



Office of Inspector General | United States Postal Service

## Audit Report

# Export Controls for Outbound Mail at International Service Centers

Report Number FT-AR-18-009 | September 28, 2018



# Table of Contents

Cover	
Highlights.....	1
Objective.....	1
What the OIG Found .....	1
What the OIG Recommended.....	2
Transmittal Letter .....	3
Results.....	4
Introduction/Objective.....	4
Background .....	4
Finding #1: Strategic Focus.....	5
Recommendation #1.....	6
Recommendation #2.....	6
Finding #2: Regulations.....	7
██████████.....	7
Licensable Goods.....	7
Recommendation #3.....	8
Recommendation #4.....	8
Finding #3: Export Control Screening Decisions .....	8
Decisions .....	8
Decision Documentation and Maintenance.....	9
Recommendation #5.....	9
Management’s Comments .....	9
Evaluation of Management’s Comments.....	11
Appendices .....	12
Appendix A: Additional Information .....	13
Scope and Methodology.....	13
Prior Audit Coverage .....	14
Appendix B: Management’s Comments .....	15
Contact Information .....	25

# Highlights

## Objective

In response to the Postal Accountability and Enhancement Act of 2006, the U.S. Postal Service designed a program to detect mailers who were not following U.S. Government export laws and regulations. The U.S. Postal Service monitors outbound international mailpieces to ensure compliance with U.S. Government export laws and regulations. Postal Service International Service Centers (ISC) distribute and dispatch international mail to foreign countries. To assist in the enforcement of the export laws and regulations, the Postal Service and U.S. Postal Inspection Service use electronically generated customs declaration information to identify potential violations and determine whether a mailpiece should be entered into the mailstream or returned to sender.

---

***“The Postal Service monitors outbound international mailpieces to ensure compliance with U.S. Government export laws and regulations.”***

---

Our objective was to determine whether the export controls monitoring program mailpiece screening controls at the ISCs were adequate, effective, and followed to ensure international mailpieces mailed and destined for foreign countries are compliant with applicable regulations.

## What the OIG Found

The Postal Service’s Export Controls Monitoring Program mailpiece screening controls at the ISCs were not always adequate, effective, or followed to ensure international mailpieces destined for foreign countries were compliant with applicable regulations. We found:

- The Postal Service, for its Export Controls Program, lacks overall strategic focus. This occurred because although the Postal Service’s Export Controls Program has teams in place to manage the operational phases of the program, there is no centralized program ownership or oversight. This also

occurred because management did not adequately plan, assess, and monitor the program as a whole. Specifically, management did not:

- Have a formal strategic plan or current risk assessment for the program.
- Conduct a cost-benefit analysis on the overall program.
- Have a documented process for proactively monitoring emerging issues, or analyze export compliance data.

As a result, the Postal Service is at increased risk of non-compliance with export regulations.

The Committee of Sponsoring Organizations states organizational structure and reporting lines are necessary to carry out oversight responsibilities. Reporting lines and communication channels must be clear to enable accountability over operating units and functional areas. Further, although the aggregation of risks along one dimension may indicate no issues, the view along a different dimension may show other vulnerabilities. Ownership enables multidimensional review and analysis.

- The Postal Service’s Export Controls Program screening procedures did not address all the requirements of the *Export Administration Regulations*. Specifically, we found 88 instances between October 2017 and May 2018 where two or more mailpieces were

[REDACTED]

We also found analysts did not always make appropriate decisions based on the information provided when determining whether to pass mailpieces into the mailstream. In 12 of 172 randomly selected electronic decisions from April 8 through May 22, 2018, we reviewed, analysts passed mailpieces to enter the mailstream when they should have placed them in pending status for further review. Specifically:

- Analysts passed five mailpieces when [REDACTED]

- Analysts passed seven mailpieces to enter the mailstream when [REDACTED]

Finally, analysts did not always adequately document decisions for passing the mailpiece or maintain decision comments. Specifically:

- Analysts did not document reasons why mailpieces did not violate export control requirements in 29 of 172 electronic screened decisions reviewed. For example, [REDACTED]
- Analysts did not maintain electronic screening comments in the mailpiece record for 26 of 34 randomly selected physical screened decisions from April 8 through May 22, 2018, we reviewed.
- Analysts used acronyms to document comments made in the mailpiece record but they were not standard across all ISCs.

These issues occurred because the standard operating procedures were not specific or did not clearly address these items.

Compliance with export regulations decreases the risk that individuals will use the mail to carry out acts that violate federal law or are not in the best interests of the U.S. or its citizens.

## What the OIG Recommended

We recommended management:

1. Reestablish centralized ownership and oversight of the Export Controls Program to make decisions for the program.
2. Incorporate strategic activities into the Export Controls Program, including:
  - Developing an overall strategic plan and a written risk assessment process.
  - Conducting regular cost-benefit analyses to assess the program's effectiveness and value.
  - Proactively monitoring emerging issues and analyzing export compliance data collected from electronic and physical screenings.
3. Revise the Export Compliance System to ensure mailpieces sent [REDACTED] are properly screened.
4. Develop and implement policies and procedures to screen mailpiece content for mailpieces sent to all countries.
5. Update standard operating procedures to address the following:
  - Analyzing and reviewing [REDACTED]
  - Documenting reasons for passing mailpieces.
  - Maintaining all decision comments.
  - Using acronyms in screening comments.

# Transmittal Letter

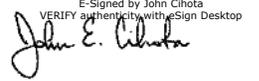


OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

September 28, 2018

**MEMORANDUM FOR:** DAVID E. WILLIAMS  
CHIEF OPERATING OFFICER AND EXECUTIVE VICE  
PRESIDENT

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop



**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance and Pricing

**SUBJECT:** Audit Report –Export Controls for Outbound Mail at  
International Service Centers(Report Number FT-AR-18-009)

This report presents the results of our audit of the Postal Service Export Controls for Outbound Mail at International Service Centers (Project Number 18BG008FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Export Controls Program (Project Number 18BG008FT000). Our objective was to determine whether the export controls monitoring program mailpiece screening controls at the International Service Centers (ISC)<sup>1</sup> were adequate, effective, and followed to ensure international mailpieces destined for foreign countries are compliant with applicable regulations. See [Appendix A](#) for additional information about this audit.

## Background

The Postal Accountability and Enhancement Act of 2006 (PAEA) applies the same U.S. customs and other export laws to competitive international Postal Service products that apply to similar shipments by private U.S.-based carriers. U.S. Government export control laws help protect our country by keeping certain goods and technologies out of the hands of countries of concern, terrorists, and others who would use them against the U.S. and its territories.

*“The U.S. Government export control laws help protect our country by keeping certain goods and technologies out of the hands of countries of concern, terrorists, and others who would use them against the U.S. and its territories.”*

The Postal Service's export compliance security and screening process for inspecting international outbound mailpieces and complying with export laws consists of the following phases:

<sup>1</sup> ISCs distribute and dispatch international mail received from a designated service area to specific foreign countries. There are five ISCs: New York, Miami, Chicago, Los Angeles, and San Francisco.  
<sup>2</sup> Customs form provides mailer and recipient name and address, content description, value, internal transaction number and export license number.



- **Induction phase.** Mailpieces enter the mail stream. Induction can occur at a home, business, collection bin, postal retail unit, or business mail entry unit. Customers provide information about the mailpiece on a customs form.<sup>2</sup>
- **Data Screening phase.** Automated review of the electronic mailpiece record used to determine if mailpieces meet federal export regulations.
- **Gateway phase.** Acceptance and dispatch after the induction point where mailpieces are processed or scanned on screening-equipped automated equipment.
- **Review phase.** Mailpieces with an export compliance hold are reviewed.

The U.S. Postal Service Inspection Service (Inspection Service) is responsible for the review phase at each of the five ISCs. Contracted investigative security analysts (analysts) at each of the ISCs perform the following screening procedures:

- **Electronic screening.** Analysts screen and evaluate the electronic mailpiece record<sup>3</sup> prior to its arrival at the ISC and either allow the mailpiece to continue through the mailstream or pend it to be physically evaluated once it arrives at the ISC.
- **Physical screening.** Analysts physically evaluate the mailpiece after it arrives at the ISC and either allow it to continue into the mailstream or return it to sender because of an export compliance violation.

Table 1 shows the mailpiece screening results from October 2017 through May 2018.

### Table 1. Mailpiece Screening Results

Source: Export Compliance System<sup>5</sup> Reports, October 2017 – May 2018.

<sup>3</sup> Mailpiece record includes sender and recipient name and address; potential violation information; and content detail to include weight, value and items declared.  
<sup>4</sup> Includes mailpieces that have been pended for physical review but have not been received at the ISC.  
<sup>5</sup> The Export Compliance System is an application used to receive and screen outbound international mail customs data for violations of federal export regulations.  
<sup>6</sup> *Overview of U.S. Postal Service Export Controls Monitoring Program* (Report Number FT-MA-13-017, dated July 25, 2013).

### Finding #1: Strategic Focus

The Postal Service lacks overall strategic focus for its Export Controls Program. This occurred because although the Postal Service's Export Controls Program has teams that manage the operational phases of the program, the Postal Service did not have centralized program ownership or oversight. This also occurred because management did not adequately plan, assess, and monitor the program as a whole.

The Export Controls Program structure is decentralized, with Global Trade Compliance (GTC) responsible for the first three phases of the program and the Inspection Service responsible for the fourth phase. Furthermore, although the Inspection Service is responsible for the review phase of the export program, it has limited control over the screening filters, such as [REDACTED], that are incorporated into the Export Compliance System. GTC oversees the Export Compliance System and funding for system changes. The Postal Service's Law Department provides guidance regarding export control laws and regulations.

Additionally, the Postal Service did not adequately plan, monitor, and assess the program, including:

- Management did not have a formal strategic plan to stay informed of other government programs and emerging issues related to export controls and share valuable information with other law enforcement agencies. Although the Inspection Service participates in monthly meetings with other federal law enforcement agencies, internal communication may not be sufficient to ensure timely implementation of changes in regulations. Further, other GTC priorities may take precedence over the export control review process.
- The Postal Service's Export Controls Program did not have a current risk assessment. In response to a prior report,<sup>6</sup> management stated they were developing a risk assessment process that defined various levels of export compliance risk and planned to complete a written risk assessment

plan that would identify the assessment process and responsibilities by September 30, 2013. We were not able to obtain the risk assessment plan, and management stated they were not aware of a current risk assessment. Management stated there is an ongoing practice of risk assessment built into every decision. U.S. Department of Commerce Bureau of Industry and Security (BIS)<sup>7</sup> guidelines<sup>8</sup> state risks in export compliance are threats that can negatively affect an organization's reputation and export business. A risk assessment can identify preventable risks and build safeguards to control the risks. A sound export controls program performs continuous risk assessments to assist in identifying vulnerabilities and mitigate export control violations.

- Management did not conduct a cost-benefit analysis on the overall program. A cost-benefit analysis would allow management to analyze or assess the Export Controls Program's overall effectiveness and value.
- Management did not have a documented process to proactively monitor emerging issues and did not analyze export compliance data collected from electronic and physical screenings. Centralized program ownership could help management plan for and implement changes to address emerging trends. It could also help the Postal Service determine its level of compliance with export regulations, identify patterns, draw conclusions, and allow better, more effective strategic business decisions to enhance the export controls program.

The Committee of Sponsoring Organizations of the Treadway Commission Internal Control Integrated Framework, 2015 (COSO) states organizational structure and reporting lines are necessary to carry out oversight responsibilities. Lines of reporting enable execution of authorities and responsibilities, and flow of information to manage activities. In addition, reporting lines and communication channels must be clear to enable accountability over operating units and functional areas. Further, although the aggregation of risks along one dimension may indicate no issues, the view along a different dimension may show other vulnerabilities. Ownership enables multidimensional review and analysis.

Lower levels of management have specific ground-level information that can enhance operational performance. However, centralized ownership and oversight would provide a better perspective of the program, with clear lines of

communication of the Postal Service's vision, to help guide employees towards achievement of the export controls program. Multiple individuals having different opinions on a particular business decision can struggle in a decentralized program. Centralized ownership and oversight of the program would provide strategic focus and help improve the overall quality of the program. As a result, the risk of export compliance violations decreases.

During program implementation, an Export Monitoring Steering committee made program decisions, but it was discontinued once the functions transitioned to GTC and the Inspection Service teams. Currently, GTC, Inspection Service, and the Law Department hold monthly meetings to discuss matters of cross-functional interest that arise and are in frequent contact to coordinate activities, share information, and make decisions. Any decisions that are considered to pose a greater than routine level of risk may be elevated to higher levels of management in Operations, Inspection Service, or the Law Department.

#### **Recommendation #1**

**We recommend the Chief Operating Officer, in coordination with the Chief Postal Inspector and the General Counsel,** reestablish ownership or oversight of the Export Controls Program to make decisions for the program.

#### **Recommendation #2**

**We recommend the Chief Operating Officer, in coordination with the Chief Postal Inspector and the General Counsel,** incorporate strategic activities into the Export Controls Program, including (a) developing an overall strategic plan and a written risk assessment process, (b) conducting regular cost-benefit analyses to assess effectiveness and value, and (c) proactively monitoring emerging issues and analyzing export compliance data collected from electronic and physical screenings.

<sup>7</sup> One of the leading agencies responsible for the development, implementation, and interpretation of U.S. export control policy.

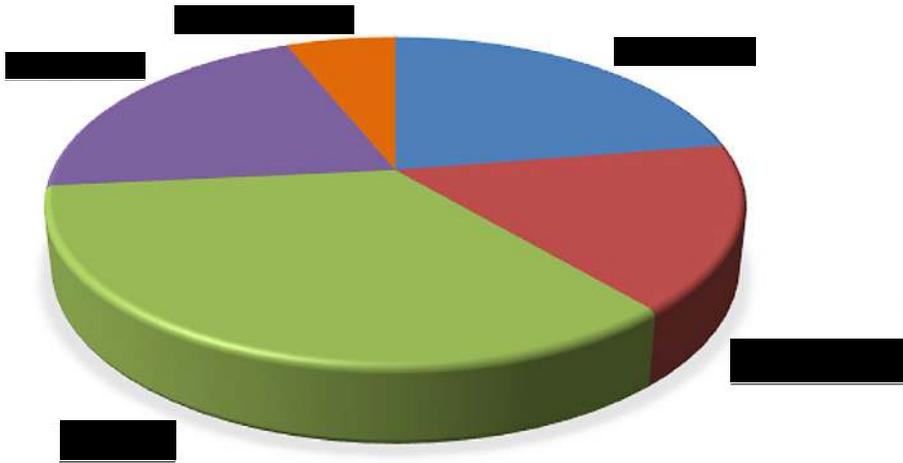
<sup>8</sup> U.S. Department of Commerce, Bureau of Industry and Security, Export Compliance Guidelines, *The Elements of an Effective Compliance Program*, dated January 2017.

### Finding #2: Regulations

Postal Service’s Export Controls Program screening procedures did not address all the requirements of the Export Administration Regulations (EAR).<sup>9</sup> Specifically, analysts did not always adequately screen mailpieces sent [REDACTED]

Analysts did not screen mailpieces sent [REDACTED]. We found 88 instances from October 2017 through May 2018<sup>10</sup> where [REDACTED] as shown in Figure 1.

Figure 1. [REDACTED] by ISC October 2017 through May 2018



Source: U.S. Postal Service Office of Inspector General (OIG) analysis of mailpieces passed.

<sup>9</sup> 15 CFR §740.12(B)(iii) and §738.

<sup>10</sup> [REDACTED]

<sup>11</sup> United States Postal Inspection Service *Export Screening Standard Operating Procedures* dated March 29, 2018.

<sup>12</sup> [REDACTED]

<sup>16</sup> U.S. Postal Service *Export Controls Monitoring Program – Phase II* (Report Number FT-MA-12-003, dated September 14, 2012).

Regulations state, [REDACTED]. The Postal Service’s standard operating procedures (SOP)<sup>11</sup> incorporated this regulation. However, the Postal Service’s Export Compliance System did not screen for multiple mailpieces [REDACTED]. We observed some analysts [REDACTED]. Management was aware of this issue but have not implemented program changes due to other priorities and funding concerns.

Analysts did not always screen mailpiece content [REDACTED]

Compliance with export regulations decreases the risk that individuals will use the mail to carry out acts that violate federal law or are not in the best interests of the U.S. or its citizens. For example, [REDACTED] Exporting such items is tightly controlled by the U.S. Failure to follow export regulations could lead to civil and criminal penalties.

**Recommendation #3**

We recommend the Executive Director, International Operations, in coordination with the Global Trade Compliance Office, revise the Export Compliance System to ensure [REDACTED]

**Recommendation #4**

We recommend the Executive Director, International Operations, develop and implement policies and procedures to screen [REDACTED]

**Finding #3: Export Control Screening Decisions**

When determining whether to pass mailpieces into the mailstream, analysts did not always make appropriate decisions based on the information provided, adequately document decisions, or maintain decision comments. These issues occurred because the SOPs were not specific or did not clearly address the items. Not documenting and maintaining complete record history reduces the ability to fully understand analysts' decisions. These issues also place the Postal Service at risk of BIS pursuing sanctions against it, including civil or criminal penalties for violating export regulations.

**Decisions**

We randomly selected 172 electronic and 34 physical screened decisions from April 8 through May 22, 2018. In 12 of the 172 (7.0 percent) electronic decisions reviewed, analysts passed mailpieces when they should have placed them in pending status for further review. Specifically:

- Analysts passed five mailpieces when [REDACTED]

Exhibit 1. [REDACTED]

Example 1 – [REDACTED]

Event History



Example 2 – [REDACTED]

Event History



- Analysts passed seven mailpieces when [REDACTED]

### Decision Documentation and Maintenance

We also found analysts did not always adequately document decisions for passing the mailpiece or maintain decision comments. Specifically:

- Analysts did not document reasons for passing the mailpiece in 29 of 172 (16.9 percent) electronic screened decisions reviewed. For example, analysts passed mailpieces with [REDACTED]. However, as required by policy, during electronic screening for [REDACTED]. In these cases, the analysts should have also documented that [REDACTED].
- Analysts used acronyms in the mailpiece record during the electronic and physical screening. For example, analysts used “ndcd” (non-descriptive content description), “cog” (category of goods), “fnr” (full name required), and “nvd” (no value declared) when documenting decisions. Since these acronyms are not used consistently across all ISCs, other Inspection Service personnel and individuals from other government agencies may not be able to determine the meaning of the acronym. During the site visit to one ISC,<sup>19</sup> management decided analysts would no longer use acronyms to document decisions. Effective August 25, 2018, because of our audit, management developed a list of approved acronyms for use during electronic and physical screening and agreed to provide instructions to all analysts.

17 [REDACTED]

<sup>18</sup> Parties who are barred by the International Traffic in Arms Regulations (ITAR) from participating directly or indirectly in the export of defense articles.

<sup>19</sup> [REDACTED] ISC.

- Analysts did not maintain electronic screening comments for 26 of 34 (58.8 percent) physical screened decisions in the mailpiece record. Analysts entered comments as part of the electronic screening process to document decisions why mailpieces were pended. During physical screening, analysts removed these comments. EAR states records required to be retained include memoranda and notes. Effective August 25, 2018, because of our audit, management agreed to instruct analysts not to delete comments made by any other analysts.

#### Recommendation #5

**We recommend the Executive Director, International Operations, in coordination with the Postal Inspector In Charge, Security and Crime Prevention,** update standard operating procedures for (a) [REDACTED], (b) documenting reasons for passing mailpieces, (c) maintaining all screening comments, and (d) using acronyms in screening comments.

### Management's Comments

Management agreed with recommendations 1 and 3, partially agreed with recommendation 5, and disagreed with recommendations 2 and 4. Management noted that, except for gift parcels to Cuba, the audit offered only speculation about the possibility of undetected violations, not evidence of actual ones, and did not provide evidence of a problem justifying realignment of law enforcement resources.

Management stated that the organizational structure of the Postal Service's export screening program suggested by the report's addressee and recommendations does not reflect its actual structure, and that understanding affects much of the report's tone. Specifically, the report and recommendations are addressed to the Chief Operating Officer or his subordinates, with the Law Department and the Inspection Service relegated only to a coordinating role.

Management stated that the screening program exists to fulfill the Inspection Service's law enforcement responsibilities. Screening of outbound international mail is a law enforcement function exercised by the Inspection Service, and Operations supports that work by ensuring that data and mailpieces are correctly directed to the Inspection Service. Similarly, the Law Department supports both groups with legal analysis and advice. In addition, management stated recommendations 3, 4, and 5 implicate decisions and activities for which the Inspection Service is solely or primarily responsible, and Operations plays no role in those functions. Further, management believes the report should portray the screening program as an investigative program conducted by a federal law enforcement agency rather than a liability-mitigation strategy by a regulated entity.

Management also stated the Inspection Service has weighed the likelihood of detecting mailpieces that violate export control laws against its resource constraints and policy objectives, and accordingly has made a judgment as to the types of violations to target. The Inspection Service has exercised its law enforcement discretion to focus the export screening program primarily on certain export control violations and not others, as well as to focus the program on export control violations and not on mailability violations in general.

Regarding recommendation 1, management did not share the view that the situation should be framed as requiring "reestablishment of ownership or oversight." Management stated the export controls program is currently being performed by business units supervised by the named officers and so their "ownership" has been continuous. However, they agreed with the spirit of the recommendation and stated the Chief Postal Inspector will establish regular oversight meetings, at least semiannually, to include the Chief Operating Officer and General Counsel, at which responsible personnel can inform the named executives about the state of the program and any emerging issues and can seek their input on pending decisions.

Further, management disagreed with recommendation 2, noting the report was unclear about the necessity of an overall strategic plan and written risk assessment process and that a cost-benefit analysis cannot be done in any meaningful way. However, management stated they are committed to engaging senior management directly on the program's strategic development

and risk assessment which will include written briefings, presentations, meeting documents, and/or meeting notes about responsibilities for program management, strategic development, and risk assessment. Management stated this commitment should address the concern underlying this recommendation. Management plans to implement recommendations 1 and 2 at these meetings by March 31, 2019.

Management agreed with recommendation 3 and will implement the necessary changes to screening software and the Inspection Service's screening SOP. Management plans to implement this change by September 30, 2019.

Management disagreed with recommendation 4 and, therefore, provided no corrective actions. Management stated it would be inefficient, uneconomical, and ineffective for the Inspection Service to attempt to scale up a comprehensive commodity-controls screening program. They also stated decisions about the scope of the export screening program are fundamentally a matter of the Inspection Service's inherent discretion to prioritize resources according to the likelihood of detecting and preventing violations of federal law. They added that commodity-based export controls are generally not well suited for a mail screening program because they involve complex decisions and eligibility criteria that varies by country, and commodity descriptions are typically highly technical. Further, expanding commodity-controls screening into a routine affair, with thousands of mailpieces being evaluated every day would require a tremendous diversion of resources. Finally, management noted that BIS confirmed the Inspection Service's prioritization is in line with BIS's expectations.

Management agreed with most of recommendation 5 and will update SOPs to incorporate existing job aids and instructions that address the findings with respect to name matches, documentation of relevant reasons for passing mailpieces, and use of acronyms in screening comments. Management plans to update the SOPs by December 31, 2018.

Management disagreed with the implication that the Inspection Service should use the export screening program to review the mailability of every flagged mailpiece's contents. Management also questioned the finding that faults screeners for failing to review contents for ITAR requirements after determining

that a given mailpiece did not involve someone barred under the ITAR. Management stated that the SOP only requires an ITAR review if there is a “true hit.” Management reiterated it focuses on preventing unlicensed shipments to or from blocked persons.

See [Appendix B](#) for management’s comments in their entirety.

### Evaluation of Management’s Comments

The OIG considers management’s comments partially responsive to the recommendations in the report. Corrective actions for recommendations 1, 2, 3, and 5 should address the issues identified in the report.

Throughout the report, management refers to the export screening controls program as a law enforcement function exercised by the Inspection Service, with Operations and the Law Department supporting that work. We agree. However, the overall export controls program consists of four phases, starting with actions and decisions performed by GTC, which is part of Operations. For example, one of the central tasks of GTC is to coordinate the implementation of operational changes and system enhancements pertaining to export controls as GTC owns the Export Compliance System. Our discussions regarding management oversight were not limited to the export screening phase but instead intended towards the overall export controls program. Along with the Inspection Service, the Operations group and the Law Department play critical roles in monitoring and decision-making. Thus, the intent of recommendations 1 and 2 were for an individual, function, or consortium to take ownership and oversight over the export controls program as a whole. That body would ensure the vision and mission are properly communicated and understood by all parties involved in the export controls process, and would be responsible for the strategic direction of the program.

Management’s appointment of the Chief Postal Inspector to conduct regular meetings and engage senior management directly on the program management, strategic development, and risk assessments should meet the intent of recommendations 1 and 2.

Regarding recommendation 4, the OIG continues to believe the Postal Service is knowingly accepting the risks of noncompliance with export regulations.

[REDACTED]

Regarding recommendation 5, we acknowledge that the SOP document does not specifically require a review of the contents except when there

[REDACTED]

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 1, 2, 3, and 5 should not be closed in the Postal Service’s follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed. We intend to take recommendation 4 through the audit resolution process.

# Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information.....	13
Scope and Methodology.....	13
Prior Audit Coverage.....	14
Appendix B: Management’s Comments.....	15



# Appendix A: Additional Information

## Scope and Methodology

We observed and reviewed the Postal Service's Export Controls Monitoring Program mailpiece review phase processes and procedures at the five ISCs. Customs form information is electronically and physically reviewed at the ISCs and a determination is made on whether the mailpiece should be put into the mailstream or sent back to sender.

To achieve our objective, we:

- Reviewed laws and regulations for mailing international mailpieces.
- Reviewed Export Controls Program policies and procedures.
- Interviewed personnel involved with the Export Controls Program at Postal Service Headquarters, the Inspection Service, and at the ISCs.
- Interviewed BIS personnel regarding export controls.
- Visited the five ISCs and walked through the processes and procedures in place for outgoing mailpieces.
- Observed the electronic and physical screening processes at the ISCs and reviewed for inconsistencies between the policies and procedures in place and the day-to-day operations by the analysts at the ISCs.
- Reviewed decisions made by analysts to determine whether an appropriate decision (return to sender or pass into the mailstream) was made based on the information available.

- Reviewed data from October 1, 2017, through May 31, 2018, for all mailpieces [REDACTED] that were passed, to determine whether mailpieces violated the [REDACTED].
- Obtained export compliance data from April 8, 2018, through May 22, 2018, to determine the number of mailpieces flagged for an export violation, returned to sender, and passed because it did not violate any regulation.
- Benchmarked export compliance processes and procedures with another organization within the industry.

We conducted this performance audit from March through September 2018 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 August 27, 2018, and included their comments where appropriate.

We assessed the reliability of data from export compliance reports in Application System Reporting<sup>20</sup> by applying logical tests to the electronic data. We determined that the data were sufficiently reliable for the purposes of this report.

<sup>20</sup> Application within Enterprise Data Warehouse where export compliance reports are located.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Export Controls for Acceptance of International Packages by Non-Postal Establishments</i>	To evaluate Postal Service efforts to enhance its export controls monitoring program for contract postal units, third-party vendors, carrier pick-up, and personnel that accept international packages.	FT-MA-14-008	4/24/2014	None
<i>Overview of U.S. Postal Service Export Controls Monitoring Program</i>	To evaluate the nine elements and determine whether the Postal Service has a comprehensive export program.	FT-MA-13-017	7/25/2013	None

# Appendix B: Management's Comments



GUY J. COTTRELL  
CHIEF POSTAL INSPECTOR

UNITED STATES POSTAL INSPECTION SERVICE

September 18, 2018

MONIQUE COLTER  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Export Controls for Outbound Mail at International Service Centers  
(Report Number FT-AR-18-DRAFT)

We appreciate the engagement of the Office of the Inspector General (OIG) with us, as well as the opportunity to review and comment on the subject draft audit report. Among private-sector export compliance programs, periodic internal and external audits are important to ensure that those programs are fulfilling their objectives. Although the Postal Service's institutional role and reasons for screening outbound international mail differ from those of private-sector entities, it nonetheless appreciates the Office of the Inspector General's review of the screening program's integrity.

Before discussing the draft audit report's recommendations, we wish to highlight an organizational issue that affects much of the report's tenor.

The report is nominally addressed to the Chief Operating Officer, whose business unit includes the Postal Service's Global Trade Compliance office. All of the recommendations are similarly addressed to the Chief Operating Officer or his subordinates, with officers in the Law Department and the Postal Inspection Service relegated only to a coordinating role. This understanding of the Postal Service's export screening program does not reflect its actual organization, however. The program is not within the scope of Operations, with secondary support from the Postal Inspection Service. Rather, the screening of outbound international mail for violations of federal export laws – the crux of the program – is a law enforcement function exercised by the Postal Inspection Service. Operations supports the Postal Inspection Service's work by ensuring that data and mailpieces are correctly directed to the Postal Inspection Service and that customers are appropriately aware of mailing requirements. Similarly, the Law Department supports both groups with legal analysis and advice. While Operations and the Law Department perform critical roles in the program, the program itself exists to fulfill the Postal Inspection Service's law enforcement responsibilities.

The actual structure of program roles is likewise not represented in the draft audit report's recommendations. Recommendations # 3, 4, and 5 implicate decisions and activities for which the Postal Inspection Service is solely or primarily responsible; Operations plays no role in these functions.

Even Recommendations # 1 and 2, which essentially call for senior-level accountability, need not be directed primarily to Operations, since, in practice, all three groups' executives would play a role in fulfilling those recommendations and since Operations' role is to support the Postal Inspection Service's export screening program.<sup>1</sup>

The Postal Service's export screening program is properly understood as a law enforcement program. Despite some facial similarity to private-sector export-controls screening programs, the Postal Service's status as a federal law enforcement agency puts it on a fundamentally different footing from private-sector entities. At one point, the draft audit report's summary hints at this distinction by correctly describing the purpose of the Postal Service's export screening program as "[t]o assist in the enforcement of the export laws and regulations." But the remainder of the draft audit report frames the issues as concerning the Postal Service's "compliance" or "noncompliance with export regulations" and the "risk of BIS pursuing sanctions against it, including civil or criminal penalties, for violating export regulations." We believe that the audit report should cast the export screening program not as a liability-mitigation strategy by a regulated entity, but rather, more accurately, as an investigative program conducted by a federal law enforcement agency.

Federal law places on the Postal Service an intrinsic statutory obligation to investigate illegal uses of the mails. 39 U.S.C. § 404(a)(6). That is why the export screening function resides with the Postal Inspection Service, the nation's oldest federal law enforcement agency, and a partner to export enforcement agencies like Customs and Border Protection (CBP) and the Bureau of Industry and Security (BIS). Indeed, the Postal Inspection Service maintains an active presence alongside those partner agencies at the Export Enforcement Coordination Center (E2C2), which serves as a clearinghouse for interagency export enforcement activities. By contrast, private entities bear no such law-enforcement responsibility.

Law enforcement agencies possess broad discretion about how to allocate enforcement resources, and they are not to be faulted for failing to identify each and every instance of wrongdoing. In *Heckler v. Chaney*, 470 U.S. 821, 831 (1985), the Supreme Court recognized that "[a]n agency generally cannot act against each technical violation of the statute it is charged with enforcing," as it must account not only for "whether a violation has occurred," but also "whether agency resources are best spent on this violation or another, whether the agency is likely to succeed if it acts, whether the particular enforcement action requested best fits the agency's overall policies, and, indeed, whether the agency has enough resources to undertake the action at all." That is true of every area in which the Postal Inspection Service is responsible for detecting and preventing illegal uses of the mails, be it export controls, drug trafficking, mail fraud, or anything else.

In this context, the Postal Inspection Service has weighed the likelihood of detecting mailpieces that violate federal law – in this case, export control laws – against the Postal Inspection Service's resource constraints and policy objectives, and accordingly has made a rational judgment as to the types of violations to target.

---

<sup>1</sup> The discussion of findings at pages 3 and 4 appear to fault the Postal Service for a lack of "centralized program ownership." But pages 11 and 38 of BIS's Export Compliance Guidelines – which, while inapposite for a law enforcement program, the draft audit report nonetheless invokes – explicitly acknowledge that a decentralized program can be appropriate, depending on a firm's business structure. Given the Postal Service's institutional division of operational and law-enforcement responsibilities, the current decentralized structure is rational.

[REDACTED]

appropriate and well within the Postal Inspection Service's discretion to devote its limited resources to screening for other types of violations. While those prioritization decisions may effectively leave the detection and prevention of some export violations to other enforcement agencies with greater technical expertise, that is no reason to second-guess the Postal Inspection Service's decisions. See *Riverkeeper, Inc. v. Collins*, 359 F.3d 156, 170 (2d Cir. 2004); *Texas v. United States*, 106 F.3d 661, 667 (5th Cir. 1997) ("Real or perceived inadequate enforcement of immigration laws does not constitute a reviewable abdication of duty."). To the contrary, as discussed further in connection with Recommendation # 4 below, BIS's Office of Export Enforcement (BIS/OEE) has confirmed that the Postal Inspection Service's prioritization is in line with BIS/OEE's expectations.

Presumably because of law enforcement agencies' comity and respect for one another's inherent discretion, we are unaware of any instance where one federal law enforcement agency has attempted to penalize another federal law enforcement agency for allegedly not doing enough to assist the first agency. It is unlikely that any such attempted penalty would be judicially enforceable at any rate. There is no unequivocal statement of Congressional intent to subject the Postal Inspection Service, or the Postal Service more generally, to any other export-enforcement agency's imposition of judicially enforceable monetary penalties: such an unequivocal statement is required by the Constitution's separation of powers. See generally *Southwestern Power Admin. v. Fed. Energy Regulatory Comm'n*, 763 F.3d 27, 29 (D.C. Cir. 2014); see also *Authority of Department of Housing and Urban Development to Initiate Enforcement Actions under the Fair Housing Act Against Other Executive Branch Agencies*, 18 Op. Off. Legal Counsel 101, 104-107 (1994).<sup>2</sup> Again, the situation is fundamentally different for private-sector regulated entities, which have no law enforcement role under the Constitution and which have no status in its separation of powers. Unlike the Postal Service, private-sector regulated entities are strictly that: regulated entities, accountable for each and every export violation that they fail to prevent.

The Postal Inspection Service has permissibly exercised its law enforcement discretion to focus the export screening program primarily on [REDACTED]

[REDACTED] This is important to understand in relation to the examples on page 8 of the draft audit report. In those examples, the Postal Inspection Service's export screeners decided, on the basis of [REDACTED] that the relevant mailpieces did not violate export control laws. The mailpiece data in question did not suggest the possibility of a [REDACTED] and the draft audit report does not suggest otherwise.

<sup>2</sup> With respect to criminal penalties, of which OIG claims (at 7) that the Postal Service could theoretically be "at risk," we are unaware of any instance in which a federal entity has been criminally prosecuted, and such a scenario is particularly unlikely as a matter of constitutional law and Executive Branch policy. As for nonmonetary civil penalties, such as BIS's powers to deny export privileges or debar a regulated entity from federal contracts, an attempt to apply such penalties to the Postal Service would impermissibly conflict with statutes and treaties that require the Postal Service to provide outbound international mail service, including on behalf of the federal government. *E.g.*, 39 U.S.C. §§ 403(a), 407(a)-(b), 411, 3202. We also note that Postal Service regulations – which themselves are federal law – place full legal responsibility on mailers for ensuring that mailpieces comply with all applicable federal laws. Mailing Standards of the United States Postal Service, International Mail Manual 112.

As such, the Postal Inspection Service screeners correctly decided to pass the items under the operative standard operating procedure (SOP). Nevertheless, the prefatory discussion on page 7 of the draft audit report appears to fault the screeners for failing to

[REDACTED]

This implication is unwarranted and makes too little of the Postal Inspection Service's valid exercise of law enforcement discretion. The Postal Inspection Service designed the export screening program and allocated its resources with the specific intent of detecting and preventing violations of certain export-control laws, [REDACTED]

[REDACTED] Expanding the program's focus thus – in other words,

[REDACTED]

would overwhelm the Postal Inspection Service's available resources, with little obvious benefit. Moreover, the Export Compliance System's parameters are not designed to identify [REDACTED] and using the system broadly for that purpose would be under- and over-inclusive to the point of ineffectiveness.<sup>3</sup> It is also appropriate for the Postal Inspection Service to exercise its discretion in deciding when an [REDACTED]

[REDACTED] is material enough to law enforcement interests to warrant returning the item. After all, the return of an item to sender carries its own business risks from customer dissatisfaction, as well as direct costs, and so it would not be economical or efficient to return mailpieces for technical information deficiencies that would not affect export-enforcement decisions. Thus, the Postal Inspection Service has acted appropriately in determining its law enforcement priorities and allocating resources accordingly, both

[REDACTED]

With those principles in mind, we respectfully disagree with certain of the audit team's findings and recommendations. We note that, except with respect to its findings regarding [REDACTED], the audit team has only offered speculation about the possibility of undetected violations, not evidence of actual ones, let alone any evidence of a problem justifying the sort of realignment of law enforcement resources that the discussion surrounding Recommendations # 4 and 5 would suggest.

#### **OIG Recommendation # 1**

We recommend the Chief Operating Officer, in coordination with the Chief Postal Inspector and the General Counsel, reestablish ownership or oversight of the Export Controls Program to make decisions for the program.

#### **Management Response/Action Plan**

As noted above, this recommendation need not be exclusively directed to the Chief Operating Officer. Additionally, management does not share the view that the situation should be framed as requiring "reestablish[ment of] ownership or oversight":

---

<sup>3</sup> To be clear, Postal Inspection Service screeners generally act on mailability violations when they are apparent, but they primarily consider the adequacy of content descriptions in the context of making an export-enforcement decision.

the export controls program is currently being performed by business units supervised by the named officers, and so their "ownership" has been continuous.

That said, management agrees with the spirit of the recommendation. The Chief Postal Inspector will establish regular oversight meetings, at least semiannually, to include the Chief Operating Officer and General Counsel, at which responsible personnel can inform the named executives about the state of the program and any emerging issues and can seek their input on pending decisions.

#### **Target Implementation Date**

March 31, 2019

#### **Responsible Officials**

Chief Operating Officer and Executive Vice President

#### **OIG Recommendation # 2**

We recommend the Chief Operating Officer, in coordination with the Chief Postal Inspector and the General Counsel, incorporate strategic activities into the Export Controls Program, including (a) developing an overall strategic plan and a written risk assessment process; (b) conducting regular cost benefit analyses to assess effectiveness and value, and (c) proactively monitoring emerging issues and analyzing export compliance data collected from electronic and physical screenings.

#### **Management Response/Action Plan**

As noted above, this recommendation is not necessarily properly directed to the Chief Operating Officer, as responsible executives would need to work in tandem to fulfill it.

Management disagrees with this recommendation for the reasons stated below. However, we note that, in response to Recommendation # 1, management is committing to engaging senior management directly on the program's strategic development and risk assessment. That engagement will include written briefings, presentations, meeting documents, and/or meeting notes about responsibilities for program management, strategic development, and risk assessment. This commitment should address the concern underlying this recommendation.

Part (a): The necessity of part (a) is unclear. While "an overall strategic plan and a written risk assessment process" might admittedly be absent from the current program, key risk-based strategic decisions were made by senior executives at an early stage of the current program, including the decision to establish and structure the current program. As the draft audit report acknowledges at page 3, management has continuously refined the program, evaluated risks and emerging issues, and strategized about program development through a constant process of cross-functional collaboration. The draft audit report does not explain in what concrete way the mere creation of high-level formal documentation would effect a real-world "improve[ment] in the overall quality of the program" or decrease "the risk of export compliance violations" (see page 4).

Part (b): It is unclear how a quantitative “cost benefit analysis” could be conducted in practice. For example, consider a hypothetical proposal to change name-match screening parameters. Certain “cost” elements might be relatively easy to quantify, such as the expense to change the relevant software and to train screeners and the impact on screening work-hours (based on the number of additional mailpieces expected to be flagged). But the “benefit” side of the equation is impossible to quantify. In almost every case of a name match, there is not enough information in either the mailpiece record or the regulator’s designation to identify whether the apparent match is a “true hit,” particularly where the name in question is a common one and the relevant regulatory agency has provided no specific address information. Thus, it would be impossible to estimate how many additional (or fewer) actual export violations would be detected and prevented. In addition, the benefit of each prevented violation goes to the Postal Service’s brand and the public interest in enforcement of federal laws, neither of which is quantifiable.<sup>4</sup> Other types of program decisions would pose similar analytical difficulties. Thus, “cost benefit analysis” cannot be conducted in any meaningfully robust way.

To the extent that the recommendation urges members of senior management to evaluate its efficacy of the overall export screening program, the draft audit report offers no basis to think that the program, overall, is ineffective, such as would warrant a broad review.

Part (c): Management also disagrees with part (c). For one thing, the Law Department already “proactively monitor[s] emerging issues” in federal export laws, by attending training webinars and conferences, maintaining contact with counterparts at export regulatory agencies, and subscribing to daily newsletters and alerts from regulatory agencies and private-sector compliance professionals about relevant legislative, regulatory, and enforcement activities. When these sources indicate a matter of interest to the Postal Inspection Service and/or Global Trade Compliance, responsible Law Department personnel apprise those offices and initiate a discussion about the possible implications for the export screening program. In response to such a prompt, the Postal Inspection Service frequently “analyz[es] export compliance data collected from electronic and physical screenings” to assess whether and to what extent a change would improve detection and prevention of export violations (e.g., how many additional mailpieces would require analysis, or how many would be returned to sender, if the change were made).

In another sense, too, the Postal Inspection Service already “analyz[es] export compliance data collected from electronic and physical screenings.” Every two weeks, on a rotating basis, each International Mail Security Specialist (IMSS) compiles and reviews 200 records screened by another IMSS’s screening team. Any errors identified through this periodic self-audit are communicated to the Manager, International Mail Security, who seeks feedback from the relevant IMSS. The Manager, International Mail Security, may ultimately require corrective instruction of individual screeners or a broader instruction or training to the entire screening team.

---

<sup>4</sup> The benefit cannot properly be measured in terms of liability risk mitigation, since, as discussed at the outset of this response, the Postal Service is not amenable to or responsible for monetary penalties as to export violations. Even if it were, whether and in what amount an export enforcement agency might seek monetary penalties in a given situation depend on far too circumstantial to be reliably quantified in the abstract. See, e.g., 15 C.F.R. pt. 766, Supp. No. 1 (enumerating a host of aggravating and mitigating factors that can influence BIS enforcement decisions, without attributing a specific quantitative effect to most factors).

Both of these existing practices of “monitoring” and “analysis” “help the Postal Service determine its level of compliance with export regulations, identify patterns, draw conclusions, and allow better, more effective strategic business decisions to enhance the export controls program” (page 3 of the draft audit report). The draft audit report does not acknowledge these practices, let alone identify any deficiency that this recommendation would improve upon.

To the extent that the text of the draft audit report (at page 3) implies that the mere lack of “a documented process” is the issue, it is not clear how codification would concretely and meaningfully improve these practices’ ability to detect or prevent export violations.

**Target Implementation Date**

N/A

**Responsible Official**

N/A

**OIG Recommendation # 3**

We recommend the Executive Director, International Operations, in coordination with the Global Trade Compliance Office, revise the Export Compliance System to ensure [REDACTED]

**Management Response/Action Plan**

As noted above, this recommendation concerns the Postal Inspection Service’s screening practices, although it may require support by Global Trade Compliance. As such, it should be directed to the Inspector in Charge, Security Group, in coordination with the Executive Director, International Operations.

Management agrees with this recommendation and will implement necessary changes to screening software and the Postal Inspection Service’s screening SOP.

**Target Implementation Date**

September 30, 2019

**Responsible Official**

Manager, International Mail Control and Security  
Director, Global Trade Compliance

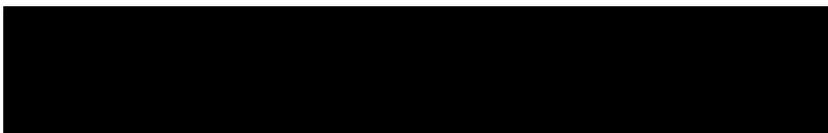
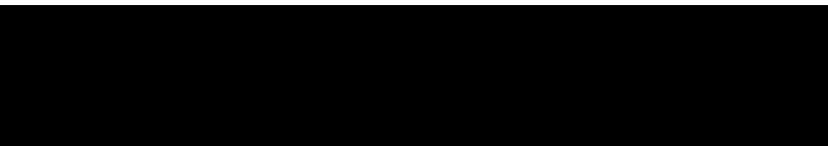
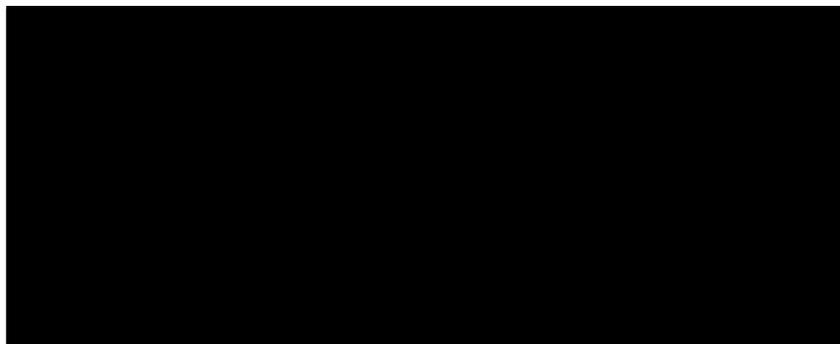
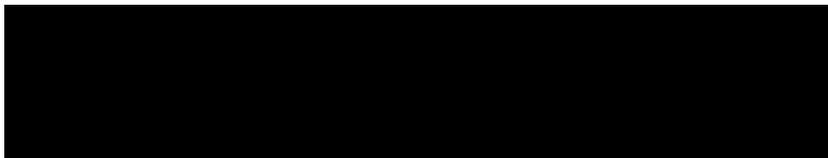
**OIG Recommendation # 4**

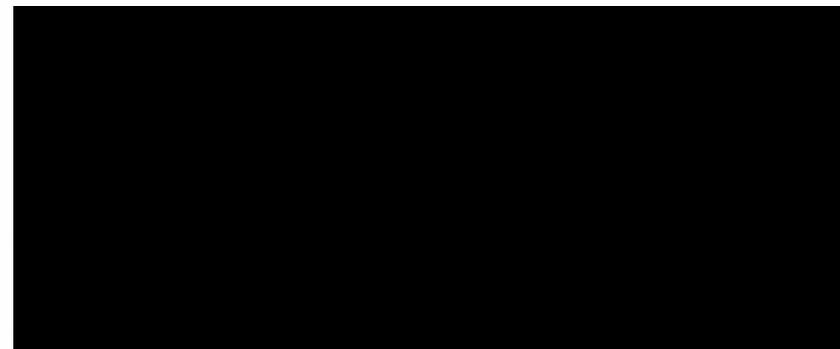
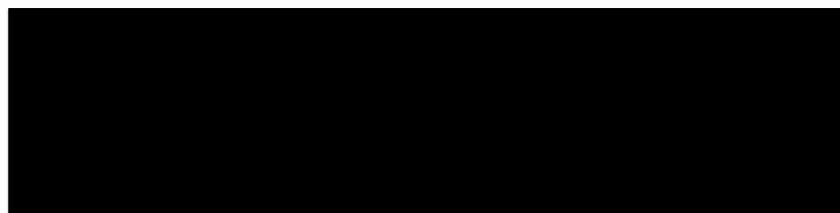
We recommend the Executive Director, International Operations, develop and implement policies and procedures to screen for [REDACTED]

**Management Response/Action Plan**

As noted above, this recommendation concerns the Postal Inspection Service's screening practices. As such, it should be directed to the Inspector in Charge, Security Group.

Management disagrees with this recommendation. As discussed at the outset of this response, decisions about the scope of the export screening program are fundamentally a matter of the Postal Inspection Service's inherent discretion to prioritize resources according to the likelihood of detecting and preventing violations of federal law, based on the limitations of the information available for investigative use. The Postal Inspection Service is not to be faulted for failing to detect and prevent each and every technical violation, or for leaving certain areas of enforcement to other federal law enforcement agencies with greater expertise. Indeed, far from "promot[ing] economy, efficiency, and effectiveness in the administration of" the Postal Inspection Service, *see* Inspector General Act of 1978, § 2(1), Pub. L. No. 95-452, *codified at* 5 U.S.C. App., it would be not be productive to expend agency resources to deploy software changes, protocol development, training, and program-wide work-hours against export violations that likely rare and virtually undetectable in the mailstream.





Thus, the Postal Service is meeting the expectations of other export enforcement agencies. It would be inefficient, uneconomical, and ineffective to develop and implement a [REDACTED] for outbound international mail.

**Target Implementation Date**

N/A

**Responsible Official**

N/A

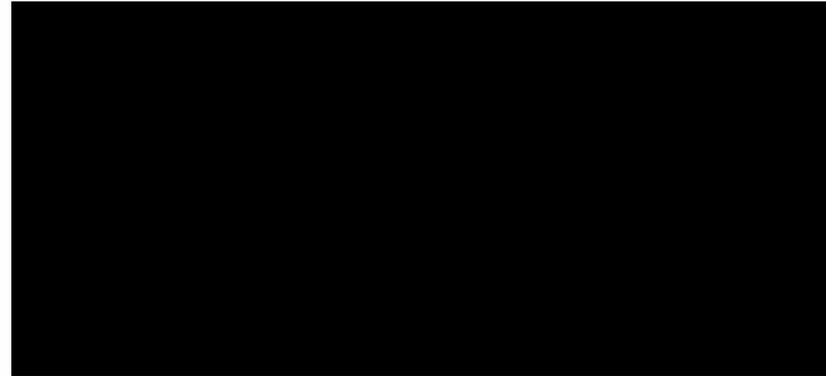
**OIG Recommendation # 5**

We recommend the Executive Director, International Operations, in coordination with the Postal Inspector-In-Charge, Security and Crime Prevention, update standard operating procedures for (a) [REDACTED], (b) documenting reasons for passing mailpieces, (c) maintaining all screening comments, and (d) using acronyms in screening comments.

**Management Response/Action Plan**

This recommendation concerns functions exclusive to the Postal Inspection Service. As such, the recommendation should be directed to the Inspector in Charge, Security Group.

Management agrees with most of this recommendation. The Postal Inspection Service will update SOPs to incorporate existing job aids and instructions that address the draft audit report's findings with respect to [REDACTED] documentation of relevant reasons for passing mailpieces, and using acronyms in screening comments

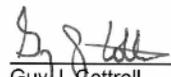


**Target Implementation Date**

December 31, 2018

**Responsible Official**

Manager, International Mail Control and Security



---

Guy J. Cottrell  
Chief Postal Inspector

cc: Corporate Audit Response Management  
Robert Cintron, Vice President Network Operations  
Anthony Alverno, Chief Counsel Global Business



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

Contact us via our [Hotline](#) and [FOIA](#) forms.

Follow us on social networks.

Stay informed.

1735 North Lynn Street  
Arlington, VA 22209-2020  
(703) 248-2100

