



March 22, 2006

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INTERNATIONAL SERVICE CENTER

SUBJECT: Audit Report – J.T. Weeker (Chicago) International Service Center –
Inbound International Mail (Report Number FT-AR-06-013)

This report presents an issue concerning internal controls for billing inbound international mail at the J.T. Weeker (Chicago) International Service Center. We identified this issue during our annual audit of the fiscal year (FY) 2005 U.S. Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 05BM002FT005).

Background

International Service Centers (ISCs) distribute and dispatch international mail received from a designated service area and headed to specific foreign countries or to international exchange offices. There are currently five ISCs: New York, Miami, Chicago, Los Angeles, and San Francisco. Postal Service personnel input inbound Letter Class and Parcel Post mail volumes into a web-based application and scan inbound Express Mail volumes into the Military and International Dispatch Accounting System (MIDAS).¹ The ISCs rely on these volumes to bill foreign postal administrations and to support international revenue and receivables in the General Ledger. Additionally, inbound mail volumes are scanned into the Receipt Verification System (RVS) at the ISC for tracking.

Objectives, Scope, and Methodology

The objectives of this portion of the audit were to determine whether inbound international mail volumes were accurate and internal controls for recording inbound international mail were adequate at the J.T. Weeker (Chicago) ISC. To accomplish our objectives, we reviewed inbound mail documents for four classes of inbound

¹ MIDAS is used to record inbound international Express Mail volumes. This information is used to populate international accounting data files and, ultimately, to record revenues.

international mail at the J.T. Weeker (Chicago) ISC for October 2004 through February 2005: Express Mail, Coventry (upgraded) Parcels,² Parcel Post, and letter class. We judgmentally selected the J.T. Weeker (Chicago) ISC based on the length of time since our last review. For each class of mail reviewed, we statistically sampled inbound mail volumes and traced them to corresponding mail manifests and/or other supporting documentation. Based on our analysis of the sampled items for Parcel Post, we judgmentally expanded our review to include Parcel Post inbound mail from Frankfurt, Germany, and Vienna,³ Austria, from calendar year (CY) 2004 through late June 2005.⁴

We conducted this audit from March 2005 through March 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

We relied on computer-generated data from MIDAS and the web application. We performed specific transaction tests on these systems' data. For example, we traced selected inbound international mail volume information to supporting source records.

Prior Audit Coverage

In our FY 2002 financial statements audit,⁵ we reported discrepancies between information entered into MIDAS and manifests of inbound international Express Mail and Coventry (upgraded) Parcels. Management agreed with our finding and stated they developed RVS, along with a technical users manual, to improve accounting for inbound international mail.

In our FY 2003 financial statements audit,⁶ we reported the Postal Service relied on information received from the Canada Post Corporation to record revenues. The Postal Service stated that RVS would resolve this issue. Because the Postal Service had not fully implemented RVS at the time of our report, we agreed not to provide any recommendations but we will continue to monitor the issue.

² Coventry (upgraded) Parcel service is a special class of Parcel Post covered by bilateral agreement between the Postal Service and the United Kingdom postal administration.

³ Parcel Post supporting documentation notes Wien, Austria, which translates to Vienna, Austria.

⁴ For CY 2005, we reviewed transactions completed at the time of our audit. For Vienna, through June 28, 2005; and for Frankfurt, through June 9, 2005.

⁵ *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).

⁶ *Internal Controls Over the Recording and Reporting of Inbound Mail Volumes From Canada* (Report Number FT-AR-04-002, dated December 2, 2003).

Results

Except for letter class mail, 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, mail volumes on manifests⁷ did not support billing and revenue data in the General Ledger for inbound international Express Mail and Parcel Post. For Coventry (upgraded) Parcels, the Postal Service did not always request missing source documents. In addition, the Postal Service did not have a process in place to monitor volume data entered for inbound international mail.

For inbound international Express Mail, we identified discrepancies between manifests and billing information in 36 of 135 sampled items (27 percent). ISC personnel could not support their explanations for the 26 items where discrepancies existed between gross weight and/or the number of pieces and supporting documentation because the billing information is based on scanned data. In addition, ISC personnel could not provide supporting documentation for the remaining 10 sampled items.

For the 57 inbound Coventry (upgraded) Parcels sampled, we identified nine where initial source documentation was not available. In eight of those instances, the Postal Service did not request the missing documentation from the United Kingdom. When the Parcel Post web application indicates that no documentation has been received, the inbound records clerk is required to request the missing source documents.⁸ However, the clerk did not request the information at the time of our review.

For inbound international Parcel Post, we noted discrepancies between supporting documentation and billing information in 13 of 75 sampled items (17 percent). This occurred because the inbound records clerk entered incorrect data into the Parcel Post web application. Eight of the discrepancies were for inbound mail from Frankfurt, Germany, and Vienna, Austria. For these locations, the clerk consistently entered the number of bags rather than the number of pieces into the web application. Our expanded review of inbound mail from Frankfurt and Vienna through June 2005 disclosed this practice continued.

⁷ Inbound international mail documents supporting weights and pieces of mail received to support billings to foreign postal administrations. These documents are filed on-site at ISCs, international exchange offices, or international records units.

⁸ Handbook T-5, *International Mail Operations*, Chapter 4 – Irregularities, Section 46 – Verification Notes, dated October 2005.

The table below summarizes the projected error rates:

| Projected Error Rate by Mail Type | | |
|---|----------------|---------------------------|
| Type | Point Estimate | Error Limits ⁹ |
| Express Mail | 26.67% | 20.44 to 32.90% |
| Coventry (upgraded) Parcels | 14.04% | 8.64 to 19.43% |
| Parcel Post | 17.33% | 10.22 to 24.44% |
| See Appendix A for the statistical analysis of our review of inbound international mail at the J.T. Weeker (Chicago) ISC. | | |

In addition to incorrect billings to foreign postal administrations, inaccurate mail volume data can result in misstated revenues and receivables in the General Ledger. Also, the Postal Service could incur costs for researching and resolving discrepancies, and payment for postal services rendered could be delayed.

Postal Service personnel took corrective action for the Coventry (upgraded) Parcels by requesting the missing supporting documentation. For Parcel Post, the Postal Service corrected the mail volume discrepancies identified for Frankfurt, Germany, and Vienna, Austria, for CYs 2004 and 2005. As a result of the corrections for CY 2004, the International Accounting Branch generated supplemental billings to the foreign postal administrations for Austria and Germany totaling \$109,968. For CY 2005, corrections to inbound mail volumes resulted in additional billings to Germany¹⁰ totaling \$37,761.¹¹ We will continue to monitor this area in the future as part of our annual financial statements audit.

Appendix B presents information on underbilled amounts for CY 2004 and corrections to billed amounts for CY 2005 for Germany. We will report the supplemental billed amount of \$147,729¹² as potential additional revenue in our *Semiannual Report to Congress*.

Recommendations

We recommend the plant manager, J.T. Weeker (Chicago) International Service Center:

1. Reiterate the requirement to request missing source documents for Coventry (upgraded) Parcels.
2. Implement a procedure to continuously monitor the reliability of inbound international mail volume data used to support billings to include manual and scanned data.

⁹ Error limits reported are for a 90 percent confidence level.

¹⁰ We were unable to calculate additional amounts billed to Vienna, Austria, for CY 2005 because Postal Service personnel corrected mail volumes before initial mail volume data was captured.

¹¹ Billing for Parcel Post is 6 months after the close of the quarter. For example, the quarter ending in March will be billed at the end of September.

¹² This amount represents \$109,968.35 for CY 2004 Austria and Germany Inbound Errors and \$37,760.91 for CY 2005 Germany Inbound Errors.

Management's Comments

Management agreed with the recommendations and our \$147,729 in potential additional revenue. Management reassigned and trained new personnel and reinforced the need to request missing documents. Management completed the reassignment and training by August 2005.

Beginning in July 2005, the unit supervisor also began monitoring input from the inbound mail documents to ensure accuracy. Additionally, St. Louis Integrated Business Systems Solutions Center personnel are developing a program that will compare data and generate an exception report that they will provide to the ISCs to allow them to investigate differences. Management's comments, in their entirety, are included in Appendix C of this report.


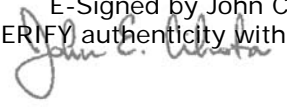
Evaluation of Management's Comments

Management's comments are responsive to the recommendations and actions taken or planned should correct the issues identified in the finding. We will follow up on these issues as part of our future Financial Statements work.

Management did not provide a target date for completion of the program that will compare data and generate an exception report. However, they subsequently advised that it is part of a larger development effort scheduled to be completed in June 2006.

The U.S. Postal Service Office of Inspector General (OIG) considers recommendation 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Siewert, director, Financial Statements, or me at (703) 248-2300.

E-Signed by John Cihota 
VERIFY authenticity with ApproveIt


John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachments

cc: Lynn Malcolm
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APPENDIX A

STATISTICAL SAMPLING AND PROJECTIONS FOR THE AUDIT OF FY 2005 INTERNATIONAL ACCOUNTING BRANCH

Purpose of the Sampling

One of the objectives of this audit was to determine if internal controls for recording inbound international mail were adequate at the J.T. Weeker (Chicago) ISC. In support of this objective, the audit team employed a stratified sample to review inbound mail supporting documents and billing information for four classes of inbound international mail. The sample design allows separate statistical projections of the number of errors for each of four mail types.

Definition of the Audit Universe

The audit universe consists of 18,614 inbound international mail records at the Chicago Records Unit for the period October 1, 2004, to February 28, 2005. These mail records were of four mail types:

- Letter class (CN31), 8,561 records
- Parcel Post (CP86), 2,155 records
- Express Mail (CN38 (code 33)), 7,784 records
- Coventry (upgraded) Parcels (CN38 (code 35)), 114 records

The Computer Assisted Assessment Team obtained the audit universe from the International Accounting Branch System database in Minneapolis.

Sample Design and Modifications

To ensure we could make separate projections for each mail type, we determined the sample sizes separately for each mail type.

For the letter class type and Parcel Post mail, we expected very low error rates (near 0 percent), based on results from the FY 2002 audit. We used a 5 percent tolerable error rate as recommended in the *Government Accountability Office Financial Audit Manual* for compliance testing in financial-related audits. We calculated sample sizes of 130 letter class records and 75 Parcel Post records to provide one-side confidence intervals with a 10 percent risk of overreliance (Beta Risk).¹³

¹³ Cumulative binomial distribution.

For mail in the Express Mail stratum, we expected a considerably higher error rate than that for the two mail types above, based on results from the same FY 2002 audit.

Assuming a 50 percent error rate, a desired 90 percent confidence level, and a desired precision of +/- 7percent, we calculated a sample size of 135 records for this mail type.

For Coventry (upgraded) Parcel mail records, we expected a moderate error rate based on prior audit results. We used systematic sampling because of the very low number of records for this mail type in the audit universe. With the skip interval at two, we selected a sample of 57 Coventry (upgraded) Parcel records.

Statistical Projections of the Sample Results

Based on the sample results, we summarized the projected results regarding the different mail types in the table below. Note that for the Parcel Post mail type, the observed error rate greatly exceeded that expected. The error rate is also larger than the tolerable rate for use of the binomial methodology. Therefore, we evaluated the sample results using the normal approximation method with a two-sided confidence interval.

| Mail Type | Audit Universe | Sample | Point Estimate (Projected Error Rate) | Error Limits (90 percent confidence level) |
|--|-----------------------|---------------|--|---|
| Letter Class (CN31) | 8,561 | 130 | 198 (2.31%) | Upper error limit = 341 (3.99%) |
| Express Mail (CN38 (code 33)) | 7,784 | 135 | 2,076 (26.67%) | 1,591 to 2,561 (20.44% to 32.90%) |
| Coventry (upgraded) Parcels (CN38 (code 35)) | 114 | 57 | 16 (14.04%) | 10 to 22 (8.64% to 19.43%) |
| Parcel Post (CP86) | 2,155 | 75 | 374 (17.33%) | 220 to 527 (10.22% to 24.44%) |

APPENDIX B

CY 2004 Austria and Germany Inbound Errors*

| Billing | Austria | Germany | Total | Billing | Austria | Germany | Total | Grand Total |
|------------------------|-------------------|---------------------|---------------------|------------------------|------------------|--------------------|--------------------|---------------------|
| Pieces | 956 | 17,306 | | Gross Weight | 119.6 | 893.4 | | |
| Parcel Post Rate | 4.00 | 4.00 | | Parcel Post Rate | 1.65 | 1.65 | | |
| SDRs*** | 3,824.00 | 69,224.00 | 73,048.00 | SDRs*** | 197.34 | 1,474.11 | 1,671.45 | 74,719.45 |
| SDR Conversion 9/12/05 | 1.47175 | 1.47175 | | SDR Conversion 9/12/05 | 1.47175 | 1.47175 | | |
| Dollars | \$5,627.97 | \$101,880.42 | \$107,508.39 | Dollars | \$ 290.44 | \$ 2,169.52 | \$ 2,459.96 | \$109,968.35 |

CY 2005 Germany Inbound Errors**

| Billing | | Germany | Total | Billing | | Germany | Total | Grand Total |
|------------------------|--|---------------------|---------------------|---------------------------|--|---------------------|---------------------|---------------------|
| Pieces (Difference) | | 7,167 | | Gross Weight (Difference) | | (2,596) | | |
| Parcel Post Rate | | 4.25 | | Parcel Post Rate | | 1.85 | | |
| SDRs*** | | 30,459.75 | 30,459.75 | SDRs*** | | (4,802.60) | (4,802.60) | 25,657.15 |
| SDR Conversion 9/12/05 | | 1.47175 | | SDR Conversion 9/12/05 | | 1.47175 | | |
| Dollars | | \$ 44,829.14 | \$ 44,829.14 | Dollars | | (\$7,068.23) | (\$7,068.23) | \$ 37,760.91 |

* As calculated by the St. Louis International Accounting Branch.

** Using differences after correction for inbound mail volumes from Frankfurt, Germany, for January through June 2005.

| | Pieces | Weight |
|---------------------|--------|---------|
| Prior to Correction | 2,785 | 46,184 |
| After Correction | 9,952 | 43,588 |
| Difference | 7,167 | (2,596) |

*** Special Drawing Rights monetary unit designed by International Monetary Fund and used by the Universal Postal Union.

APPENDIX C. MANAGEMENT'S COMMENTS



February 15, 2006

Darrell E. Benjamin, Jr.
Acting Deputy Assistant Inspector General
for Financial Operations

SUBJECT: Draft Audit Response- J. T. Weeker (Chicago) International Service
Center-Inbound International Mail (Report Number FT-AR-06-DRAFT)

Management at J.T. Weeker International/Military Service Center agrees with the overall findings and observations including the potential revenue of approximately \$147,729.00 that was mentioned in the audit.

Recommendation:

1. Reiterate the requirement to request missing source documents for Coventry (upgraded) Parcels.

RESPONSE:

Our requirement is to request all missing documents from all Foreign Postal Administrations. We have reassigned and trained new personnel in this functional job and reinforced the need to request missing document during training process. The training and reassignment was done in July, 2005, and the new clerk took over the total job in August, 2005.

Recommendation:

2. Implement a procedure to continuously monitor the reliability of inbound international mail volume data used to support billings to include manual and scanned data.

RESPONSE:

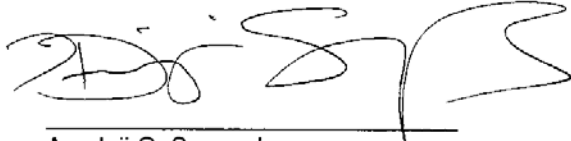
The IAMRU supervisor is now monitoring the input from the CN-31's on a monthly basis to insure that the information is being entered accurately. This was started in July, 2005. Current staffing level and available programs will not permit the

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verification of RVS versus CN-31. St. Louis was working on a program that will compare the RVS and CN-31 information and send an Exception Report to the ISC's. At that point we should be able to compare and investigate.

In summary, the J. T. Weeker ISC management is in agreement with the findings of this audit and that with the improved training and job reassignment, along with the monthly monitoring, the problems are corrected.

A handwritten signature in black ink, appearing to read 'A. Sanyaolu', written over a horizontal line.

Ayodeji O. Sanyaolu
A/Plant Manager

cc: Kim Stroud
Kelvin Mack
Mark Tovey
Willie Santiago
Judee Selesky