



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

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**Global Express Guaranteed**  
**Audit Report**

September 27, 2011

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**Report Number FF-AR-11-016**



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# HIGHLIGHTS

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September 27, 2011

**Global Express Guaranteed**

Report Number FF-AR-11-016

## **IMPACT ON:**

International mail internal control procedures and customers who use the global express product.

## **WHY THE OIG DID THE AUDIT:**

Our objective was to determine whether control procedures over acceptance, processing, tendering, delivering, and oversight of Global Express Guaranteed® (GXG) mailings are in place and operating effectively. This audit was self-initiated to identify GXG financial and operational risks.

## **WHAT THE OIG FOUND:**

The U.S. Postal Service generally had effective control procedures over processing, tendering, and delivering GXG mailings. However, control procedures over acceptance and oversight of GXG billings needed improvement. Specifically, GXG program management did not properly validate FedEx® Corporation billings. Consequently, the Postal Service paid FedEx about \$314,000 without adequate support. In addition, management did not timely re-certify and accredit the GXG database. As a result, management cannot ensure the GXG database is adequately protected to prevent security threats and vulnerabilities that could negatively affect the Postal Service brand.

## **WHAT THE OIG RECOMMENDED:**

We recommended management validate GXG billings and conduct a re-certification and accreditation of the GXG database.

## **WHAT MANAGEMENT SAID:**

Management agreed with both recommendations and the recertification and accreditation of the GXG database finding. Management disagreed with the basis for our audit and the finding related to GXG validation and scanning procedures.

## **AUDITORS' COMMENTS:**

Regarding management's disagreement with the basis of our audit, we informed them of the audit objectives in our audit fieldwork announcement letter. Further, during the audit, GXG management implemented new procedures to address their specific concerns discussed at the onset of the audit. Regarding management's disagreement with the GXG validation and scanning procedures finding and monetary impact, the GXG Alliance Agreement states that the Postal Service will request that FedEx provide supporting documentation for the amount billed. GXG management did not request the documentation.

[Link to review the entire report](#)



September 27, 2011

**MEMORANDUM FOR:** GISELLE E. VALERA  
VICE PRESIDENT, GLOBAL BUSINESS

CHUCK L. McGANN  
MANAGER, CORPORATE INFORMATION SECURITY

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

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

**SUBJECT:** Audit Report – Global Express Guaranteed  
(Report Number FF-AR-11-016)

This report presents the results of our audit of Global Express Guaranteed®  
(Project Number 11BD002FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Field Financial - East or me at 703-248-2100.

Attachments

cc: Joseph Corbett  
Paul E. Vogel  
Ellis A. Burgoyne  
Franca S. Davis  
Elizabeth A. Richardson  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of Global Express Guaranteed® (GXG) mail procedures (Project Number 11BD002FF000). This audit addresses financial and operational risks. Our objective was to determine whether control procedures over acceptance, processing, tendering, delivering, and oversight of GXG mailings are in place and operating effectively. This audit was self-initiated to identify GXG financial and operational risks. See [Appendix A](#) for additional information about this audit.

GXG is the U.S. Postal Service's premium international shipping option for documents and merchandise. This service offers mailers guaranteed date-certain delivery (1-3 days) to destinations in 190 countries. The Postal Service began using the FedEx® Corporation to transport GXG mailings on July 1, 2004. On June 15, 2009, the Postal Service renewed the GXG Alliance Agreement<sup>1</sup> through June 30, 2014. In fiscal year (FY) 2010, the Postal Service's GXG revenue and volume was approximately [REDACTED] and 244,668 pieces, respectively.

## Conclusion

The Postal Service generally had effective control procedures over processing, tendering, and delivering GXG mailings. However, control procedures over acceptance and oversight of GXG billings needed improvement. Specifically, GXG program management did not properly validate FedEx billings for GXG deliveries. Consequently, the Postal Service paid FedEx about [REDACTED] for delivering GXG mail without adequate support. In addition, management did not timely re-certify and accredit the GXG database. As a result, management cannot ensure the GXG database is adequately protected to prevent security threats and vulnerabilities that could negatively affect the Postal Service brand.

## GXG Validation and Scanning Procedures

GXG program management personnel did not properly validate FedEx billings for GXG deliveries. Specifically, we found 3,621 of 244,668 GXG mailings in FY 2010<sup>2</sup> [REDACTED] where management did not obtain evidence that these represented valid billings. For these mailings, Postal Service systems did not contain evidence that personnel completed any of the scans required as the mailing moved through the Postal Service network.<sup>3</sup> Alternatively, management did not obtain other valid alternative supporting documentation because they did not believe they needed to do so.

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<sup>1</sup> The Alliance Agreement for Global Expressed Guaranteed is a written document outlining the terms and conditions agreed upon between the Postal Service and the FedEx.

<sup>2</sup> Upon receipt of the electronic invoice from FedEx, the Postal Service will verify service. The Postal Service will validate the FedEx bill by matching the item number scans, based on the Postal Service tracking number, against the comparable data element in FedEx acceptance scans.

<sup>3</sup> Retail and processing employees must maintain a total of three scans per mailing for acceptance, processing, and tendering to FedEx. These mailings did not have any of the required scans.

According to the Alliance Agreement with FedEx, the Postal Service should request a copy of the air waybill<sup>4</sup> image when GXG mailings submitted for payment do not match Postal Service records. Management stated they did not request copies of the air waybill images because they believed the FedEx tracking system provided sufficient proof of acceptance. However, using the FedEx tracking system as proof of acceptance does not provide independent validation of GXG mailings from customers. When program management does not comply with agreed upon validation procedures contained in the Alliance Agreement, there is an increased risk of paying FedEx for mailings that do not originate with the Postal Service.

Further, as a result of this issue, we expanded our review to determine the number of GXG mailings where Postal Service retail and network processing units missed one or more of the required scans. We found [REDACTED] GXG mailings (28 percent) with postage and insurance totaling [REDACTED] were affected.<sup>5</sup> We discussed our observations with GXG management who subsequently took corrective action by including detailed steps for scanning GXG mailings in the GXG standard operating procedures. Therefore, we are not making a recommendation regarding this situation.

### Re-Certification and Accreditation of the GXG Database

Postal Service management did not ensure timely re-certification and accreditation (C&A) of the GXG database.<sup>6</sup> The Postal Service completed its last C&A of the GXG database in FY 2001.<sup>7</sup> In November 2008, management completed a business impact assessment (BIA).<sup>8</sup> At that time, the GXG database was designated a non-critical, non-sensitive system. However, even though management re-classified the database, they were still required to complete the C&A of the GXG database (at least every 5 years). The C&A ensures that existing security controls and processes are still in place and functioning correctly. The executive sponsors, as representatives of the vice presidents of the functional business areas, are responsible for ensuring completion of all security-related tasks, which includes re-certifying and accrediting the GXG database.<sup>9</sup>

Management believed the database, with its change in status, was immaterial and, therefore, did not need C&A. As a result, without a C&A, the Postal Service cannot ensure the GXG database is adequately protecting information resources from security threats and vulnerabilities that could negatively affect the Postal Service brand.

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<sup>4</sup> A shipping label used on GXG mailing envelopes.

<sup>5</sup> Revenue includes postage and insurance totaling [REDACTED].

<sup>6</sup> Certification establishes the extent to which information resources meet specified security requirements. Accreditation is management's analysis and approval of security controls as they relate to specified security requirements and acceptable risk levels.

<sup>7</sup> GXG Security Certification Report, dated January 8, 2001.

<sup>8</sup> The BIA is completed during phase two of the C&A process and is a process for determining the sensitivity and criticality levels of Postal Service information resources.

<sup>9</sup> Handbook AS 805a, *Information Resource Certification and Accreditation Process*, Section 2-6, and Chapter 3, October 2009.

## Recommendations

We recommend the vice president, Global Business:

1. Direct the executive director, Global Business, to validate Global Express Guaranteed (GXG) billings by requesting and maintaining the air waybill image from the FedEx Corporation when GXG mailings submitted for payment do not match Postal Service records.

We recommend the vice president, Global Business, in coordination with the manager, Corporate Information Security:

2. Conduct a re-certification and accreditation of the GXG database in accordance with Postal Service policy.

## Management's Comments

Although management agreed with our finding associated with recertification and accreditation of the GXG database and with both recommendations, they disagreed with the basis for our audit and the specific presentation of the finding related to GXG validation and scanning procedures.

Specifically, management disagreed with our audit objective and that this was a self-initiated audit. Management stated that the audit was actually initiated by Postal Service GXG Alliance Management/Corporate Finance to identify the percentage and root cause of items being reshipped after their return for improper customs documentation.

Further, management noted the finding was not that they did not properly validate FedEx billings but rather that they did not always adhere to the Alliance Agreement guidelines in reference to exception processing. They noted that payment is to be made even if the postal scans are missing and the non-matched records would then be subject to the outlined exception processing.

Management further stated that 89 percent of GXG mailings missing Postal Service scans were Click-N-Ship which validates these mailings as originating with the Postal Service. Management added that the remaining 11 percent of shipments (representing \$34,450) did have the potential for overpayment and were, therefore, at risk.

Finally, management disagreed there was an increased risk of overpayment to FedEx for mailings that did not originate with the Postal Service because GXG mailings can only originate from the Postal Service. GXG is not available in FedEx retail locations and only the Postal Service can provide GXG to the FedEx induction site.

Regarding recommendation 1, management agreed to adhere, effective immediately, to the exception process as stipulated within the Alliance Agreement by requesting and maintaining supporting documentation for all shipments devoid of Postal Service acceptance validation. The target implementation date was September 8, 2011.

Regarding recommendation 2, management agreed to request Information Technology to perform timely recertification and accreditation of the GXG database. The target implementation date is September 30, 2011.

See [Appendix C](#) for management's comments in their entirety.

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

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and management's corrective actions planned and taken should resolve the issues identified in the report.

Management asserted that the audit was initiated by Postal Service Global Express Guaranteed (GXG) Alliance Management and Corporate Finance. During our annual audit planning, we met with management to determine whether there were any areas they believed would benefit from an OIG review. At that time, management requested assistance from OIG to identify the percentage and root cause of items being reshipped after their return for improper customs documentation. This request was designed to assist the Postal Service in reducing the number of refused mailings by FedEx. We agreed to incorporate this requested audit into our fiscal year 2011 audit plan. However, prior to our starting the fieldwork, GXG management proactively requested and received additional data from FedEx, which included information on the status of refused mailings. We decided not to address the requested objective because management informed us this additional data resolved the questions they initially raised to the OIG. As a result, we modified our audit objective to determine whether control procedures over acceptance, processing, tendering, delivering, and oversight of GXG mailings were in place and operating effectively. We communicated this revised objective to management in our fieldwork announcement letter and during the formal entrance conference.

Regarding management's disagreement with the GXG validation and scanning procedures finding and monetary impact, the GXG Alliance Agreement states the Postal Service will pay the amount billed by FedEx in the event of missing Postal Service scans. However, the agreement also states that the Postal Service will note an exception and request FedEx to provide supporting documentation. The Postal Service then uses that documentation to validate the FedEx billing. GXG management did not request the documentation for mailings associated with the \$314,000; therefore, the OIG believes the entire amount represents payments that were not properly supported.

The OIG agrees that valid GXG mailings cannot originate outside of the Postal Service. However, Postal Service Click-N-Ship data does not provide adequate support when



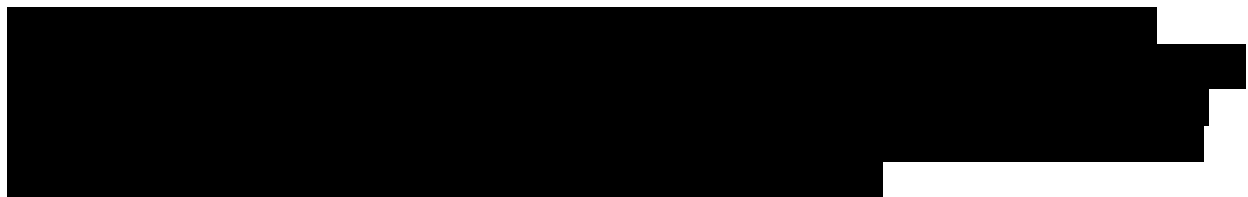
Postal Service employees have not completed all required scans. According to the Alliance Agreement, the Postal Service should request a copy of supporting documentation when GXG mailings submitted for payment do not match Postal Service records.

## Appendix A: Additional Information

### Background

The Postal Service has an alliance with FedEx to transport and deliver all GXG mailings tendered by the Postal Service. Monthly, FedEx generates and electronically transmits air freight detail invoices to the Postal Service. The Postal Service acknowledges receipt of electronic invoices and verifies services rendered. The verification process involves removing duplicate air waybills, claims for lost or damaged mailings, and claims for money-back guarantees. The verification process also assesses penalties to FedEx, if applicable, and determines their share of revenue.

The Alliance Management Committee, which consists of six members — three from the Postal Service and three from FedEx — resolves invoice disputes. Upon completion of the verification process, the Postal Service submits invoices to the St. Louis, MO Accounting Service Center for payment through electronic fund transfers.



Postal Service policy requires management to certify all information resources, regardless of where they are located or whether or not they are controlled directly by the Postal Service.<sup>10</sup> Management should make sure to complete C&A of non-sensitive and non-critical information resources every 5 years.<sup>11</sup> The purpose for re-initiating the C&A process is so management can ensure that existing security controls and processes for the infrastructure component are still in place and functioning correctly and that they address changes to the infrastructure component.

### Objective, Scope, and Methodology

Our objective was to determine whether control procedures over acceptance, processing, tendering, delivering, and oversight of GXG mailings were in place and operating effectively.

To accomplish our objective, we audited the Postal Service's FY 2010 GXG operations at Postal Service Headquarters and at the following locations:

- Lehigh Valley and Pittsburgh, PA
- Huntington and Santa Ana, CA
- Baltimore, MD
- East Boston, MA

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<sup>10</sup> Handbook AS-805, *Information Security*, Sections 8-4.2 and 8-4.3, May 2011 and March 2002, updated with *Postal Bulletin* revisions through October 30, 2003.

<sup>11</sup> Handbook AS-805, Section 8-5.7.9.

We judgmentally selected these sites based on the volume of reported mailings refused by FedEx, the objective which was initially requested by GXG management, and the proximity to OIG field offices. We compared Postal Service reports to the FedEx tracking system and could not substantiate the concerns. Therefore, we focused our audit efforts on management oversight and scanning procedures. We reviewed the GXG Alliance Agreement<sup>12</sup> between the Postal Service and FedEx. In addition, we used Postal Service manuals, policies, and procedures as criteria to evaluate controls over GXG operations. Also, we conducted interviews and onsite visits with FedEx and Postal Service International and Domestic Express Mail® employees to identify value-added mailing practices and assess the effectiveness of the FedEx manifest invoicing system. We interviewed and met with headquarters officials, managers, and employees at Post Offices and processing and distribution centers (P&DCs). We also observed GXG mailing operations at the Dulles P&DC and FedEx Air, Ground, & Freight Service Ramp Operations in Dulles, VA.

We conducted this performance audit from October 2010 through September 2011 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 28, 2011, and included their comments where appropriate.

We assessed the reliability of the GXG database by sampling, at random, 60 GXG mailing transactions. For FY 2010, we compared the tracking table to the Postal Service's Product Tracking System to validate acceptance and processing. We determined that the data was sufficiently reliable for the purposes of this report.

### Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objectives of this audit.

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<sup>12</sup> The Postal Service began using FedEx to transport GXG mailings on July 1, 2004. On June 15, 2009, the Postal Service renewed the Alliance Agreement for GXG through June 30, 2014.

**Appendix B: Monetary Impact**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
GXG Validation and Scanning Procedures	Unsupported Questioned Cost <sup>13</sup>	[REDACTED]

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<sup>13</sup> A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures but does not necessarily connote any real damage to Postal Service.

## Appendix C: Management's Comments

GISELLE VALERA  
MANAGING DIRECTOR, GLOBAL BUSINESS  
AND VICE PRESIDENT



September 8, 2011

SHIRIAN B. HOLLAND  
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Global Express Guaranteed (Report Number FF-AR-11-DRAFT)

In summary response to the OIG Draft Audit Report FF-AR-11-DRAFT dated August 26, 2011 we disagree with your stated objective and documented finding indicating that the Postal Service paid FedEx \$314,000 without adequate support. We do however agree with both of your recommendations.

In detail, we disagree with the following statement located within the *Highlights* section of the draft, "Our objective was to determine whether control procedures over acceptance, processing, tendering, delivering, and oversight of Global Express Guaranteed® (GXG) mailings are in place and operating effectively. This audit was self-initiated to identify GXG financial and operational risks." The audit was actually self-initiated by USPS GXG Alliance Management/Corporate Finance to identify the percentage and root cause of items being reshipped after their return for improper customs documentation.

We also disagree with the statement, "GXG program management did not properly validate FedEx billings. Consequently, the Postal Service paid FedEx about \$314,000 without adequate support." We believe the statement should read "GXG program management did not always adhere to the Alliance Agreement guidelines in reference to exception processing. The procedure as per the Alliance Agreement is that payment is to be made even if the postal scans are missing and the non-matched records would then be subject to the outlined exception processing.

In addition, we disagree once again with the statement used on page 1 of the draft which is a repeat from the *Highlights* section, "Our objective was to determine whether control procedures over acceptance, processing, tendering, delivering, and oversight of Global Express Guaranteed® (GXG) mailings are in place and operating effectively. This audit was self-initiated to identify GXG financial and operational risks."

We again contend that this audit was actually self-initiated to identify the percentage and root cause of items being reshipped after their return for improper customs documentation.

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Again, we disagree once again with the statement used on page 1 of the draft which is a repeat from the *Highlights* section, "GXG program management did not properly validate FedEx billings for GXG deliveries. Consequently, the Postal Service paid FedEx about \$314,000 for delivering GXG mail without adequate support." As stated above, we believe the statement should read "GXG program management did not always adhere to the Alliance Agreement guidelines in reference to exception processing. The procedure as per the Alliance Agreement is that payment is to be made even if the postal scans are missing and the non-matched records would then be subject to the outlined exception processing.

The OIG investigation revealed that 1.5 percent (3,621) of the shipments was missing postal scans. Further investigation revealed that 89 percent of these identified shipments which were missing postal scans were generated from USPS Click-N-Ship manifests which validated origination with USPS. The remaining 11 percent (400) of the shipments which were missing postal scans represented 0.16 percent of total shipments. A small sampling of the remaining 0.16 percent of shipments which were missing postal scans had labels requested from FedEx; all of which produced valid air waybill/shipping labels. The remaining 0.16 percent of shipments represented the potential for overpayment of \$34,450 (11 percent of \$314,000). We disagree that the \$314,000 in its entirety was at risk but do however agree that the remaining 11 percent (400) shipments representing \$34,450 had the potential for overpayment and was therefore at risk.

On page two of the draft, the last sentence states "there is an increased risk of overpayment to FedEx for mailings that do not originate with the Postal Service." We disagree with this statement as GXG mailings have no ability to originate anywhere else except for the USPS. Additionally, GXG is not available in FedEx Retail locations and only the USPS can provide GXG to the FedEx induction site, a secure airport ramp.

**Recommendation 1:** We recommend the vice president and managing director of Global Business direct the executive director, International Strategy and Business Development Support to validate GXG billings by requesting and maintaining adequate supporting documentation.

**Management Response/Action Plan:**

In response to your recommendation, effectively immediately we will adhere to the exception process as stipulated within the Alliance Agreement by requesting and maintaining supporting documentation for all shipments devoid of USPS acceptance validation.

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**Target Implementation Date:** Implementation complete.

**Responsible Official:** Managing Director, Global Business & Vice President

**Recommendation 2:**

In coordination with the manager of Corporate Information Security, we recommend they conduct re-certification and accreditation of the GXG database.

**Management Response/Action Plan:**

In response to your recommendation, we will request IT to perform timely recertification and accreditation of the GXG database.

**Target Implementation Date:** September 30, 2011

**Responsible Official:** Managing Director, Global Business & Vice President and Manager, Corporate Information Security

**FOIA**

All references to revenue paid to FedEx and volume of shipments is exempt from disclosure under FOIA. As documented on all reports provided to the OIG, this information is confidential and proprietary in nature, as it defines compensation for services outlined in the GXG Alliance Agreement.



Giselle Valera  
Managing Director, Global Business & Vice President

cc: Joseph Corbett  
Paul E. Vogel  
Ellis A. Burgoyne  
Franca S. Davis  
Elizabeth Richardson  
Corporate Audit and Response Management