September 27, 2006

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MANAGING DIRECTOR, INTERNATIONAL NETWORK OPERATIONS

SUBJECT: Audit Report – Capping Report on the Efficiency of the International
Records Units Operations (Report Number NO-AR-06-008)

This report presents a summary of our work on International Records Units (IRUs)[1]
located in New York, New York; Los Angeles, California; San Francisco, California;
and Chicago, Illinois, International Service Centers (Project Number 05YG045NO000).
This report also identifies network-level inefficiencies that impact the overall IRU
environment. Our objectives were to summarize issues associated with IRU operations
and identify opportunities to improve operations. This is our fifth and final report in this
area of IRUs.

Background

When the Postal Service established the International Service Center (ISC) network
in 1996, it absorbed the operations of the IRUs, which were part of the international
exchange offices[2] before the creation of the ISC network. International Network
Operations has functional responsibility for IRUs nationwide. IRUs have approximately
90 dedicated full-time employees located in Honolulu, Hawaii; Seattle, Washington;
Los Angeles, California; Oakland, California; San Francisco, California; Chicago, Illinois;
Dallas, Texas; New York, New York; Jersey City, New Jersey; Miami, Florida; and
San Juan, Puerto Rico.

The IRU function is an important part of Postal Service operations. IRUs handle
international mail records for international exchange offices, and make adjustments on
payments and billings for international transportation providers. The information

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[1] IRUs were formerly referred to as Airmail Records Units.
[2] An international exchange office is a post office, airport mail center, or facility authorized to exchange international
mail and military mail, both air and surface, with another country.

generated by these actions can be used to identify, correct, and help manage the transportation budget and settle payments of terminal dues.[3]

These units also communicate with foreign postal administrations on mailing matters through Verification Notes (VNs)[4] and reconcile and maintain international mail records. IRUs input inbound letter class and Parcel Post® mail volumes into a web-based application and adjust volumes based on the VNs received. The International Accounting Branch in St. Louis, Missouri, uses these volumes to bill foreign postal administrations and to support international revenue and receivables.

The following is an example of a typical paper transaction at an IRU:

- A parcel addressed to Bamako, Maili from the U.S. is mistakenly sent to South Africa.

- The South Africa Post Office forwards the parcel to the correct destination, where the clerk documents this action on a VN and mails the VN to the applicable U.S. Postal Service IRU.

- The U.S. Postal Service IRU clerk receives the VN from the South Africa Post Office indicating that the parcel addressed for Bamako, Maili was mistakenly sent to them.

- The IRU clerk then adjusts the record to pay the South Africa Post Office for forwarding the mail, documents this action on the VN, and mails the VN back to the South Africa Post Office for their records.

Objectives, Scope, and Methodology

Our objectives were to summarize issues associated with IRU operations and identify opportunities to improve operations.

We conducted four individual audits at the New York, Los Angeles, San Francisco, and Chicago IRUs[5] during calendar years 2004 and 2005. Individual reports were issued for each site. Postal Service district managers at each of the units generally agreed with our findings and are taking corrective actions on our recommendations. (See Appendix A for prior audit coverage and a summary of cost avoidance.) We also identified issues found at all four sites, which we believe to be systemic.

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[3] Terminal dues: When foreign posts dispatch mail to the U.S., they pay the Postal Service a portion of the costs to sort, transport, and deliver that mail to its final U.S. address.
[4] Postal administrations use VNs, formerly known as Bulletins of Verification, to communicate irregularities in the preparation, dispatch, and receipt of international mail.
[5] The ISCs at these four locations handled approximately 88 percent of the international mail processed by the Postal Service in fiscal year (FY) 2005.

To assess the efficiency of the individual IRUs, we observed operations at the units; analyzed volumes of records processed and associated workhours; and evaluated employee efficiency. We contacted all IRUs to verify that they were processing the same types of hard copy records and employing the same manual methods as the individual IRUs reviewed. We also reviewed applicable Postal Service handbooks and regulations, including Handbook F-59, *International Exchange Office Procedures*, June 1992; *Standard Operating Procedures*, January 1995; and Handbook T-5, *International Mail Operations*, May 2006.

We interviewed management from the International Accounting Branch, International Network Operations, International Postal Affairs, Integrated Business Systems Solutions Center, International Business Operations, and Network Operations Development concerning the systemic issues identified during individual audits.

We reviewed Universal Postal Union (UPU)[6] standards to gain an understanding of the international mailing community and methods of communications. We reviewed the data systems used in IRUs, the proposed International Systems Migration project,[7] and the Document Portal. We also analyzed various IRU operational functions and procedures.

We conducted these audits from September 2005 through September 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.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) has issued four audit reports related to our objective. These reports identified opportunities to improve the efficiency of individual IRUs. (See Appendix A for prior audit coverage and a summary of cost avoidance.)

Results

Network-Level Inefficiencies

IRUs across the country operated in an antiquated, inefficient, and manual work environment.[8] Based on our audits, we estimated there were at least 2 million hard

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[6] The UPU is a specialized institution of the United Nations that regulates the universal postal service. UPU sets the rules for international mail, which are then voted on by member countries. It has 190 member countries, of which the U.S. Postal Service is a member.

[7] The International Systems Migration project will move current international systems into existing domestic systems and create systems to support international functions when there is no domestic counterpart.

[8] The IRUs continue to collect and use paper records to handle international mail matters as they did in the 1950s.

copy paper records stored at the four IRUs we reviewed. We found the work functions performed at IRUs were mostly manual and paper-based, as illustrated in the table below.

IRU Work Functions

Procedure	Method: Automated/Manual	Source of Data: Paper/Electronic
1. Count/Sort	Manual	Paper
2. Input Data	Automated	Paper
3. Research/Retrieval	Both	Both
4. Communication	Manual	Paper
5. Filing	Manual	Paper
6. Weekly Reporting	Manual	Paper

For example, our review found that IRU employees manually count, sort, and file international records.[9] They perform data entry on letter and parcel bills, communicate with foreign postal administrations via paper VNs, and research discrepancies on multiple Postal Service data systems. (See Appendix B for a list of Postal Service data systems used by IRUs.) Unit productivity was recorded manually by the individual units and reported to headquarters. The following photographs show examples of IRUs' manual and paper-based work environment.

San Francisco IRU Workstation

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[9] IRUs maintain inbound Express Mail® manifests, letter and parcel bills, and outbound VNs for letters, parcels, and Express Mail.

Chicago IRU Hard-Copy Filing System

Chicago IRU Workstation

Inefficiencies at Individual IRUs

We found that each of the four IRUs processed fewer records than targeted productivity rates; misaligned workhours with workload; and performed extra work by processing VNs for missent mail. The Postal Service addressed the recommendations we made in individual reports and took actions to improve the efficiency of the individual IRUs. (See Appendix A for more details of these projects.)

According to the *Strategic Transformation Plan, 2006 - 2010,* the Postal Service plans to standardize and improve processes in support areas to provide greater quality performance. This will include optimizing information technology to allow for future system integrations, dedicating teams to identify major process improvements, and evaluating opportunities for centralizing services or outsourcing activities that can be performed more efficiently and at a lower cost by others.

The IRU operational inefficiencies occurred for several reasons. Mainly, IRU operations had not received adequate management attention and funding. For example, we found that IRUs did not:

- Employ a full-time IRU coordinator.
- Conduct periodic evaluations of operations.
- Update policies, processes, and procedures.
- Use electronically transmitted data with all participating countries.
- Develop an integrated data system to streamline and automate the manual work processes.
- Centralize operations.

We believe the IRUs have not received adequate attention because the units are not a core Postal Service function. The Postal Service's efforts to improve efficiencies by using electronic data have also been hampered because the UPU does not require the use of electronic data. Additionally, some countries do not want to invest in or use the same technology while other countries want hard copy records. However, 23 countries (which process approximately 77 percent of the world's mail) already electronically exchange dispatch information.[10] IRUs could take advantage of the opportunity to significantly reduce paperwork with these participating countries.

Despite these barriers, the Postal Service has taken initiatives that will benefit international mail operations, thereby improving the efficiency of the IRUs. For example:

- The Postal Service submitted a resolution at the 2004 UPU Congress for a comprehensive review of UPU operational and accounting procedures to transition from paper-based documentation to paperless. In addition to working through the UPU, the Postal Service has entered into bilateral agreements with some foreign postal administrations to go paperless.

- In January 2006, Information Technology and International Network Operations implemented the Document Portal, a web-based document retrieval application. Foreign postal administrations will now be able to electronically retrieve documents instead of requesting the documents from the IRUs via the VN process.

- In FY 2005, Network Operations Management began an International Systems Migration project. One component of this project is the International Reconciliation System (IRS) that is being developed for the IRUs. The IRS will interface with other Postal Service systems and receive electronic information from foreign postal administrations and transportation providers. The IRS will replace some functions currently performed by IRUs and provide an integrated data system. However, funding for the integration of international systems has been cut for FY 2007.

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[10] Dispatch information includes origin, destination, number, and weight of items as well as other information specific to the mailing.

While these initiatives should have a positive impact on the efficiency of the IRUs, overall operations continue to be inefficient. As a result, IRUs have incurred more workhours than necessary to accomplish their mission.

Recommendations

We recommend the Managing Director, International Network Operations:

1. Detail an International Records Unit coordinator (for a period not to exceed 2 years) to oversee and evaluate International Records Unit operations.

2. Examine and reengineer International Records Unit work processes, use electronically transmitted data with participating countries, and update policies and procedures accordingly.

3. Fund and complete the International Systems Migration project.

4. Evaluate opportunities for consolidating and outsourcing the International Records Units.

Management's Comments

Management generally agreed with our recommendations. Management agreed to detail an IRU coordinator contingent on organizational approval and funding. Further, management agreed to pursue recommendations 2 and 4, if the IRU coordinator position was established. Finally, management stated they support the International Systems Migration project and while funding is not currently available, they plan to continue supporting the automation efforts. Management's comments, in their entirety, are included in Appendix C.

Evaluation of Management's Comments

Management's comments are responsive to our recommendations. While funding for the IRU coordinator is not currently available, we believe this is critical to the modernization of the IRU operations. Consequently, management should continue to actively pursue establishing this position. We consider the actions taken or planned sufficient to address the issues we identified in the report.

Throughout these audits of IRUs, we appreciated the cooperation of all levels of Postal Service management. If you have any questions or need additional information, please contact Robert J. Batta, Director, Network Operations - Processing, or me at (703) 248-2300.

E-Signed by Colleen McAntee
ERIFY authenticity with Approvel
C. McAntee
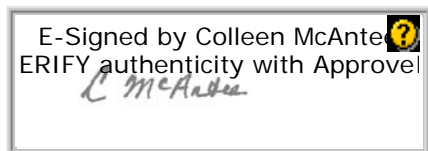
Colleen A. McAntee
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Attachments

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APPENDIX A

PRIOR AUDIT COVERAGE AND SUMMARY OF COST AVOIDANCE

Efficiency of the Airmail Records Unit at the New York International Service Center (Report Number NO-AR-04-011, dated September 24, 2004). We recommended the Postal Service reduce workhours by 30,000 to improve the efficiency of operations, and consider possible outsourcing. The Postal Service agreed with our recommendations.

Efficiency of the Airmail Records Unit at the Los Angeles International Service Center (Report Number NO-AR-05-010, dated April 28, 2005); *Efficiency of the Airmail Records Unit at the San Francisco International Service Center* (Report Number NO-AR-05-012, dated September 6, 2005); and *Efficiency of the Chicago Airmail Records Unit at the J.T. Weeker International Service Center* (Report Number NO-AR-06-002, dated December 22, 2005). In these three reports, we recommended the Postal Service reduce workhours as shown in the following table to improve efficiency, periodically evaluate operations, and train plant operations personnel in proper mail sorting. The Postal Service agreed with our recommendations.

Summary of Cost Avoidance

Report Number	Date Issued	Location	Workhour Reductions	Projected 10-Year Cost Avoidance from Recommended Workhour Reductions
NO-AR-04-011	9/24/04	New York, NY, ISC	30,000	$9,248,967
NO-AR-05-010	4/28/05	Los Angeles, CA, ISC	5,450	1,847,858
NO-AR-05-012	9/06/05	San Francisco, CA, ISC	7,757	2,563,277
NO-AR-06-002	12/22/05	Chicago, IL, J.T. Weeker ISC	3,860	1,121,794
Totals			**47,067**	**$14,781,896**

APPENDIX B

SYSTEMS AND APPLICATIONS USED BY INTERNATIONAL RECORDS UNITS

IRUs used the following systems and applications to perform their duties:

The International Accounting Branch Settlement Management System – Web application used for Letter Class, Express Mail and Parcel Post for international accounts settlements.

Customer Information Control System – System used for outbound Parcel Post adjustments. This system manually feeds into the Settlement Management System.

Military and International Dispatch and Accountability System (MIDAS) – A mail dispatching and mail receiving system that propagates and collects all the necessary information to make adequate settlements with foreign postal administrations and with air carriers for carrying Postal Service mail. In addition, it provides foreign postal administrations with the documentation necessary to make payments to the Postal Service. MIDAS prepares and collects this information through various technologies directly in plant operations where the mail is processed to leave the country or where mail is accepted from a foreign country.

Surface Air Support System – International pay online application used for payments and adjustments of international transportation providers.

APPENDIX C. MANAGEMENT'S COMMENTS

INTERNATIONAL NETWORK OPERATIONS

UNITED STATES
POSTAL SERVICE

September 19, 2006

KIM H. STROUD
DIRECTOR, AUDIT REPORTING

SUBJECT: Draft Audit Report – Capping Report on the Efficiency of the International
Records Units Operations (Report Number NO-AR-06-DRAFT)

This is the International Network Operations response to the Draft Audit Report – Capping Report
on the efficiency of the International Records Units Operations dated September 8.

Recommendation Number 1: "Detail an International Records Unit coordinator (for a period not
to exceed 2 years) to oversee and evaluate International Records Unit operations."

Response: We concur with this recommendation in principal. As indicated in the report, this
position would be responsible for oversight of the records unit function in the current structure,
while identifying alternative methods in terms of consolidation and/or outsourcing of the activity.
However, establishment of this position will be contingent upon organizational approval and
funding of the position. Currently, funding is not available.

Recommendation Number 2: "Examine and reengineer International Records Unit work
processes, use electronically transmitted data with participating countries, and update policies and
procedures accordingly."

Response: We concur with this recommendation. This will be pursued given approval and
funding of the position identified in recommendation number 1.

Recommendation Number 3: "Fund and complete the International Systems Migration project."

Response: We concur with this recommendation. International Network Operations supports this
activity and will continue to support funding of the International Systems Migration project. While
we agree that the project should be completed, departmental decisions were made to cut the
funding of this project in the upcoming fiscal year based on prioritization of all IT requirements in
the context of the overall cuts required by the Chief Financial Officer and Executive Committee of
the Postal Service. However, we will continue to support programs and initiatives to automate the
International Records Unit processes.

Recommendation Number 4: "Evaluate opportunities for consolidating and outsourcing the
International Records Units."

Response: We concur fully with this recommendation and will actively pursue it given approval
and funding of the position identified in recommendation number 1.

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Managing Director

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