, and they noted a significant improvement in the billing data captured by the Receipt Application.

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[16] The 1,413 dispatches analyzed were already in the system at the time of our audit. Miami ISC personnel had not yet entered additional dispatches into the international web-based application; these dispatches would increase the amount not billed.

[17] This issue only affected Express Mail data from the Miami and Chicago ISCs after the implementation of the Receipt Application, but before the IRS was implemented on February 1, 2008. Therefore this issue does not affect future billing periods. January 2008 Express Mail data was included in the second quarter billing, and the issue was corrected prior to issuance of that billing.

## APPENDIX C:  STATISTICAL SAMPLING AND PROJECTIONS
## FOR LETTER CLASS AND PARCEL POST MAIL

In support of our objective, the audit team employed a random sample for two mail types:  letter class/other mail (Form CN31, Letter Bill) and Parcel Post (Forms CP86, Parcel Bill*,* and CP87, Air Parcel Bill).  The sample design allows statistical projection of the number of mail records with errors.  We present separate projections for these samples.

The U.S. Postal Service Office of Inspector General (OIG) Computer Assisted Assessment Techniques team obtained the audit universe from the St. Louis IAB databases for inbound international mail.  The audit universe consisted of 5,982 inbound international mail records at the Miami ISC for the period from October 1 through December 31, 2007:

- Letter class/other:  3,672 records
- Parcel Post:  2,310 records

We used unrestricted random sampling of records for the letter class/other and Parcel Post mail types.  We based our sample sizes on a desired 90 percent confidence level and error rates observed in prior audit work at the Chicago, San Francisco, and New York ISC Record Units.[18]  Our sample sizes by mail type are shown below.

| Mail Type | Universe | Sample Size | Number of Errors | Upper Bound on the Error Rate |
|---|---|---|---|---|
| **Letter Class/Others** (Form CN31) | 3,672 | 152 | 6 | 6.75 percent |
| **Parcel Post** (Forms CP86 & CP87) | 2,310 | 129 | 4 | 6.02 percent |

### Statistical Projections of the Sample Data

We used the Department of Health and Human Services OIG Rat Stats program, version 2, Unrestricted Attribute Appraisal, to estimate the upper bounds on the error rates.

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[18] *J.T. Weeker (Chicago) International Service Center - Inbound International Mail* (Report Number FT-AR-06-013, dated March 22, 2006); *San Francisco International Service Center - Inbound International Mail* (Report Number FT-AR-07-012, dated March 30, 2007); and *New York International Service Center - Inbound International Mail* (Report Number FT-AR-08-005, dated January 24, 2008).

## Results

<u>Letter Class/Other Mail</u>:  Based on the sample results, we project an upper bound on the error rate of 6.75 percent at a 90 percent confidence level.

<u>Parcel Post Mail</u>:  Based on the sample results, we project an upper bound on the error rate of 6.02 percent at a 90 percent confidence level.

## APPENDIX D:  CALCULATION OF RECOVERABLE REVENUE LOSS
## FOR EXPRESS MAIL

We used the IAB supplemental billing report issued on May 29, 2008, to determine the monetary impact.  This report included supplemental billing information for Express Mail dispatches from the Miami and Chicago ISCs for October through December 2007.  However, the report provided only weight and piece count data.  Therefore, we applied the rate per kilogram and rate per piece to the net weight and net piece count to calculate the Special Drawing Rights (SDR)[19] amount, and then applied the SDR conversion rate on the billing dated May 29, 2008, to calculate the dollar amount.

In this calculation, we excluded countries under the PFP program because billings to these countries were processed differently and were not affected by the Express Mail billing issue we identified.

In addition, we excluded five countries where the dispatches were not handled by the Miami ISC or the Chicago ISC (the Office of Destination was not MIA or ORD).  These dispatches were processed by other ISCs, and although they were included in the supplemental billing report, they were not related to this Express Mail issue.  We referred to these countries as "Not MIA/ORD Countries."

| Calculation for Weight | | | Calculation for Piece Count | |
|---|---|---|---|---|
| **Formulas** | **Amount** | | **Formulas** | **Amount** |
| Total Weight* (in kilogram) | 607,290.01 | | Total Pieces* | 205,005 |
| - Exclude PFP countries * | -74,920.96 | | - Exclude PFP countries* | -35,688 |
| - Exclude "Not MIA/ORD Countries" * | -83.50 | | - Exclude "Not MIA/ORD countries" * | -133 |
| = Net weight | 532,285.55 | | = Net piece count | 169,184 |
| | | | | |
| × Rate per kilogram | 1.3 | | × Rate per piece | 3.5 |
| = SDR amount | 691,971 | | = SDR amount | 592,144 |
| × SDR conversion rate | 1.62339 | | × SDR conversion rate | 1.62339 |
| **= Dollar Amount** | **$1,123,339** | | **= Dollar Amount** | **$961,281** |
| **Total Supplemental Amount** | **$2,084,620** | | | |

\* We obtained weight and piece count data from the IAB supplemental billing report dated May 29, 2008.

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[19] Special Drawing Rights is a monetary unit established by the International Monetary Fund and used by the Universal Postal Union.