



Performance Audit

98-99

Postal Operations

Australian Customs Service

The Auditor-General Audit Report No. 15



The Auditor-General

Audit Report No.15
Performance Audit

Postal Operations

Australian Customs Service

Australian National Audit Office

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Canberra ACT
24 November 1998



Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit of the Australian Customs Service in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Postal Operations*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage — <http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations/Glossary

ACS	Australian Customs Service
AFP	Australian Federal Police
ANAO	Australian National Audit Office
AQIS	Australian Quarantine Inspection Service
CISS	Customs Intelligence and Information Screening System
EMS	Express Mail Service
ICD	Informal Clearance Document
JCPAA	Joint Committee of Public Accounts and Audit
LCOA	Letter Class and Other Articles
MOU	Memorandum of Understanding
NESS	National Examinations and Seizures System
OAs	Other Articles
OFLC	Office of Film and Literature Classification
PIs	Prohibited Imports
RAPS	Risk Assessment Profiling System
TGA	Therapeutic Goods Administration

Summary and Recommendations

Summary

1. The functions of the Australian Customs Service (ACS) in postal operations relate to community protection, quarantine safety and revenue collection. ACS performs these functions while simultaneously seeking to facilitate the movement of international mail across the border for processing and distribution by Australia Post.
2. Postal operations involve ACS risk profiling and screening articles moving through the postal environment to intercept prohibited and restricted imports for community protection such as narcotics, firearms, pornography, quarantine goods and copyright and trademark matters and also determining and collecting customs duty and sales tax, where relevant.
3. The screening process is a physical one characterised by the movement of large numbers of mail items which can range considerably in size from small letters and packets to very large parcels. In 1997-98 more than one million bags of letters and small packets and over two million parcels arrived in Australia. In this environment, the conduct of postal operations and especially screening, even with the range of resources (X-ray machines, ion scan machines and dogs) to assist staff, is crucially one requiring the application of risk management.
4. Although postal operations are relevant to core ACS roles, the postal operations program area is a relatively small one in terms of revenue and cost. Aggregate revenue collections from postal operations were approximately \$10.5 million and postal operations cost approximately \$10.3 million in 1997-98.¹ ACS' average staffing level for postal operations nationally was approximately 92 people with 91 of these staff in the seven regions.
5. ACS' responsibilities for screening extend to assessing articles relevant to the interests of other regulatory agencies. A key player in the screening process with which ACS interacts is the Australian Quarantine Inspection Service (AQIS). AQIS' role is to minimise the risk to human, animal and plant health from the potential introduction of exotic pests and diseases to Australia. Other bodies with which ACS coordinates include the Australian Federal Police in relation to narcotics and weapons, Environment Australia regarding plants and animals and items of cultural significance, the Therapeutic Goods Administration in relation to medicines and drugs and the Office of Film and Literature Classification in relation to pornographic and/or violent or injurious literature and video material.

¹ Full accrual cost.

The audit approach

6. The objective of the audit was to examine the efficiency and administrative effectiveness of processes ACS uses to screen incoming and outgoing mail. It also considered the involvement of other stakeholders such as Australia Post and AQIS.

7. Postal operations were of interest because, although relatively small, they are a discrete part of one of ACS' core functions (that of border control); they have a potential impact in terms of ACS' roles in community protection, commercial facilitation and revenue collection; and they are relevant to ACS' corporate themes of compliance management and risk management. Postal operations is a topic which has immediacy and relevance to the Australian public. Although we examined the processes ACS uses to screen incoming and outgoing mail, the audit concentrated on incoming mail as it is the area perceived to represent higher risk to the Australian community.

8. As part of the audit, criteria were determined to examine the process and how well administrative arrangements relating to community protection and revenue collection were operating. The analysis examined:

- information gathering and the development of profiles;
- the screening process and tools used;
- screening for revenue assessment and compliance purposes;
- data collection and analysis;
- agency coordination; and
- overseas information.

9. In undertaking the audit we also took into account relevant recommendations of the recent report of the Joint Committee of Public Accounts and Audit into internet commerce concerning some revenue-related aspects of the mail screening process.² We also took into account the Government's current review examining the rationalisation of the border control agencies.

² Joint Committee of Public Accounts and Audit, *Report 360, Internet Commerce To buy or not to buy?*, AGPS, Canberra, 1998. Recommendations 7 and 11 recommended the Auditor-General examine revenue compliance and the level of revenue leakage, respectively.

Overall conclusion

10. Our overall view is that, given the environmental constraints, ACS' processes to screen incoming and outgoing mail are efficient and effective. Features which bear on the processes are:

- the relative lack of advance information about the contents of mail items as a basis on which to screen;
- even with the technology and other screening tools available, the screening and handling process is a physical process to a significant degree; and
- the physical layout of the buildings and the placement of the screening processes in them also bear on the efficiency of the process.

11. We consider that the control of postal operations by ACS is basically an exercise in risk management. It is important that ACS' processes and our suggestions be viewed in that light. In essence, our comments are designed to improve processes to enable ACS to identify, assess, prioritise, and treat community protection and revenue risks, and conduct continual review and monitoring in more effective ways.³ We have identified several areas for improvement covering intelligence gathering, use of screening resources, data analysis and the planning and review stages of postal operations. A common theme was that the various activities in ACS could be improved if they were performed on a more systematic basis to achieve greater effectiveness in terms of outputs and outcomes.

12. Although our recommendations for improvement largely focus on ACS, which was the agency audited, we recognise that recommended improvements in ACS' processes should also take into account the objectives and practical requirements of other agencies involved at the border (such as AQIS).

13. ACS has effective liaison arrangements in place for consultation, discussion and coordination with these stakeholders. Nevertheless, we observe that, in the future, it is likely that ACS will have to work more effectively with other agencies to improve the identification of strategic needs and to increase the extent to which it coordinates its operations in response action.

14. ACS responded positively to the audit.

³ This framework is derived from Management Advisory Board and the Management Improvement Advisory Committee, *Guidelines for Managing Risk in the Australian Public Service*, Report No. 22, AGPS, Canberra, 1996. The Guidelines were based on Australian and New Zealand Standard Risk Management AS/NZ 4360: 1995, jointly published by Standards Australia and Standards New Zealand, Homebush, 1995.

Key Findings

Information gathering and profile development

- Border intelligence areas gather, and have access to, significant amounts of information from a wide variety of sources.
- Considerable material is passed from Central Office and the regions' Border intelligence areas to postal operations in the regions in its original form without much assessment or analysis.
- The process of developing and reviewing risk profiles in the regions is not explicit and does not show how changing risk information, screening results and operational imperatives are taken into account.
- By not analysing screening results data from the regions, the Central Office Border intelligence area is forgoing the chance to establish trends to feed back into the assessment of the risk in relation to countries and items to obtain better outcomes.

Screening

- The layout of the mail centres for the entry, screening and release of mail is an important factor in determining the efficiency of the mail's movement and the effectiveness of screening processes. Although there are some examples of good practice in the more modern buildings, there is a need for a concerted effort by ACS to negotiate layout needs and preferences with Australia Post and to facilitate efficient and effective design standards for each mail facility.
- The basis of the 15 per cent guideline limit underlying ACS' Risk Assessment Profiling System (RAPS) is not clear. The screening framework would be strengthened if it were driven less by arbitrarily set volume limits or standards and more by risk management principles.
- A wide range of tools is used in postal screening. However, there is no overall strategy to manage effectively the allocation and deployment of postal screening resources for ACS nor to guide how they would link in with other treatment strategies by other agencies.

Revenue screening

- We consider that ACS works diligently to make the screening successful but that the inherent weaknesses of the approach and the postal environment in which ACS has to operate mean that some revenue will not be collected.

- ACS' agreement with Australia Post to screen only up to approximately 15 per cent of Letter Class and Other Articles mail is an underlying weakness in the screening process for revenue. Changes to the agreement could allow ACS better opportunity to examine, on a risk managed basis, appropriate small parcels for revenue purposes and to allow it to improve its methods of collecting revenue due in a cost-effective manner.

Data collection and analysis

- A considerable amount of information is obtained and manually maintained in the regions and the activity reporting arrangements are extensive. However, the manual and decentralised nature of the data collection process causes difficulties in maintaining reporting accuracy.
- Central Office does not analyse the monthly activity statistics that it receives from each region. There is therefore considerable scope for analysis to be undertaken to allow better use of such information as a contribution to risk management and improved overall program management.

Coordination

- To address the needs we have identified in relation to information gathering and analysis, coordination of operations and the analysis of results, we suggest that a cost-effective option for ACS would be to reallocate resources to establish a dedicated resource to undertake the planning, operational coordination and review activities associated with postal operations.
- A wide range of agencies has an interest in ACS' screening and ACS has effective liaison arrangements in place to cater for such interest.
- Stakeholders are satisfied that ACS takes account of their interests and that ACS is meeting those interests within the constraints of the postal operations environment and resources.
- There is scope for ACS to develop further its coordination with AQIS, particularly in planning, performing and reviewing postal operations.
- It is likely that, in the future, ACS will have to work more effectively with other agencies and to improve the identification of their strategic needs and to improve the extent to which it coordinates operations in response.

Acknowledgments

We would like to recognise the contribution of the ACS officers who assisted in the conduct of this audit. We are also grateful for the cooperation of the representatives from Australia Post, AQIS, the Australian Federal Police, the Therapeutic Goods Administration, Environment Australia and the Office of Film and Literature Classification consulted during the audit.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph references and a summary of ACS' response. More detailed responses are shown in the body of the report. The ANAO considers that ACS should give priority to Recommendations 1, 2, 5, 6, 9, 12 and 13.

Recommendation No.1
Para 2.11 The ANAO recommends that ACS develop its capacity for the effective evaluation, analysis and appropriate distribution of intelligence information for postal operations to ensure that intelligence material is more effectively utilised.
ACS Response: Agreed

Recommendation No.2
Para 2.21 The ANAO recommends that ACS improve the risk based profiling of mail by developing the country list profiles on the basis of explicit risk management processes.
ACS Response: Agreed

Recommendation No.3
Para 2.28 The ANAO recommends that ACS undertake systematic and explicit reviews of the high risk country lists taking into account risk information, results and operational requirements.
ACS Response: Agreed

Recommendation No.4
Para 2.31 The ANAO recommends that ACS' Border intelligence area at Central Office regularly examine the pattern of results from the regions and take these into account in formulating and reviewing its risk assessments of countries and items.
ACS Response: Agreed

Recommendation No.5
Para 3.25 The ANAO recommends that the Memorandum of Understanding between ACS and Australia Post be revised to:

- remove the 15 per cent limit; and
- allow ACS to screen Letter Class and Other Article mail on a risk managed basis with scope to include preventative and mitigation measures to deal with changing circumstances.

ACS Response: Agreed

Recommendation No.6 Para 3.53	<p>The ANAO recommends that ACS develop an overall strategy for acquiring and using postal screening resources to ensure that it has in place across the regions an optimum screening procedure that directly addresses screening needs.</p> <p>ACS Response: Agreed</p>
Recommendation No.7 Para 4.20	<p>The ANAO recommends that, in carrying out a survey program of postal operations, ACS take account of the extent to which the potential revenue would be affected by claims for exemptions or other concessions under the duty or sales tax regimes.</p> <p>ACS Response: Agreed</p>
Recommendation No.8 Para 4.28	<p>The ANAO recommends that, as part of good risk management practice, ACS follow up the results of the pilot survey it conducted of low value importations to determine whether the observations that led to the indication of leaked revenue provide a basis for improved compliance action, including actions not related to the screening process such as public education.</p> <p>ACS Response: Agreed</p>
Recommendation No.9 Para 4.40	<p>The ANAO recommends that:</p> <ul style="list-style-type: none"> • ACS review its Memorandum of Understanding with Australia Post with a view to ensuring that the treatment afforded Other Articles is consistent with the treatment afforded similar small parcels transported by the freight forwarding industry; and • steps are taken to collect duty and sales tax from all potential categories of international parcel post. <p>ACS Response: Agreed</p>
Recommendation No.10 Para 5.11	<p>The ANAO recommends that ACS assess the business case for improving its management information by better use of technology to save time documenting activities and collecting results and to reduce the chance of errors being made.</p> <p>ACS Response: Agreed</p>

Recommendation No.11
Para 5.27 The ANAO recommends that, to improve the effectiveness of targeting and screening approaches used in the regions, ACS:

- assign responsibility for the analysis of the activity and results data for all regions to a dedicated resource; and
- ensure that the results of the regional analyses are shared and used.

ACS Response: Agreed

Recommendation No.12
Para 6.7 The ANAO recommends that, to improve the planning, operational and review activities associated with postal operations, ACS consider the costs and benefits of reallocating resources to establish a dedicated resource to undertake its activities associated with intelligence gathering, use of screening resources and data analysis in a more systematic way.

ACS Response: Agreed

Recommendation No.13
Para 6.38 The ANAO recommends that in managing postal operations within the framework of its risk management plan, ACS:

- adopt more explicit risk management principles;
- ensure that its risk management plan contains inputs from other stakeholders; and
- integrate these risk management principles with an overall operational plan for the program area demonstrating that it has assessed the combination of resources required to manage the risks of the program area and the best ways to deploy these resources to meet its needs and the needs of its stakeholders.

ACS Response: Agreed

Audit Findings and Conclusions

1. Introduction

This chapter describes the context of postal operations in the Australian Customs Service (ACS), the background to the audit, its objectives and methodology.

The function and ACS context

1.1 ACS' functions in postal operations relate to community protection, quarantine safety and revenue collection. ACS performs these functions while simultaneously seeking to facilitate the movement of international mail across the border for processing and distribution by Australia Post.

1.2 Postal operations involve ACS profiling and screening articles moving through the postal environment to intercept prohibited and restricted imports for community protection such as narcotics, firearms, pornography, quarantine goods and copyright and trademark matters and also determining and collecting customs duty and sales tax, where relevant.

1.3 In 1997-98 more than one million (1 200 000) bags of letters and small packets and over two million (2 100 000) parcels arrived in Australia.

1.4 ACS' postal operations are managed by the Border Operations Branch in the Border Division. Policy responsibility is located in Central Office and the regions are responsible for postal operations. Regional postal operations staff perform border control functions associated with the Border Division as well as revenue assessment and collection functions associated with the Commercial Services Division.

1.5 Postal operations are relevant to two of ACS' principal roles at the time of the audit:

- to facilitate trade and the movement of people across the Australian border while protecting the community and maintaining appropriate compliance; and
- to collect customs and excise revenue.⁴

1.6 Although postal operations are relevant to core ACS roles, the postal operations program area is a relatively small one in terms of revenue and cost. Aggregate revenue collections from postal operations were

⁴ Postal operations is not directly relevant to the third principal role of ACS at the time of the audit, 'to assist Australian industry through the delivery of Government support measures' (such as the \$1.4 billion Diesel Fuel Rebate Scheme). (The Administrative Arrangements Order of 21 October 1998 changed the functions of ACS. For example, excise will be collected by the Australian Taxation Office.)

approximately \$10.5 million and postal operations cost approximately \$10.3 million in 1997-98.⁵ ACS' average staffing level for postal operations nationally was approximately 92 people with 91 of these staff in the seven regions. By way of comparison, ACS collected about \$22 billion revenue in 1997-98 (representing the second largest collector of Commonwealth revenue after the Australian Taxation Office). ACS' running costs totalled \$403 million in 1997-98 and it employed about 4200 full-time equivalent staff.

Operating environment

Terminology - categories of mail

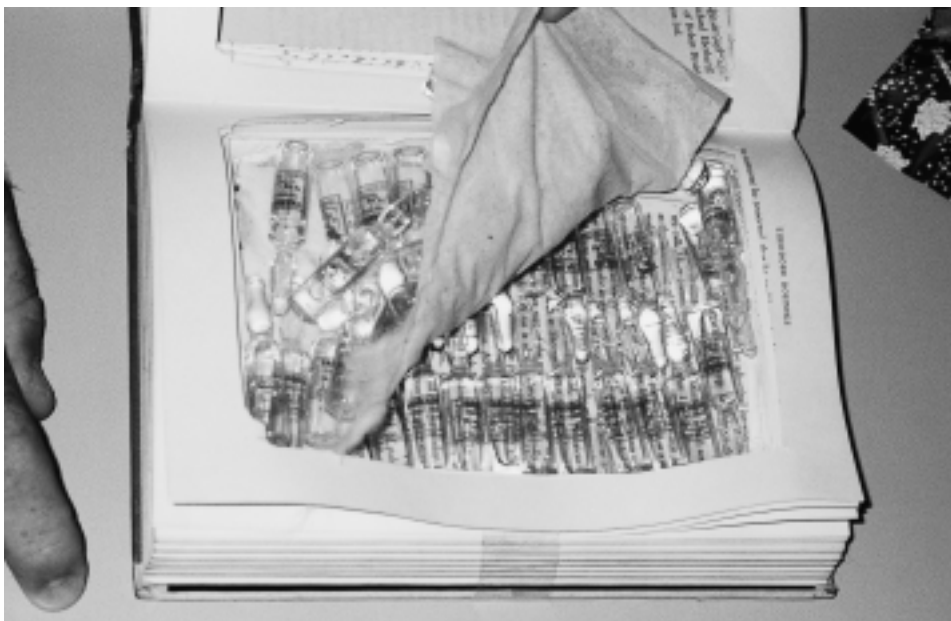
1.7 'Mail' relates to all goods imported to, in transit, or delivered for export from, Australia subject to the international postal agreements for letters and parcels, including:

- Letter Class and Other Articles (LCOA) (that is, flat letters of any size and packets weighing less than 2 kg);
- Parcels (that is, articles weighing 2 kg or more); and
- Registered Mail and the Express Mail Service (EMS) which is Australia Post's courier service.

International postal conventions

1.8 Intergovernmental agreements and agreements made between international postal authorities influence the postal operating environment for Australia Post and ACS. For example, the Universal Postal Convention, which is an intergovernmental agreement with full treaty status, prescribes a global framework of service delivery standards that Australia Post aims to meet. Furthermore, the Kyoto Convention obliges ACS to clear postal items as rapidly as possible and to exercise control only to the minimum necessary to ensure compliance with the law.

⁵ Full accrual cost.



Postal screening intercepting steroids. *Imported steroids for human use that were intercepted at the International Mail Centre in Brisbane. The drugs were concealed in a package in a hollowed-out library book.*

The detection was made by ACS officers and the finding was referred to the Australian Federal Police and then jointly investigated by the AFP and the Therapeutic Goods Administration.

The screening process

1.9 The screening process is a physical one involving the movement of large numbers of mail items which can range considerably in size from small letters and packets to very large parcels. Very little information is available about the items other than what appears on the items themselves and on the sender's postal declaration which may be attached. A range of screening tools assist in the examination of mail. These are X-ray machines, ion scan machines and detector dogs.

1.10 Through an informed targeting approach ACS is required to screen all mail by some means. Imported diplomatic and consular goods are allowed special privileges, originating from the Vienna Conventions on Diplomatic Privileges and Consular Relations. ACS normally waives the inspection of such items unless there are serious grounds for presuming that the item contains goods that are ineligible for duty exemptions; subject to import prohibitions; or controlled by quarantine regulations.

1.11 ACS' responsibilities for screening extend to assessing articles relevant to the interests of other regulatory agencies. A key player in the screening process with which ACS interacts is the Australian Quarantine

Inspection Service (AQIS). AQIS' role in international mail processing is to minimise the risk to human, animal and plant health from the potential introduction of exotic pests and diseases to Australia through the postal system, while facilitating the movement of international mail.

1.12 Other bodies with which ACS coordinates include the Australian Federal Police in relation to narcotics and weapons, Environment Australia regarding plants and animals and items of cultural significance, the Therapeutic Goods Administration in relation to medicines and drugs and the Office of Film and Literature Classification in relation to pornographic and/or violent or injurious literature and video material.

Legislation and Memorandum of Understanding

1.13 Legislation relevant to postal operations includes the *Customs Act* and *Australian Postal Corporation Act*. Reflecting the other stakeholders' interests in postal control, other relevant legislation is the *Quarantine Act*, the *Wildlife Protection (Regulation of Exports and Imports) Act*, the *Copyright Act* and the *Trademarks Act*.

1.14 Under section 30 of the *Customs Act*, ACS controls all goods that are imported or are going to be imported, from the time of importation until delivery or entry for home consumption. Under the same section of the Act, ACS also controls certain categories of goods for export from the time the goods are made or prepared or brought into any prescribed place for export until they are exported. These categories are underbond goods, goods requiring an export permit, goods subject to export duties and goods subject to drawback.⁶ Under section 35 of the *Customs Act*, all goods imported by post are subject to Customs' control.

1.15 ACS and Australia Post have a Memorandum of Understanding (MOU) relating to international mail processing. Under the MOU, Australia Post and ACS agree to cooperate in handling and processing international mail, recognising their respective roles.

The dynamic social and regulatory environment

1.16 The postal control environment is subject to change from social, technological and regulatory factors.

1.17 Although postal operations represent a small and discrete part of ACS, as part of the border control framework, initiatives in the postal environment have a role to play in addressing some of the broad and dynamic issues in public health and safety. One example is its contribution

⁶ A drawback is a refund of the import duty paid when the goods are subsequently exported (*Customs Act 1901* s168).

to making Australia's borders less permeable to the importation of narcotics. Wide ranging initiatives going beyond the specific postal environment such as the National Illicit Drugs Strategy and moves to curtail illegal drugs in sport have implications for the processes, priorities and resources available for postal operations.

1.18 The growth in popularity of the internet and internet commerce provide consumers with the ability to seek out a far wider range of products than they were previously able to. This means that consumers may use the international mail system to carry an increased volume and a wider variety of items than in the past.

1.19 There are several key factors affecting the regulatory regime of ACS' postal operations. One is the Government's decision to open up Australia Post's international mail service to private competition as of 1 July 2000. Another is the Government's forthcoming response to the inquiry conducted by the Joint Parliamentary Committee of Public Accounts and Audit (JCPAA) into internet commerce. The Committee's report made a range of recommendations which bear on the postal operations environment and commercial regulation and taxation issues more generally, and the Government response is therefore likely to have an impact on the postal environment, including the screening approach ACS uses.⁷

1.20 A third factor which is likely to have an effect on the environment of postal control and regulation is the government review currently examining the rationalisation of the border control agencies (ACS and AQIS and the Department of Immigration and Multicultural Affairs). In the postal environment, this review has implications for ACS and AQIS.

Overseas practice

1.21 The systems of postal control and practices in postal screening in the US, Canada, New Zealand and the UK are broadly similar to Australia's regarding their use of screening mechanisms and the constraints in mail processing. There are significant differences in the scale of their operations, for example, in the volumes of mail and the numbers of staff, and different factors affecting their operational environments. However, like Australia, each country has similar systems to screen for categories of prohibited imports and revenue items. Each country uses a combination of the same types of tools for screening, including people (trained Customs inspection officers), technology (X-ray machines) and trained detector dogs.⁸

⁷ Joint Committee of Public Accounts and Audit, *Report 360, Internet Commerce To buy or not to buy?* AGPS, Canberra, 1998.

⁸ The thresholds for collections of duty, sales tax and entries for each country are summarised in Joint Committee of Public Accounts and Audit, *Report 360, Internet Commerce To buy or not to buy?* AGPS, Canberra, 1998, pp.112-113.

Other reviews

1.22 There has not been a previous performance audit of postal operations by the ANAO, however aspects of ACS' postal operations in the regions have been the subject of focused project audits of ACS' regional administration.⁹ The systems and processes have changed and developed significantly since the previous audits in 1987.

1.23 As noted above, the JCPAA's inquiry into internet commerce examined aspects of postal operations.¹⁰ The Committee recommended that the Auditor-General examine some revenue-related aspects of the mail screening process.¹¹ We have borne these issues in mind in our audit work and include comments on them in this report.

1.24 The government review currently examining the rationalisation of the border control agencies, mentioned above, commenced during the course of the audit. Our audit examines some issues of coordination also being addressed in the review and our report takes this context into account.

Audit objective and methodology

1.25 The objective of the audit was to examine the efficiency and administrative effectiveness of processes ACS uses to screen incoming and outgoing mail. It also considered the involvement of other stakeholders such as Australia Post and AQIS.

1.26 As part of the audit, criteria were determined to examine the process and how well administrative arrangements relating to community protection and revenue collection were operating. The analysis examined:

- information gathering and the development of profiles;
- the screening process and tools used;
- screening for revenue assessment and compliance purposes;
- data collection and analysis;
- agency coordination; and
- overseas information.

1.27 The ANAO engaged the services of Pat Farrelly and Associates to provide expert advice on revenue management to the audit team.

⁹ Auditor-General, *Report on audits to 30 June 1987* September 1987, AGPS, Canberra, pp.112-114.

¹⁰ Joint Committee of Public Accounts and Audit, *Report 360, Internet Commerce To buy or not to buy?* AGPS, Canberra, 1998.

¹¹ Recommendations 7 and 11 recommended the Auditor-General examine revenue compliance and the level of revenue leakage, respectively.

1.28 The ANAO’s fieldwork focused on the largest mail operations in Australia (the International Mail Centres in Sydney, Melbourne and Brisbane and the Mail Handling Unit at Sydney airport) and in ACS Central Office in Canberra.

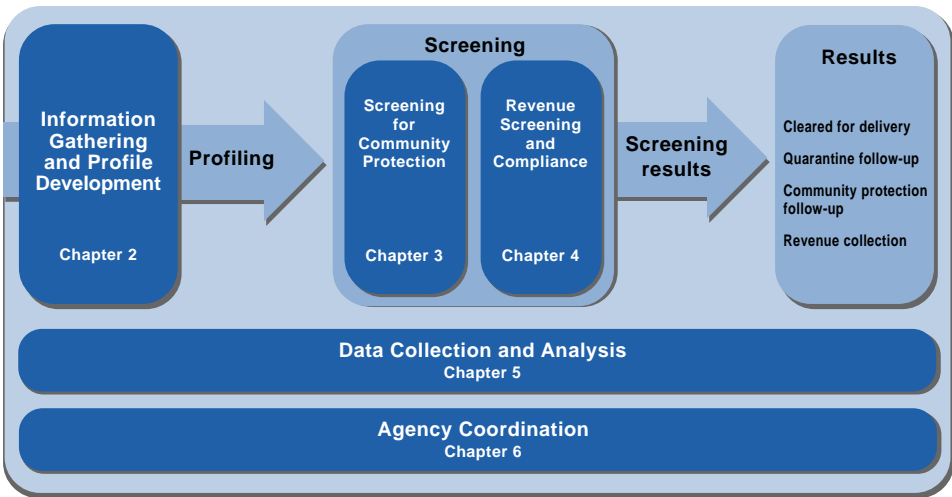
1.29 Fieldwork also involved discussions with Australia Post and AQIS at the Central Office levels and at the International Mail Centres in the regions. We also had discussions with other agencies with which ACS liaises. These were the Australian Federal Police, Environment Australia, the Office of Film and Literature Classification and the Therapeutic Goods Administration.

1.30 We also sought information from the relevant Customs authorities in the US, Canada, the UK and New Zealand to gain an insight into the nature of postal operations overseas.

1.31 The audit was conducted in accordance with ANAO Auditing Standards at a cost of \$209 000.

1.32 The structure of the report is illustrated in Figure 1.

Figure 1
Structure of the Report



2. Information Gathering and Profile Development

This chapter examines the intelligence and information gathering functions for postal operations within ACS.

Introduction

2.1 The main purpose of the Border intelligence analysis at Central Office and the regions is to keep the target selection officers and screeners in the regions up to date with the type and origin of prohibited or restricted items that might possibly be sent through the post. The analysis follows international trends — in drug smuggling for instance — that might affect incoming and outgoing mail and identifies specific risks of which screeners should be aware. The specific risk information is highlighted in ‘alerts’. Alerts that are deemed relevant to ACS are entered as reports into the electronic information database called CISS (Customs Intelligence and Information Screening System). Officers in the Border intelligence area and the mail centres in the regions are informed of items of interest on CISS by e-mail messages citing the corresponding CISS reference number.

2.2 Two officers from ACS’ Border intelligence area at Central Office are responsible for providing intelligence relating to all the functional areas of air and sea cargo as well as postal operations. There is also a Border intelligence presence in the regions, part of whose responsibilities cover the postal environment.

Intelligence and information gathering

2.3 The intelligence gathering function at ACS should collect information from diverse, reliable sources — both domestic and international — and there should be a clear system for analysing and using the information.

2.4 The ANAO found that the Border intelligence units at Central Office and the regions gather, and have access to, significant amounts of information from a wide variety of sources. Sources include the World Customs Organisation, monthly reports from AQIS detailing risk items, countries and specific incidents, information from the Australian Federal Police and from contacts within other agencies resulting from the ‘Frontline’ and from the ‘Customs Watch’ community participation programs.

2.5 The intelligence analysts in the regions peruse, digest and distribute relevant information to ACS officers in the mail centres. Regions also produce and distribute newsletters that contain intelligence information judged to be of particular interest in border control. These items could cover, for example, narrative descriptions of novel methods of concealment, significant seizures and new types of narcotics.

2.6 The intelligence units also receive information on screening results across the Border Division (including postal screening results).

2.7 It is necessary to evaluate and analyse comprehensively the large amount of diverse information received to assess its relevance and facilitate its use. While noting that this is good practice, the ANAO also recognises that sometimes the nature of the source intelligence information provided does not readily permit comprehensive analysis.

2.8 The ANAO found that although the regions received Border intelligence information from Central Office and the regions in the form of CIISS reports and e-mail alerts, considerable material was passed on by the intelligence areas to postal operations in the regions in its original form without much assessment or analysis. ACS staff in the postal operations at the International Mail Centre in Sydney advised us that, although the current information provides background or contextual information, the lack of analysis meant that the volume of material is at times overwhelming and its relevance is sometimes not apparent.

2.9 During the audit, the Border Division in the NSW region recruited several additional intelligence analysts and one of these analysts is to be exclusively dedicated to postal intelligence. ACS advised us that as part of the National Illicit Drugs Strategy, an additional intelligence analyst is to be assigned to the Central Office Border intelligence area. ACS indicated that this person would increase the capacity for intelligence and analytical work across all functional areas, including postal operations.

2.10 The ANAO considers that these are positive developments. The arrival of the new analysts may aid the information digestion process and the allocation of extra analytical resources to post will increase the level of intelligence output relevant to that area. The ANAO endorses moves to increase intelligence and analytical work in postal operations.

Recommendation No.1

2.11 The ANAO recommends that ACS develop its capacity for the effective evaluation, analysis and appropriate distribution of intelligence information for postal operations to ensure that intelligence material is more effectively utilised.

ACS response

2.12 Agreed. ACS has strengthened its intelligence capacities over recent times under initiatives such as the National Illicit Drug Strategy and this is recognised in the report. In addition, a restructure of Border Operations in Central office will create a new Directorate that has a focus on intelligence, analytical and operational matters, including central coordination of postal intelligence.

Profile development

2.13 The country profiles identify those countries or ports that represent a significant risk of being a source of articles that are prohibited or restricted in Australia. Profiles may also describe physical characteristics of postal items that may indicate a risk, such as having a weight not compatible with the declared contents or being addressed in a way that appears suspicious.

2.14 The intelligence areas at Central Office and in the regions contribute to the development of profiles by searching for trends and passing on information to highlight particular risks and information relating to countries that pose a significant risk that can be applied to the target selection and screening of mail. Postal operations staff in the regions compile profiles for mail for use in the screening process.

2.15 ACS uses the Risk Assessment Profiling System (RAPS) in its postal screening. Using RAPS, it aims to select over a period of time, approximately 15 per cent of Letter Class and Other Article (LCOA) mail as the highest risk and eliminate approximately 85 per cent of LCOA mail as 'low risk' for community protection concerns. The LCOA mail not selected is immediately 'cleared' (that is, released to Australia Post for distribution).

2.16 Profiles of the high risk countries are therefore of fundamental importance in ACS' postal screening. To ensure that the highest risk mail bags are within that selected amount, it is vital that the country profiles should reflect sound risk management practices in identifying, assessing and prioritising risks and take account of changing risk patterns.

2.17 The target country list compiled by the regions is designed to reflect the local postal environment by, for example, taking account of variables such as the cultural make-up of the city or region which may affect the type of items being imported, the pattern of flights and shipping deliveries, and therefore whether mail from a particular country is actually landed in that region, as well as the volumes of mail being delivered.

2.18 The ANAO examined a number of the country lists used in the regions to screen LCOA and parcel mail. Both Central Office Border intelligence and other staff in the regions advised that the country lists are based on available information, continual intelligence reports and accumulated experience. However the process by which the country list is compiled is not explicit.

2.19 The ANAO acknowledges that intelligence information and established experience over time suggest that there are particular countries which are continuing sources of prohibited or restricted items such as narcotics, gun parts and pornographic material. However, the ANAO observes that the profiles reflect perceived risks, supported by accumulated experience and results from established practices.

2.20 The ANAO considers that the country list used for profiling should be developed from a more systematic risk assessed basis. To this end ACS should undertake and document risk assessments of countries and products. This assessment for postal operations should take into account the risk management processes for all border agencies and could be done in conjunction with risk assessments relevant to the other transport modes relevant to the operations of the Border Operations Branch (for example, air and sea cargo). As part of this process, some testing of established views on risk would be beneficial.

Recommendation No.2

2.21 The ANAO recommends that ACS improve the risk based profiling of mail by developing the country list profiles on the basis of explicit risk management processes.

ACS response

2.22 Agreed.

2.23 As well as being required to reflect accurately identified and assessed risks, profiles must be amenable to review if they are to be of on-going relevance. For example, the country lists should take account of new and emerging risks as well as trends emerging from results. In this way some countries or ports would be added to the target list and others would be removed in response to information suggesting different risks.

2.24 It would also be good practice for that review process to be transparent. A documented starting point and a documented review process provide a transparent basis for modification and re-evaluation over time in the light of changing circumstances and new information. With a transparent process, ACS could more easily build on previous experience in screening because its previous approaches would be documented in some way, preferably on readily available computer data bases.

2.25 The ANAO found that regions modify their list of countries frequently in the light of information from the intelligence areas and prior results and knowledge of possible seasonal patterns which may bear on certain products and countries (for example, festivals). The ANAO considers that this is a sound practice in a dynamic processing environment which must quickly respond to social and commercial changes.

2.26 However, the ANAO found that the regions do not undertake explicit reviews of the high risk country lists in a manner that shows that they took account of risk information, screening results and operational requests.

2.27 Because the processes underlying the review and modification of the regional country lists are not explicit, it is not possible to establish the extent to which the observed changes in the country profile list occur in response to new information about risks, from results of screening or operational imperatives such as the patterns of the expected volume of mail compared to screening resources available.

Recommendation No.3

2.28 The ANAO recommends that ACS undertake systematic and explicit reviews of the high risk country lists taking into account risk information, results and operational requirements.

ACS response

2.29 Agreed.

2.30 The ANAO found that Central Office does not analyse results data from the regions. The ANAO considers that such analysis could usefully be undertaken to establish trends to feed back into the assessment of the risk in relation to countries and items to obtain better outcomes. (Data analysis is discussed in Chapter 5.)

Recommendation No.4

2.31 The ANAO recommends that ACS' Border intelligence area at Central Office regularly examine the pattern of results from the regions and take these into account in formulating and reviewing its risk assessments of countries and items.

ACS response

2.32 **Agreed.**

3. Screening

This chapter examines the screening process that ACS uses and considers the extent to which the tools used to screen are effectively coordinated. It concentrates on screening processes for community protection.

The screening arrangements

3.1 Under the Memorandum of Understanding (MOU) relating to international mail processing between ACS and Australia Post, ACS agreed, among other things, to:

- recognise Australia Post's objective to facilitate the exchange of international mail in line with its processing and service commitments; and
- release at least 85 per cent of LCOA mail under the Risk Assessment Profile System (RAPS).

3.2 Australia Post agreed, among other things, to:

- present all categories of imported mail for screening;
- make export mail available for screening; and
- provide suitable accommodation and facilities.

3.3 To fulfil its obligations pertaining to community protection, quarantine referral and revenue collection, ACS should screen all mail items, by some means, on a risk managed basis and ensure that screening is accurate and reliable. However, particular features of the environment and the screening resources affect the process and the extent to which screening is effective. Chapter 4 deals with revenue screening and collection.

3.4 In the postal operations environment, not only is there pressure to process quickly large amounts of mail, but also there is little, if any, advance information about the contents of incoming mail items as a basis for assessing risks or determining priorities and appropriate treatments. Furthermore, the handling processes and the layout of establishments mean that the mail handling process is fairly labour intensive and time consuming. For example, at the International Mail Centre in Sydney, bags of parcels may have to be manually unloaded from containers, separately opened by hand, then moved manually on trolleys around, and through, the various screening or processing points.

3.5 Features of the screening resources also bear on the screening process. The three main screening resources are people, dogs and technology. These resources have different relative advantages depending on the particular category of mail. For example, dogs are useful for 'mass screening', that is, screening large volumes of relatively compact items (such as letters or packets) for particular scents associated with particular products. X-ray technology is useful to examine individual packets or parcels to detect concealed contents, or to indicate the nature of contents of articles without having to open them. People are important in screening to make the necessary assessments and judgements on items based on accumulated experience, training and even intuition to take account of subtle risk indicators that may not be apparent to the other types of screening resources.

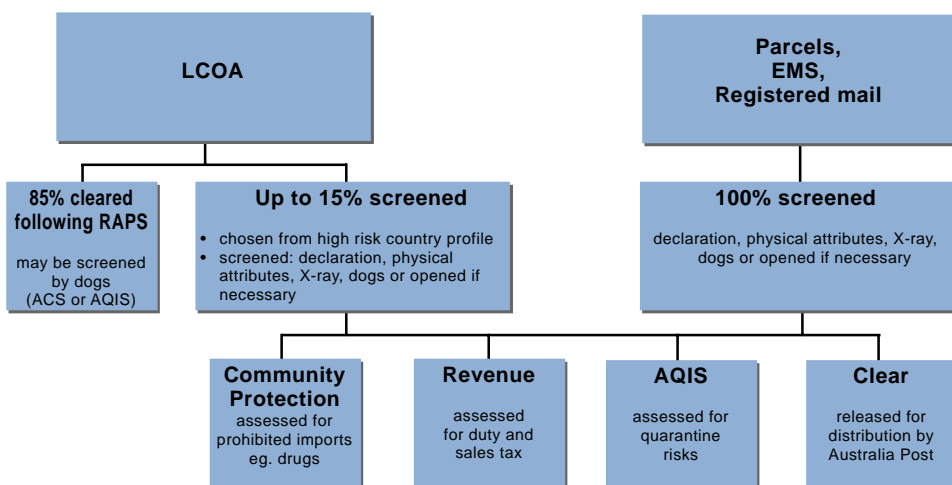
3.6 These features mean that for screening to be efficient and effective, it must be effectively coordinated with the mail handling process and use of the screening tools must also be coordinated. Only when these processes are completed can the screening practices and technology be used cost-effectively to detect items without interfering with the mail flow unduly.

The process

3.7 As the primary screener at the border, ACS is required to screen all mail by some means. AQIS also has border responsibilities and acts as a secondary screener. This means that AQIS has items referred to it for quarantine screening (with its own people, dogs and technology). With very few exceptions, AQIS does not do initial screening of items as they arrive in Australia. AQIS provides ACS with risk information and detailed results data each month as a basis for its profiling. AQIS had about 15 staff nation-wide engaged in the international mail program and allocated approximately \$1.5 million to the function in 1997-98.

3.8 The treatment of mail by ACS on its arrival in Australia depends on the category (LCOA, Parcel, EMS or Registered mail). Figure 2 shows the nature of the screening that the various categories of mail receive.

Figure 2
Screening the categories of mail



3.9 The following paragraphs outline the key elements of the screening process.

3.10 Mail is transported to Australia by sea or air. Unlike air and sea cargo, mail arrives at the border with no preliminary information. On arrival, mail is presented in bags to ACS for examination.

3.11 All bags of LCOA mail are screened using RAPS, outlined in Chapter 2, often in conjunction with the use of ACS drug dogs and/or AQIS detector dogs to identify bags of LCOA mail possibly containing narcotic or quarantine targets. Any bags selected for further examination are tipped and sorted by Australia Post. Letters are generally released without further scrutiny while OAs are physically examined by ACS officers. The items may be screened manually by target selection officers who inspect the article's physical attributes and its declaration form to determine whether further action is necessary.¹² Items may be X-rayed, if necessary and they may possibly be screened by ACS and/or AQIS detector dogs.

3.12 All Registered mail, EMS articles and parcels are screened manually and may also be subject to X-ray and detector dog screening. These categories of mail are considered to be of higher risk than letters. ACS considers that EMS items are more likely to contain items of revenue or community protection interest.

¹² The declaration form is a postal requirement. It should be attached to every article and gives information about the article's contents and value as well as consignee and addressee information.

3.13 After screening/X-raying, articles may be:

- referred to AQIS for further examination;
- referred to staff in ACS' community protection area and possibly opened by Australia Post for physical examination by ACS if it is suspected that they might contain prohibited or restricted imports;¹³
- assessed for revenue due and held pending payment of duty; or
- cleared and released to Australia Post.

3.14 Articles destined for interstate recipients are screened at the gateway port and are moved under bond if they are of revenue or quarantine interest. Interstate articles containing prohibited imports are transferred via the ACS internal mail bag system. Narcotics are handed to the Australian Federal Police.

3.15 Because of the double handling involved in the 'under bond' process and the particular controls that process requires, there are advantages to ACS and Australia Post in minimising the amount of under bond movements of goods. The US Postal Service recently announced that all mail entering the US is to be cleared at the first point of entry. That is, no material is to be distributed under bond in the US. If additional revenue is to be collected on postal items, an assessment is made at the first point of entry. Australia Post advised us that it has discussed this matter with ACS during the past year and that they agree that clearance at the first point of entry appears to be a sensible direction which would provide operational improvements. The ANAO endorses such initiatives to improve postal processing and obtain increased efficiencies in the movements of incoming international mail within Australia.

Mail centre layout as an issue in screening

3.16 The layout of the mail centre for the entry, screening and release of mail is an important factor in determining the efficiency of the mail's movement and the effectiveness of screening processes. The ANAO observed that the International Mail Centres in Brisbane and in Melbourne had well-designed conveyor systems and the X-ray machines were located along the processing stream. As well, at the Mail Centre in Brisbane the conveyor systems allowed articles of quarantine interest to be directed automatically to the AQIS examination room and items which required general examination to be sent down a conveyor belt which had all parcels running directly through an X-ray machine. This meant that items did not

¹³ Under Australian postal law, items which are required by ACS to be opened for examination and assessment must be opened and closed by Australia Post officers.

have to be trolleyed to the machines and then unloaded and reloaded on to trolleys after screening as is the case at the Mail Handling Unit at Mascot or at the International Mail Centre in Sydney.

3.17 The ANAO notes that, in the relatively modern buildings, the layout and fittings provided examples of good practice that can save time, facilitate screening and offer Occupational Health and Safety advantages by avoiding unnecessary handling of items.

3.18 There should be a concerted effort by ACS to negotiate its layout needs and preferences with Australia Post and to facilitate efficient and effective design standards for each mail facility. The ANAO recognises that it would also be appropriate for AQIS, as the other agency involved in screening at mail facilities, to be involved in this process.

3.19 The ANAO notes that such moves are under way at International Mail Centre in Sydney and in Brisbane with the move to new premises to improve the screening process in some areas. We also note that ACS is negotiating with Australia Post to establish a set of building design standards to specify its requirements for mail screening as well as design standards for parcel examination and record keeping. We endorse this approach as a way of securing better practices in the future and would encourage ACS and Australia Post to continue to negotiate modifications in current building layouts (at the Mail Handling Unit at Mascot as well as the International Mail Centre in Sydney) which would better support the processing stream.

RAPS

3.20 In screening LCOA mail, ACS chooses approximately 15 per cent of LCOA bags by applying the RAPS high risk origin listings. ACS then concentrates on the OAs in the bags selected because they are considered to represent a higher risk than letters.

3.21 The RAPS profiling system is oriented mainly towards the countries that are considered to be high risk for narcotics. However, the basis of the 15 per cent indicative limit is not clear, although there is a practical motivation in having the limit to facilitate the processing of the considerable volume of LCOA mail which has arrived by air and which has relatively tight service delivery standards for Australia Post. The ANAO notes that the 15 per cent volume limit is, at best, only an indirect way of addressing concerns about possible processing delays; a more direct approach would be to specify processing time targets.

3.22 The ANAO observes that, to an extent, time pressures and processing volumes determine the volumes of LCOA mail subject to screening. We understand, for example, that, if ACS screeners cannot

complete all the screening intended for the mail selected under the RAPS system in a specified period — say within the day — the mail is released in order not to impede its flow. This was said to occur particularly when there were high volumes of mail (for example at Christmas time).

3.23 Australia Post is seeking overseas postal authorities to agree to separate their LC and OAs before they send them to Australia. The ANAO notes that some jurisdictions are separating LC and OAs and Australia Post and ACS are seeking to advance this idea at a meeting of the World Customs Organisation this year. This would be of significant assistance in ACS' screening because OAs represent only approximately 15 per cent of the total volume of LCOA mail but are thought to be of relatively high risk. Separation of these categories would make OAs more readily accessible and their screening more feasible.

3.24 The ANAO notes that all incoming LCOA mail is presented to ACS and that the current screening framework under RAPS takes account of risk indirectly in that ACS concentrates on OAs. However, the ANAO considers that the screening framework should be driven less by arbitrarily set volume limits or standards and more by risk management principles. It would be more appropriate to have a framework that explicitly applies risk management in the screening of mail. It is also necessary that this framework takes into account the objectives and practical requirements of other agencies involved at the border (such as AQIS). A framework that makes risk management principles an explicit basis for screening operations would provide more flexibility to ACS and be a more meaningful basis for operations and provide scope for ACS to deal with unforeseen contingencies.

Recommendation No.5

3.25 The ANAO recommends that the Memorandum of Understanding between ACS and Australia Post be revised to:

- remove the 15 per cent limit; and
- allow ACS to screen Letter Class and Other Article mail on a risk managed basis with scope to include preventative and mitigation measures to deal with changing circumstances.

ACS response

3.26 Agreed.

Screening by people

3.27 Screeners should be adequately trained and sufficiently experienced with technology to allow them to pick up all items of interest and only the items of interest. To assist them in their screening duties, screeners (target selection officers, dog handlers and X-ray operators) need to have easy access to current risk profiles and to apply risk profiles consistently in their assessment of all mail.

3.28 In 1997-98 ACS had approximately 92 staff in postal operations, of whom approximately 91 were in the regions, involved in screening and related operations. AQIS had about 15 staff in their international mail program, of whom 12 were operational staff. Almost half of AQIS' relevant staff are concentrated in Sydney.

3.29 Quarantine is a key concern in the screening of international mail, with quarantine 'finds' being the second most frequent find after revenue finds. For example, ACS data show that in 1997-98 quarantine 'finds' represented 43.6 per cent of all of its identified screening results (revenue represented 49 per cent of its identified screening results). In that period, there were almost six quarantine 'finds' for every 'find' of drugs or prohibited imports.

Target selection process and screening

3.30 The target selection and subsequent screening of mail (particularly parcels and OAs) is a manual and highly subjective process that relies significantly on the skill and judgement of the target selection officers. Those officers' powers to observe and assess are limited to their capacity to retain and apply the myriad of available information that might be relevant to the particular item in front of them.

3.31 Basic indicators from the item are important (for example, physical appearance, country of origin, address information, indicators from the postal declaration — although in many instances the declaration is missing, in a foreign language, illegible or false). As well, there are many other particular details that may be relevant from past experience or current information that is also relevant.

3.32 The ANAO notes that the target selection officers at the International Mail Centre in Sydney use a folder to keep these details at hand and update the folder as relevant new information comes to hand. The ANAO considers that this, or possibly the use of some simple technology such as hand-held computers, are good practices that are worth applying in other regions (such as Queensland and Victoria). Such tools offer documentary support for the target selection officer recalling details and promote consistency in the selection decision-making process over time

and across regions. Without documentation to support the target selection, it is not clear that processing in Victoria, Queensland and NSW is consistent or, if there are differences, that these are intended responses to local circumstances. (The differences in mail targeting in the regions are shown in Figures 4 and 5 in Chapter 5.)

3.33 As to the training that ACS screening staff receive, this is mainly on-the-job training in target selection and screening processes. ACS training for postal operations is also to be supported with the preparation of a work book which is currently in draft form. The ANAO considers that the training provided to the screening staff is an adequate basis for their effective application as a resource in screening. We consider that the situation will be improved further when staff are able to use the workbook which covers all aspects of ACS' responsibilities in relation to postal operations. Another positive training development is that AQIS is to commence its training of ACS screeners in AQIS issues in early 1999.

Screening by dogs

3.34 Detector dogs should be trained and handled by the staff in a fashion that facilitates the reliable detection of prohibited goods.

3.35 ACS and AQIS both use dogs in postal screening. As at mid 1998, ACS had 34 drug detector dogs in its Detector Dog Unit. At present there are two AQIS dogs in the mail program. AQIS plans to assign an additional dog to the Mail Handling Unit at Mascot and an extra dog to work part of the time at the Melbourne Mail Centre. The rest of the time that dog will be assigned to quarantine work at air couriers.

3.36 Dogs from ACS' Detector Dog Unit are used regularly (daily or more) at the Mail Handling Unit at Mascot, and the Mail Centres in Brisbane and Melbourne. At the International Mail Centre in Sydney, dogs may be used as an additional screening resource once per week, whenever they are available, given their schedules of work at the Mail Handling Unit at Mascot and at the passenger and cargo areas at the airport.

3.37 Detector dogs are valued by the screening agencies particularly for their ability to 'mass screen' quickly large quantities of LCOA items received. ACS' detector dogs are trained to detect a range of narcotics, whereas the AQIS dogs are trained to detect foods and other organic items. The dogs are necessarily specialised in their screening abilities and application because one dog cannot be trained to identify effectively narcotics as well as quarantine goods.

3.38 Deploying two sets of dogs does not represent a duplication of screening tools because they are trained to detect different types of items.

This factor, though, does not mean that the dogs must necessarily be trained, kennelled or deployed under independent and largely separate arrangements, as currently occurs. There may be scope for better coordination in the training and use of dogs by ACS and AQIS with, perhaps, a common training program (tailored to meet specialist needs) and joint plans to determine when to deploy them. For instance, better coordination in the use of the detector dogs may make them able to be deployed more readily to screen mail with the highest likelihood of containing the type of items that they are trained to detect.



Detector dogs are used in postal screening. They are particularly valued for their ability to 'mass screen' quickly large quantities of letters and small packets.

Screening by technology

3.39 Technology should be used cost-effectively and as an integral part of the screening process to identify items of interest.

3.40 The main forms of technology used in screening are X-ray and ion scan. This equipment has been valuable for mail screening because it has increased the accuracy and efficiency of screening. The X-ray machines have allowed the contents of items to be scrutinised in a preliminary way without the need to undertake the time consuming task of opening the items to examine them. In this way the introduction of X-ray technology has significantly increased the volumes of items which can be screened in a given period of time. Ion scans can be used to detect particle traces that might be easily missed.

3.41 ACS has X-ray systems (in centres or in mobile vans) for postal operations in all regions except Tasmania. ACS proposes to purchase ion scan machines for postal operations in the NSW region.

3.42 As a screening tool, X-ray machines can be used in two ways. They can be applied to process a broad throughput of items or they can be applied to a targeted selection of items that are considered to be risk items. In the second type of approach, X-ray is applied to the areas that are considered more likely to contain finds. At present, although its screening strategy is not explicit, ACS uses the X-ray in the targeted way — using it after initial screening by the target selection officer.

3.43 ACS uses the Backscatter X-ray technology which displays two images of the article. One shows metals, the other shows organic products. ACS has advised that the Backscatter X-ray technology is very effective in determining organic material in complex and cluttered environments. It believes that the Backscatter technology provides at least a 20 per cent detection advantage over conventional X-ray technology.

3.44 In contrast, AQIS favours the Rapiscan X-ray screening technology which displays a coloured, layered image. AQIS has one Rapiscan machine at the Mail Centre in Brisbane and one installed in the International Mail Centre in Sydney. AQIS shares a Rapiscan machine in Perth with the Western Australian Department of Agriculture. In Victoria, AQIS and ACS share the use of a Backscatter machine.

3.45 The ANAO is aware that ACS and AQIS strongly maintain that the type of equipment each has acquired and deployed has particular advantages in terms of cost or specific ability, for example to detect concealed items. The ANAO is also aware that the trial conducted of the two machines in late 1997 did not produce conclusive results to show which type of machine was superior but we understand that the Rapiscan X-ray is cheaper.

3.46 The issue of different and separate X-ray machines appears to have brought to a head the concern that there is duplication of effort in postal operations. The activity of two agencies involved in screening seeking separately to install and operate their particular X-ray machines has been a contentious issue for ACS, AQIS and especially for Australia Post, as the organisation which owns and/or operates the facilities. The matter is a sensitive one, but it seems to be only indicative of an underlying problem with postal operations screening. The underlying problem is that there is not an overall plan to manage the acquisition and deployment of postal screening resources for ACS, nor to guide how they would link in with other treatment strategies by other agencies.

Heroin concealed in wooden ornaments found using X-ray technology

On 9 September 1997, an importer attended the Clyde International Mail Centre to clear a commercial consignment of five parcels of wooden ornaments sent by Express Mail Service from Thailand.

An X-ray examination of the wooden ornaments indicated an irregularity in the wooden bases that later revealed concealments of heroin. Australian Federal Police attended the Clyde International Mail Centre and arrested two males immediately after they took delivery of the five parcels. One of these persons was later formally charged with the importation of the heroin.

The total quantity of heroin concealed in 170 wooden ornaments in the parcels was 21 kgs with a street value of \$30 million.

Export screening

3.47 Compared to the screening of incoming international mail, the screening of export mail by ACS is very limited. This is because export mail is considered to be a lower risk and therefore a lower priority than imports. Most of the screening done is in response to specific information about a particular incident, however ACS allocates some resources to screening higher risk export items on a more general basis. In Melbourne, for example, ACS sends a mobile X-ray machine to the relevant mail centre daily to screen a select set of high risk articles. The main export mail screening concerns are the illegal export of wildlife, steroids and medicines.

Coordination of screening in ACS

3.48 As noted earlier, the people, dogs and technology resources available for screening (both from ACS and AQIS) work best if their allocation and use are coordinated.

3.49 The ANAO observed that a wide range of tools is used in postal screening, but their allocation and use in the regions and at individual facilities tend to be determined independently as particular circumstances allowed. Their allocation and use did not appear to consider explicitly the context of overall needs and risks, nor how best to coordinate screening tools to use their particular strengths most effectively. The ANAO considers that inadequate coordination of screening resources makes it less likely that the range of resources are combined to work in a complementary fashion for effective coverage and optimum detections.

3.50 An example of what appears to be an ad hoc response to individual circumstance and opportunity is illustrated by a decision of the Mail Handling Unit at Mascot to modify and install an additional X-ray machine because it was no longer required at the passenger area of the airport. That does not mean that the additional X-ray machine was not needed, nor that the particular initiative was not soundly based. However, it was not apparent that its installation was part of an overall strategy designed to meet overall program risks and business needs, that specifically took into account the resources of other parts of the postal operations program in ACS and the strategies and resources of other relevant agencies, such as AQIS.

3.51 We are aware of ACS' various corporate planning documents. We are also aware of the Border Operations Branch's risk management documents and work plan. In addition to the Branch's current documents, we consider that there is a need for an overall strategy for postal operations at the operational level. This overall operational strategy would identify business and risk management needs and specify the coordinated practical screening responses.

3.52 The current planning and risk management framework in the Border Operations Branch would provide a solid basis for the development of such a coordinated operational strategy for assessing and using postal screening resources. Such an overall strategy is also consistent with the strategies and specific risk treatments outlined in the Branch's planning documents. For example, the current Border Operations National Treatment Action Plan identifies as a task for 1998 the development of a Branch technology acquisition and deployment plan and an X-ray deployment strategy. Our proposal seeks to extend the coverage of such planning to all screening resources, not just technology, and to ensure that it focuses on relevant postal operations across regions.

Recommendation No.6

3.53 The ANAO recommends that ACS develop an overall strategy for acquiring and using postal screening resources to ensure that it has in place across the regions an optimum screening procedure that directly addresses screening needs.

ACS response

3.54 **Agreed.** A project currently examining standards at international mail centres has a strong focus on the future screening process. Design standards will lead to the development of a strategy which ensures consistency in the deployment of screening assets.

3.55 Other matters concerning the coordination between agencies (of which this recommended planning may form a part) are discussed in Chapter 6.

4. Revenue Screening and Compliance

This chapter considers the methods ACS uses to screen postal items for revenue purposes, ensure revenue compliance and subsequently collect sales tax and duty. It also examines the work ACS has undertaken to estimate the amount of revenue leakage in the screening of postal items.

The postal environment and revenue assessment

4.1 As noted in Chapter 1, one objective of ACS' operations in the postal area is revenue collection. The broad processes involved in screening are outlined in the previous chapter. Specific elements of the screening process relating to revenue screening and assessment are set out in this section.

4.2 ACS is required under the Customs Tariff Act to collect revenue duly payable on imported items, including items imported via the post. However, revenue collection within postal operations is quite different from revenue collection in many of the other areas of ACS' operations. Particular matters that set revenue collection in postal operations apart from other areas include:

- bags containing articles arriving by sea and air do not arrive with a manifest or any electronic record indicating for individual consignments who the sender was, description of goods, value of goods, who the recipient is and the country of origin;
- on some occasions the declaration that should be affixed to the outside of the item is missing, is illegible or has omitted essential elements. Accepting the parcel for transit is the responsibility of the overseas postal organisation;
- there is no self-assessment process in operation in respect of items coming through the post; it is up to ACS to determine the duty and/or sales tax that is payable; and
- under postal legislation only postal staff can open items for examination.

4.3 The revenue assessment and clearance activities account for a significant proportion of the staff involved in postal operations. For example, over two-thirds of the ACS postal operations staff at the International Mail Centre in Sydney, which is the mail centre accounting for the greatest volumes of mail, perform revenue assessment and commercial clearance activities. At the much smaller Mail Centre in Brisbane these functions account for about four of the nine staff.

Revenue assessment

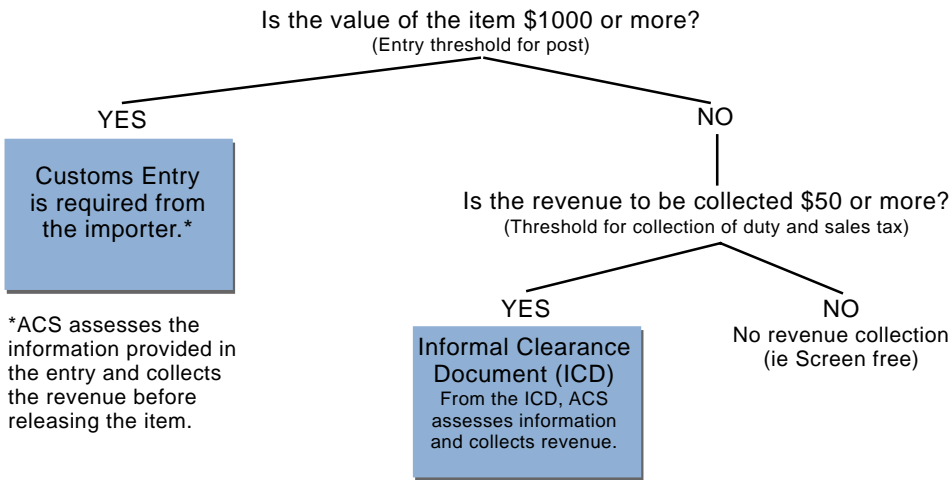
4.4 Customs duty and sales tax are payable on the importation of most goods (including goods imported via the mail). However duty and sales tax are waived where the goods are of insubstantial value and have an insubstantial revenue liability.¹⁴ In respect of goods imported by post, the free rate applies to goods which have a total value not exceeding \$1000 and on which the combined duty and sales tax, if any would otherwise be payable, does not exceed \$50.

4.5 For ACS to collect duty or sales tax that are due, it needs to select the parcel and then determine what particular type of revenue processing it should follow. Different approaches apply depending on whether the goods entering are going to a private person or a business, and whether the value of goods is in excess of \$1000. If the value of the postal item is \$1000 or more, a ‘customs entry’ must be lodged by the importer. If the value of the item is below \$1000, but the revenue due on the item is above \$50, then an Informal Clearance Document is required and action is taken to collect the revenue before the item is released.

4.6 The steps in revenue assessment are illustrated in the following figure.

Figure 3

Revenue Assessment Process in ACS Postal Operations



¹⁴ Item 32B of Schedule 4 of the *Customs Tariff Act* provides the waiver of customs duty. Item 187 of Schedule 1 of the *Sales Tax (Exemptions and Classifications) Act* provides an equivalent exemption on sales tax.

4.7 It should be noted that the task confronting the officers required to select items likely to have revenue due on them is not easy. As the article comes forward, the officer needs to consider:

- the nature of the contents;
- the value;
- the applicable exchange rate;
- the tariff and sales tax regimes; and
- all the other information that has been provided to officers relating to community protection screening.

4.8 The mental processes and concentration expected of these officers, the paucity of reliable information and the speed with which screening decisions must be made in order to manage the volumes of items, mean that the selection process for revenue purposes has inherent difficulties. From observations made during the audit, we conclude that ACS is making reasonable efforts to ensure that this selection process for revenue is as accurate as possible.

4.9 Where items do not have sufficient external information for the initial selection officer to determine whether revenue is due, the parcel is sent for general examination. At this stage the article may be X-rayed or opened and it is assessed for revenue. If, for example, it is a machinery part, and the value is not apparent, it may well be sent for formal entry. ACS officers indicated that this process works reasonably well unless there is a large number of parcels requiring examination and to delay them further would affect the timeliness of their delivery.

4.10 With regard to revenue screening processes, we consider that ACS works diligently to make the screening successful, but that the inherent weaknesses of the approach and the postal environment in which ACS has to operate mean that some revenue will not be collected. Opening a large proportion of articles and slowing the processing of the international post down even further is not considered to be practical or cost-effective by either ACS or Australia Post.

Pilot test survey of low value importations

4.11 Under the current revenue screening methods, unless the goods are formally entered, ACS does not have information about the nature of the postal items which fall below the screen free limit (that is, receive the free rate of duty and sales tax because their total value does not exceed \$1000 and duty and sales tax payable does not exceed \$50). In order to obtain some initial data on these 'low value imports' and the amount of revenue that should have been collected if ACS screening decisions were

more accurate, ACS undertook surveys of postal importations in June and November 1997. A firm of consultants undertook the November survey for ACS and it was designed as a pilot to prepare for a full-scale survey to be undertaken at a later date.

4.12 The ANAO recognises that a full-scale survey would entail certain costs. However, having reliable information regarding the parcel post population would make a major contribution to ACS' ability to address the risk of revenue loss in a more strategic and targeted fashion. The ANAO considers that the frequency with which it is considered necessary to undertake further surveys in future years should be assessed in the light of the results of the first full survey. The appropriate scale of future surveys should also be considered at that time.

4.13 Given the lack of information about the parcel population that ACS is examining, and the inherent weaknesses in the detection processes that it has available, the ANAO strongly supports ACS' efforts to gather additional information relating to the parcel traffic that moves into Australia through the post. Accordingly, the ANAO considers that ACS should move to carry out a comprehensive survey of the parcel population as soon as possible. The ANAO suggests that there may be merit in ACS obtaining the assistance of the Australian Bureau of Statistics regarding appropriate statistical sampling methodologies.

4.14 It is also important that, in addressing the weaknesses identified under any survey, ACS employ tools other than its existing screening approach to improve compliance. Because screening will never be totally effective it is important that ACS not only uses screening to assess revenue and enforce compliance and detect non-compliance, but that it also seeks to use other methods such as public education, to encourage compliance. This education effort could most effectively be directed to the recipient of the parcel in Australia (the scope for providing effective education to overseas senders being very limited).

Estimates of revenue leakage

4.15 The consultant's report projects the results of the pilot survey during two weeks in November across the whole year and to all locations where mail is processed. The report notes that the projections are highly problematic and that therefore the pilot survey data on revenue leakage needs to be used with caution.

4.16 Based on the work carried out by the consultant in the pilot survey, ACS estimates that revenue leakage in postal operations over a full year is \$20.6 million.

4.17 As well as the need to carry out a full scale survey, as noted by the consultant, the ANAO observes that there were several matters in the pilot survey and subsequent estimate that should be improved in calculating any possible revenue leakage. These are:

- the pilot survey did not take into account the various exemptions and alternative rates that apply under both the duty and sales tax regimes for commercial recipients of imported goods; and
- part of the calculation of actual revenue used in determining estimated revenue leakage was based on determining the revenue collected in Sydney in November 1997 and projecting it to an annual Australia-wide figure.

4.18 ACS advised the ANAO that it is collecting the actual revenue figures for postal operations and is also carrying out regular reconciliations of information provided. The ANAO considers that ACS should use reliable, full year recorded revenue figures to determine the actual revenue being collected for postal operations, in making any estimate of revenue leakage.

4.19 In view of the acknowledged weaknesses with the pilot survey and the areas where improvements are suggested for the full survey, the ANAO considers that it is not possible to place substantial reliance on the estimates of revenue leakage that have been undertaken to date. A more comprehensive survey program, incorporating the enhancements suggested above, is necessary before the size of any revenue leakage could be estimated with a reasonable degree of confidence.

Recommendation No.7

4.20 The ANAO recommends that, in carrying out a survey program of postal operations, ACS take account of the extent to which the potential revenue would be affected by claims for exemptions or other concessions under the duty or sales tax regimes.

ACS response

4.21 **Agreed.** ACS intends to conduct surveys from time to time on a sampling basis to ensure appropriate levels of compliance. The renegotiation of the MOU, which will mean 100 per cent screening of OAs, will have a positive impact on overall compliance.

Using X-rays to identify revenue liability and improve compliance

4.22 In the pilot survey, a comparison of the ability to detect revenue was made by sampling parcels and estimating what revenue was liable on the basis of the external examination and comparing this with the revenue assessments made when about half of the sampled articles were opened. From this exercise it was able to be determined whether there was more revenue liable than the external examination had indicated.

4.23 The ANAO suggests that ACS consider expanding the survey to obtain data for analysis to demonstrate what is able to be determined through X-raying parcels. This would provide a quantitative indication of the benefit of using X-ray machines for revenue purposes. It could also assist ACS in its efforts to have Australia Post agree to designing the mail processing to allow ACS to take greater advantage of X-ray technology by removing the need for Australia Post staff to open and close the items.

Compliance with revenue requirements

4.24 Despite the efforts of ACS through its screening activities, it appears from the survey that there is some revenue leakage, although the size of that leakage is yet to be confidently determined. The ANAO considers that, within a robust risk management framework, ACS could improve its revenue screening and compliance strategy in two ways as outlined below. These improvements may, in turn, mean that ACS could obtain a better revenue 'return' from their postal screening and compliance efforts.

4.25 In examining the pilot survey results, the ANAO noted that one small group of parcels appears to provide the major part of the revenue leakage that the survey estimated to occur.¹⁵ That is, one specific category of the sample of items seemed to account for most of the difference between the customs duty and sales tax revenue that was assessed on the basis of the postal declaration and external examination, and that assessed as due when the mail item was opened and its actual contents were examined.

4.26 While the results of the survey need to be treated with caution, the ANAO considers that ACS should re-examine the survey data to seek further information on the particular instances that contributed to the estimate of leaked revenue flowing from the survey results. In the light of information on the main incidents that led to the estimated leaked revenue,

¹⁵ AC Nielson, *Survey of Low Value Importations Report on Stage 2: Pilot Test Survey* February 1998, pp.39, 40.

ACS could determine what might be an appropriate revenue compliance approach. Such information and analysis may inform ACS of particular elements of the screening process that require improvement, or prompt it to consider alternative compliance treatments such as public education or some other form of targeted effort as an appropriate response.

4.27 In terms of other possible measures to improve revenue compliance in postal operations, the ANAO also considers that it may be appropriate for ACS to conduct a joint project involving staff in Border Operations Branch and in the Commercial Services Division responsible for revenue compliance work. This project could identify, assess and respond to, the compliance revenue risks in postal operations after the proposed survey program of low value postal items. In this way the project could respond on a risk assessed basis, when sufficient information is available on the nature of transactions and risks.

Recommendation No.8

4.28 The ANAO recommends that, as part of good risk management practice, ACS follow up the results of the pilot survey it conducted of low value importations to determine whether the observations that led to the indication of leaked revenue provide a basis for improved compliance action, including actions not related to the screening process such as public education.

ACS response

4.29 Agreed. As for response to Recommendation 7, ACS intends to conduct surveys from time to time on a sampling basis to ensure appropriate levels of compliance. The renegotiation of the MOU, which will mean 100 per cent screening of OAs, will have a positive impact on overall compliance.

Implications of the agreement with Australia Post to screen only 15 per cent of LCOAs

4.30 As noted in Chapter 3, under the Memorandum of Understanding with Australia Post, all incoming LCOA mail is presented to ACS and ACS has agreed to screen up to approximately 15 per cent of LCOAs, to allow that class of mail to move through the sorting and examination processes as quickly as possible.

4.31 ACS advises Australia Post of the particular target locations (for example, country, city or state of origin) and a selection of LCOA bags from those locations is provided to ACS for its examination. As a matter of principle, ACS has the right to screen all LC and OAs and it does periodically use dogs from the Detector Dog Unit to detect narcotics. This process is discussed more fully in Chapter 3.

4.32 Revenue due is only determined after ACS makes a revenue assessment. In respect of revenue, no examination, let alone revenue assessment, is made of a substantial proportion of OAs. That is, from a revenue point of view, the greater proportion of OAs is never assessed by ACS for any revenue liability that may be due.

4.33 The ANAO considers that the agreement with Australia Post to release at least approximately 85 per cent of LCOA mail nationally after the application of RAPS and to release the remaining 15 per cent of LCOA mail following screening, is an underlying weakness in the screening process for revenue. ACS' current arrangement with regard to the screening of LCOAs for revenue purposes does not address the cost-effectiveness of collecting revenue; the current arrangements effectively mean that ACS does not take any steps to collect or even assess revenue due for a significant part of one category of mail.

4.34 The ANAO considers that it would be appropriate that the MOU with Australia Post be reviewed with a view to allowing ACS a better opportunity to examine, on a risk managed basis, appropriate small parcels for revenue purposes and to allow ACS to improve its methods of collecting revenue due in a cost-effective manner. If this is not possible, alternative approaches need to be explored to overcome the problem.

Postal screening compared with that of air couriers

4.35 In contrast with OAs sent via the post, small parcels of a similar size that are sent under air express arrangements through freight forwarding companies and air couriers are systematically screened on a documentary basis for revenue by ACS.

4.36 We recognise that some of Australia Post's operations in processing mail are not necessarily of its choosing. One constraint is that letters and OAs generally arrive from overseas in the same bags. Because they are not separated, access by ACS to the entire population of OAs and parcels (the classes of items more likely to be of revenue interest to ACS) is not readily achievable in a way which allows ACS cost-effectively to focus only on these items, without having to contend with the large volumes of letters. As noted in Chapter 3, Australia Post is seeking the agreement of overseas postal authorities separating their LC and OAs before they send them to

Australia. Some jurisdictions are doing this. Another constraint on screening is that the nature of the current postal operation does not allow for screening to occur by examination of an electronic record, as occurs with small parcels transported by freight forwarding companies.

4.37 As well as a difference between the screening system that applies for Australia Post and that for air couriers, there are also currently differing requirements placed on freight forwarders and Australia Post in regard to the obligation for consignments to go through the formal entry process. The entry threshold value for consignments through freight forwarders is \$250 and the threshold value for consignments through Australia Post is \$1000. In its report on competitive restrictions related to Australia Post, the National Competition Council recommended:

*... that the Customs Act be amended promptly to ensure that all postal operators are subject to a threshold to the same value ...*¹⁶

4.38 The Joint Committee of Public Accounts and Audit (JCPAA) in Report No. 360 *Internet Commerce To buy or not to buy?* recommended that:

*The commercial entry thresholds for both postal and non-postal consignments should immediately be set at \$1000.*¹⁷

4.39 In the ANAO's view, the principles that have led to these recommendations to standardise entry thresholds apply similarly whether ACS is attempting to collect revenue that is due on small parcels that are transported by Australia Post or by freight forwarders. The current difference between the screening, including revenue screening, treatment of OAs, and similar air express items artificially distorts the transport mode in favour of postal traffic.

Recommendation No.9

4.40 The ANAO recommends that:

- ACS review its Memorandum of Understanding with Australia Post with a view to ensuring that the treatment afforded Other Articles is consistent with the treatment afforded similar small parcels transported by the freight forwarding industry; and
- steps are taken to collect duty and sales tax from all potential categories of international parcel post.

¹⁶ National Competition Council, *Report on Review of the Australian Postal Corporation Act 1989* AGPS, Canberra, 1998, p.92.

¹⁷ Joint Committee of Public Accounts and Audit, *Report 360, Internet Commerce To buy or not to buy?* AGPS, Canberra, 1998, p.148.

ACS response

4.41 Agreed. ACS' intention in renegotiating the MOU is to have Australia Post report as much as possible through electronic means. ACS and Australia Post are already working nationally and internationally with the World Customs Organisation and the Universal Postal Union to achieve this objective. These steps together with the screening of 100 per cent of OAs will ensure appropriate collection of duty and sales tax from all categories of international parcel post.

Change in the revenue threshold arrangement

4.42 Currently, parcels arriving through the post are assessed for revenue if the amount of duty and sales tax to be collected is greater than \$50. The JCPAA recommended that:

When the results are available from stage three of the survey into low value imported goods, the Australian Government should, using that data and other relevant information, consider whether to change the \$50 duty and sales tax free limit to a \$150 goods value limit.¹⁸

4.43 The JCPAA proposal has some obvious advantages in that it would reduce considerably the difficulty associated with the screening process for revenue. The proposal would mean that the officer doing the initial selection would no longer have to assess what duty and sales tax might be applicable, but would only be required to assess whether the value of the good was greater than \$150 and whether the contents were subject to duty or sales tax. The officer would not need to be concerned about trying to apply varying rates of duty and sales tax and what the end result of that calculation might be.

4.44 The ANAO endorses attempts to simplify and improve the screening process. The ANAO suggests that ACS takes the earliest opportunity to simplify the screening process such as moving to a value threshold rather than the current duty and sales tax threshold.

¹⁸ *ibid.*, p149.

Future developments

4.45 It is worthwhile considering possible future developments in revenue collection at the low value end of the mail. In addition to the constraints and difficulties noted earlier in this chapter, the ANAO observes that the current tariff and sales tax regimes are complex for ACS to administer and were not designed with high volume, low value goods in mind.

4.46 The efforts that are currently being made by ACS to survey low value postal traffic are an important step in gaining information about the parcel and packet population that is arriving through Australia Post's international mail operations. It is also important that ACS uses the information gained from these surveys to improve compliance with revenue collection requirements.

4.47 The ANAO notes that efforts to improve the information that is provided with items moving through the post are continuing. As well, the JCPAA asked that ACS and Australia Post examine improvements with bar coding and related item identification.¹⁹ The ANAO notes that achieving such change is dependent on overseas moves in the same manner and that this may not always be possible or timely. However, we understand that ACS and Australia Post are supportive of the improvements in screening efficiency and effectiveness that bar coding may provide.

4.48 The potential for growth in relatively low value items being distributed via the post and the growing pressure for speedy delivery suggest that there would be merit in assessing what the most cost-effective mix of mechanisms would be to suit future needs. With the potential increase in the use of the OAs element of postal traffic as a result of the internet and other international mail order arrangements, it seems sensible to examine the scope for a more streamlined method of collecting revenue from this category of postal traffic.

4.49 The ANAO understands that ACS is considering possible options regarding revenue screening arrangements for postal items. The ANAO is supportive of the examination of alternatives to simplify and harmonise elements of the entry and control process.

¹⁹ *ibid.*, p122.

5. Data Collection and Analysis

This chapter reviews the type of activity and performance data collected by ACS and its methods of recording and using this data.

Introduction

5.1 The regions use a combination of sources (Australia Post, AQIS and their own sources) to keep records about the volumes of incoming LCOA bags and parcels, the numbers of articles (OAs and parcels) chosen for screening, and the results of screening. ACS officers record the LCOA bags chosen for inspection when the targeted bags are separated from all the LCOA bags that arrive. Australia Post provides ACS with the total number of LCOA bags.

5.2 The volume of parcels is recorded electronically by a 'push-button' counting system which is operated by the target selection officer as the parcels come through the conveyor system and are sent for release or for further processing in one of several categories. Australia Post provides ACS with data about numbers of parcels from this counter system.

5.3 ACS screening officers performing the General Examination screening keep a manual record of the decision made for each article that is passed through the X-ray by the machine operator. Positive finds of narcotics and other prohibited imports are recorded manually into a book or 'detections register' or into an electronic database.

5.4 Activities and screening results are also collated in the regions into weekly and/or monthly reports, depending on the region. These reports summarise activities for the period and contain statistics relating to volumes and screening results and narrative descriptions of seizures.

5.5 Each region provides Central Office with activity data according to a spreadsheet template each month. The categories on the template include the number of LCOA bags and parcels that arrive, the number of these that are targeted for screening, as well as the numbers of positive results. These activities data are intended to be prepared on a nationally consistent basis and to be compiled into quarterly activities figures for use as a management tool by ACS.

5.6 Postal operations modified and clarified its data collection requirements in mid 1998. The new data set required for postal operations is similar to the previous template except that it requires more detail in relation to the methods used in targeting, the types and significance of

finds and a more detailed breakdown of the results of revenue screening and amounts collected. Considerable attention is also devoted to outlining the activities to which the data should relate in order to promote consistency in reporting.

Data collection

5.7 In order to monitor the nature and origin of prohibited and restricted items that are being imported through the postal system, ACS requires reliable methods of collecting accurate information on its processing and screening of the various categories of mail (LCOA, express mail and parcels).

5.8 The ANAO found that a considerable amount of information was obtained and manually maintained in the regions and the activity reporting arrangements were extensive. The ANAO also found, though, that when it sought postal operations activity and performance data from the ACS across all regions, accurate information was not readily available. ACS advised that this was partly because of a lack of quality control by Central Office over data provided by the regions and partly because of errors in the Central Office Performance Indicator Database.

5.9 We suggest that difficulties in maintaining accurate statistics may be related to the localised systems of maintaining data and the high manual element in record keeping which increases the potential for human error in recording. One possible measure to alleviate these difficulties is to introduce a greater measure of automation in the recording of data. Automated data collection could assist ACS produce more timely and accurate data by eliminating steps in the recording and collation process. Automated data collection could also assist ACS rationalise the considerable amounts of information (including narrative and descriptive information which is not conducive to being condensed and analysed) that is currently collected and duplicated on forms, paper registers, electronic registers and databases which are not accessible on a national basis.

5.10 The ANAO is aware that ACS is developing a new national system to record all seizures, described as the National Examinations and Seizures System (NESS). ACS intends that the NESS will enhance its capacity to undertake collation and analysis by allowing risk testing and trend analysis of activities and seizures. The ANAO considers that the implementation and use of NESS may significantly assist ACS undertake its necessary analysis of postal operations by providing an easy reference for all seizure information and reducing the time spent on collecting redundant data.

Recommendation No.10

5.11 The ANAO recommends that ACS assess the business case for improving its management information by better use of technology to save time documenting activities and collecting results and to reduce the chance of errors being made.

ACS response

5.12 Agreed.

Data analysis and performance information

5.13 In order for the data collected to be of value, it should be recorded in a format that allows for analysis that can feed back into the profile development to improve the comprehensiveness and relevance of the screening.

5.14 The data collected at the regions is collated into statistical summaries that include country of origin and type of item and the numbers of each type of seizure. These summaries are used to some extent to enhance screening by increasing officers' knowledge of local trends and highlighting current risks. Each region has its own method of reporting seizures and compiling results which reflects the different volumes and sources of mail that each region processes.

5.15 The ANAO found that Central Office does not analyse the data that it receives monthly in template format from each region to identify trends or risks or to feed back into any risk profiles. The ANAO found that the regional statistics were simply collated and stored for reference.

5.16 As described in Chapter 2, dealing with intelligence and information gathering, the Central Office Border intelligence area has a role in contributing to the development of the high risk country profile lists that dictate the screening activities for the regions. Given this role, it would be appropriate that Central Office analyse and use the data and performance statistics in developing and reviewing the country profiles.

5.17 There is also a role for Central Office to consider the regions' data and performance statistics to assess activities in order to contribute to improved overall program management.

5.18 AQIS has a presence in each of the mail centres. AQIS collects data on the detection of items of quarantine interest, their country of origin, the postcode associated with their destination and seizures. Officers enter these details by computer into a national database. AQIS compiles this data into

monthly lists of the high risk countries based on the number of detections of items of quarantine interest coming from each country and the numbers of goods of quarantine interest that were not declared. AQIS also compiles monthly reports of the types of items that were seized in order of their frequency and also the high risk postcodes.

5.19 AQIS provides these monthly reports of results to ACS' Border intelligence analysts at Central Office. These reports are also distributed to the regions to inform the ACS officers of recent trends. ACS officers use the AQIS data, in liaison with AQIS, to profile and target mail which might represent a risk. Keeping the ACS officers informed of national trends is very important for AQIS because these officers act as the primary screeners and screen on its behalf.

5.20 In addition to collating monthly totals and analysing trends, AQIS performs other analysis of its data. For example, it monitors performance ratios (such as referrals as a proportion of total mail and seizures as a proportion of referrals) by State. It also plots these over time to highlight trends.

5.21 On the basis of the information provided to the ANAO, AQIS' data recording and particularly the analysis of that data appeared to be worthwhile and to be an example of good practice. The ANAO suggests that ACS should consider discussing AQIS' processes of data collection and analysis to see if similar approaches could be applied to ACS' data.

5.22 The following figures illustrate the types of graphical analysis that ACS could perform with the information that it collects.

Figure 4
Number of LCOA bags received and examined by region

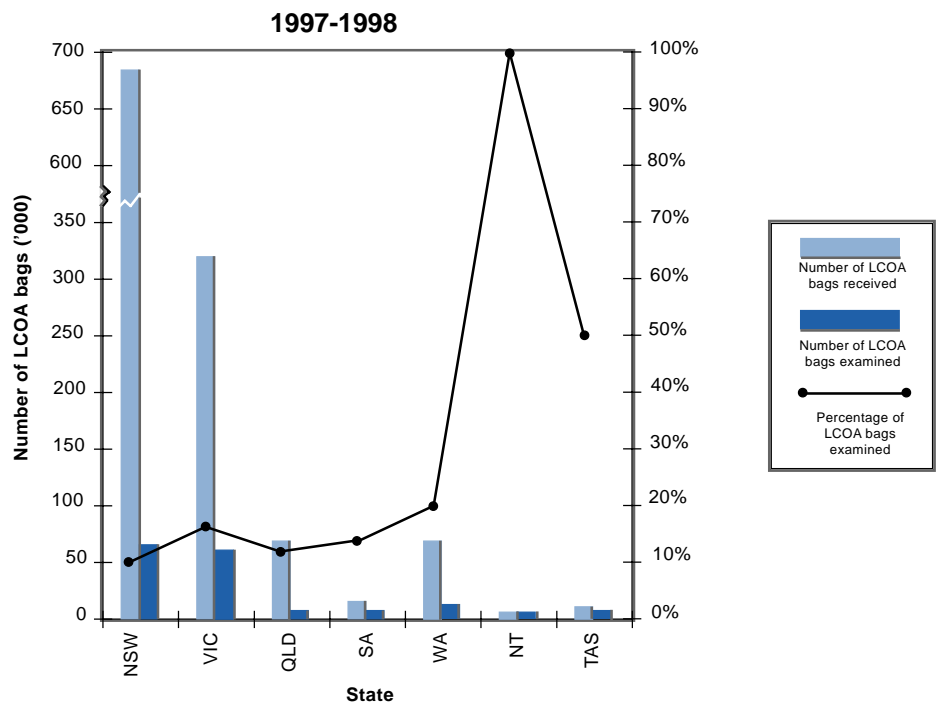


Figure 5
Number of parcels received and targeted by region

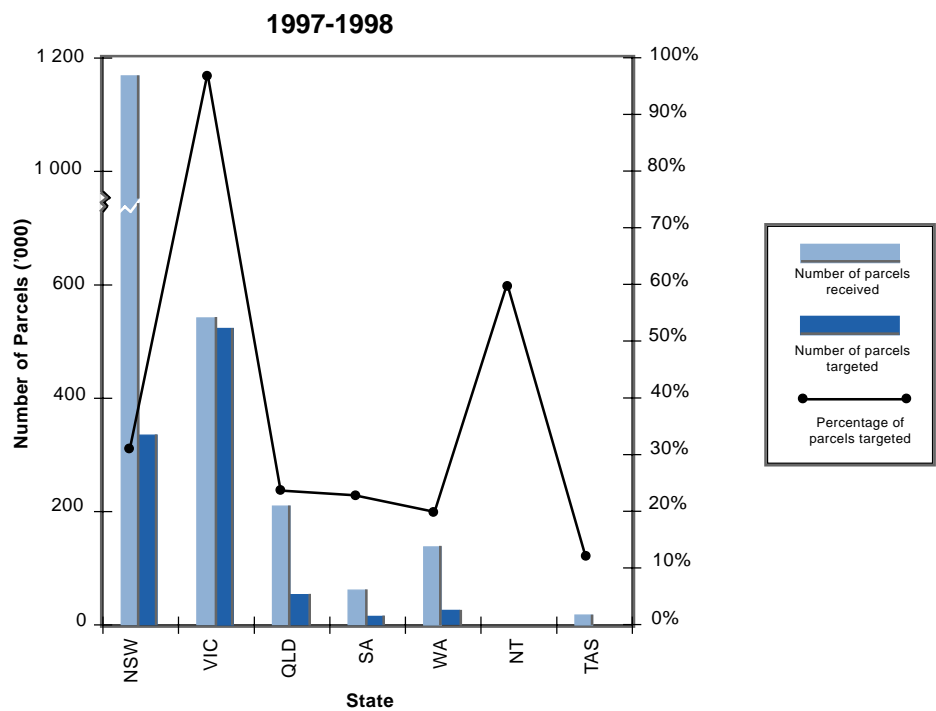


Figure 6
Results of targeting LCOA bags and parcels

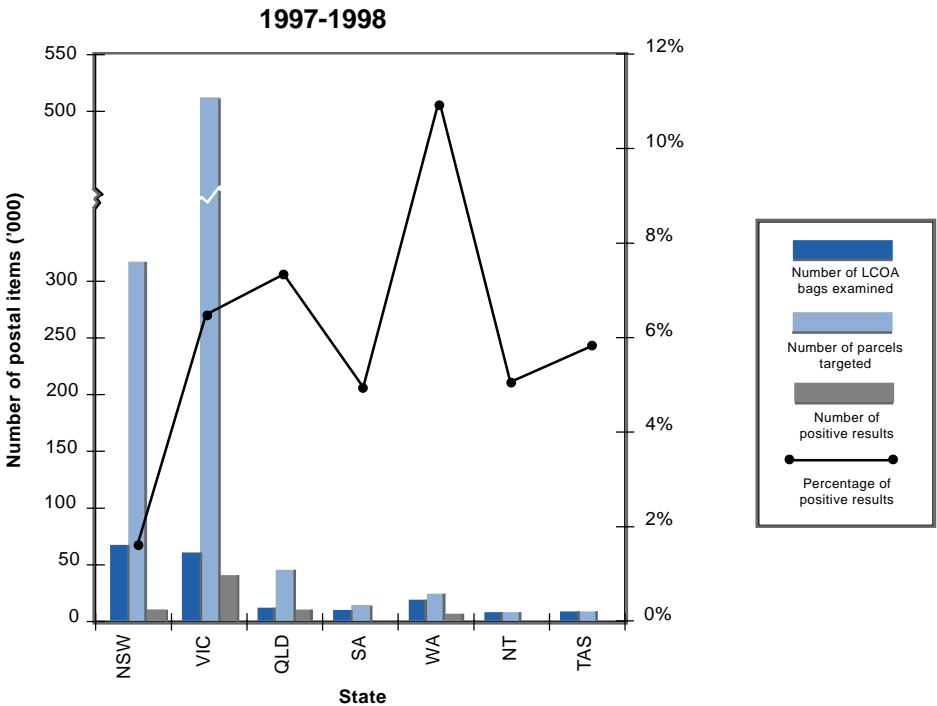
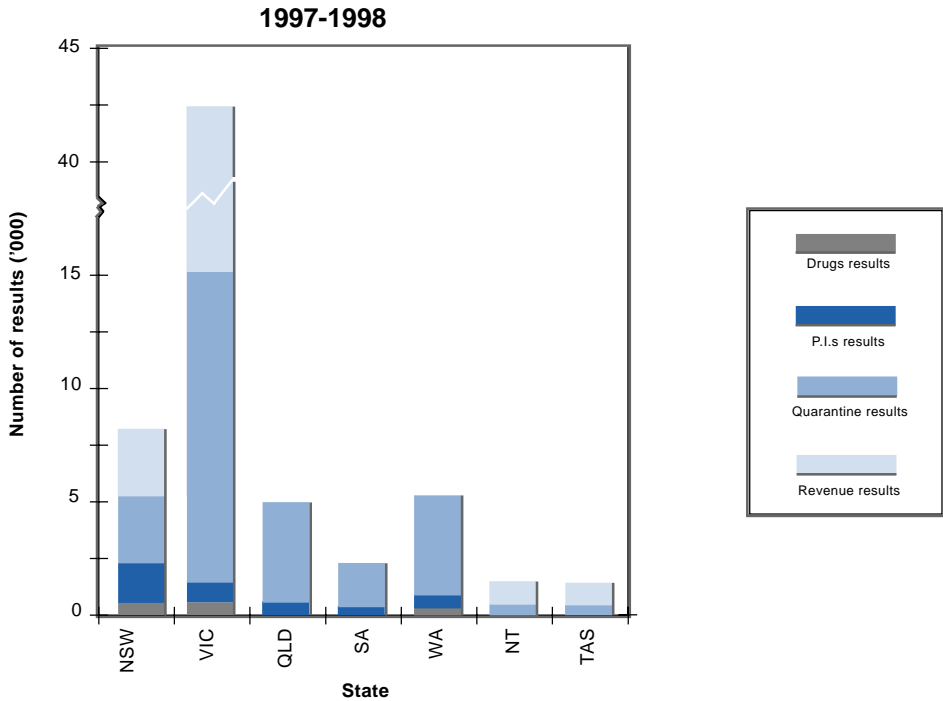


Figure 7
Number of positive results by type and region



5.23 Some features emerge from these analyses, such as:

- NSW handles by far the most articles (LCOA bags and parcels), followed by Victoria, then Queensland and the other regions;
- the great disparity between the volumes each region handles appears to affect the amount that is screened and the results of that screening. Figure 6, showing results of targeting LCOA and parcels, indicates, for example, that Victoria does the most screening of parcels and has the highest number of positive results; and
- the incidence of Victoria's positive results, particularly for quarantine and revenue finds, far exceeds any other region, as shown in Figure 7.

5.24 The ANAO considers that some of these features invite further investigation in order to clarify the underlying reasons for these divergent patterns and to share the examples of better practice where these practices result in better activity levels and results. The ANAO considers that such obvious disparities in the results might suggest differences in the interpretation of terminology between the regions or inaccuracies in reporting the figures.

5.25 The ANAO considers that there would be benefit in having analysis done of the detailed statistics provided by the regions. In the ANAO's view, this analysis would best be done by staff with a practical appreciation of the mail screening processes and an awareness of the changing commercial and technological environments and patterns of imports. The ANAO considers that such analysis could be undertaken at a mail centre such as the International Mail Centre at Clyde in Sydney which accounts for the largest volumes of mail. Staff at Clyde, for example, are close to the physical postal operations and would understand how the statistics are obtained and the type of analysis that needs to be done.

5.26 ACS could then examine the results to identify trends in, or between, the regions, for example, or assess the effectiveness of the various screening activities or work patterns. These results, once their implications for the screening process were evaluated, could contribute to the review and modification of screening approaches.

Recommendation No.11

5.27 The ANAO recommends that, to improve the effectiveness of targeting and screening approaches used in the regions, ACS:

- assign responsibility for the analysis of the activity and results data for all regions to a designated resource; and
- ensure that the results of the regional analyses are shared and used.

ACS response

5.28 Agreed. The new 'Operations Coordination' group in the Border Operations Branch of ACS will ensure that postal intelligence is centrally coordinated and the regions are kept informed of analysis. It will also oversee how each region uses the information and will assess results.

5.29 The ANAO's suggestion for more analysis of postal operations data is consistent with the Border Operations Branch's strategy of program performance assessment. Our suggested analyses would also complement the Branch's new key measures framework for postal operations for considering efficiency, effectiveness and service standards. Those key measures will use statistics from the Border Operations Branch and data from ACS-wide exercises documenting and categorising all its activities to compile ACS' Activity Dictionaries. The ANAO notes that the new performance reporting framework will be useful, especially when the Border Operations Branch is able to report key statistics on the costs associated with the key Border control measure of providing community protection.

6. Agency Coordination

This chapter examines the extent to which the postal operations activities performed by ACS are coordinated. The chapter considers how ACS can improve its management of the activities by coordinating its functions in a cost-effective manner. The chapter also examines the extent to which the various agencies involved in the processing and screening of international mail coordinate their activities and how the views of stakeholders are taken into account.

Coordination in the ACS context

6.1 Features of the postal operations program area relating to its size and significance, its place within Border Division and its dispersion bear on the way the program can be administered and the way in which administrative improvements can be made cost-effectively. These features were described in Chapter 1.

6.2 In previous chapters we identified a number of key requirements for effective mail processing covering intelligence gathering, the use of screening resources and data analysis. A common theme was that the various activities in ACS could be improved if they were performed on a more systematic basis. We identified a need for ACS to identify risk countries and products after an explicit assessment process; plan the screening process to allocate screening resources and to deploy them in the best way possible across the regions to respond to business demands and assessed risks; to analyse screening results to review risk assessments; and to make informed decisions about the effectiveness of the screening methods used.

6.3 In view of the size and significance of the program, we consider that the most appropriate way to address the planning and operational needs we have identified is to have some resources dedicated to postal operational matters and to make them responsible for the full range of matters. These resources would be responsible for managing all the planning, operational and review functions for postal operations in ACS. They would be responsible for gaining access to, and assessing, intelligence and establishing risk profiles; for planning the allocation and deployment of screening resources; and for using the results data collected to assess and to review risks (including revenue risks); and for operational responses.

6.4 We suggest this model of 'co-location' because we do not consider it cost-effective to require the small teams currently engaged in postal operations in each region to perform the more developed planning,

operational and review functions we suggest in Chapters 2 to 5. These tasks could best be dealt with in a coordinated way by staff who are assigned to perform these functions for the whole program area.

6.5 Reassigning some current resources in the program area to dedicate resources to strategic and management matters in postal operations, could offer ACS several advantages. For example, the dedicated resources may be better able to coordinate with Australia Post which itself is seeking to adopt a much more dynamic and strategic focus for its planning and operations in the face of increasing competition. The model of co-location may also offer ACS improved efficiency from economies of scale in planning and management of the function. Having dedicated resources may also offer improved effectiveness by being able to maintain a strategic focus on postal operations which recognises its importance and risk status relative to the air and sea cargo functions.

6.6 Accordingly, the ANAO considers that there is merit in the ACS assessing the costs and benefits of reallocating a portion of its resources in postal operations to form a dedicated resource to perform the planning, screening and review activities associated with postal operations identified in our recommendations. The dedicated resource could also consider the impact of postal operations' compliance strategies on revenue.

Recommendation No.12

6.7 The ANAO recommends that, to improve the planning, operational and review activities associated with postal operations, ACS consider the costs and benefits of reallocating resources to establish a dedicated resource to undertake its activities associated with intelligence gathering, use of screening resources and data analysis in a more systematic way.

ACS response

6.8 **Agreed.** As for response to Recommendation 11, the new 'Operations Coordination' group in the Border Operations Branch of ACS will ensure that postal intelligence is centrally coordinated and the regions are kept informed of analysis. It will also oversee how each region uses the information and will assess results.

Coordination between agencies

The changing context across agencies

6.9 Our observations about agency coordination are framed against the context of considerable environmental change in the last two years, and especially since the Nairn Review of AQIS.

6.10 The Nairn Review examined the operations of AQIS (including those at international mail exchanges).²⁰ The Government's responses to the Nairn Review supported the enhancement of AQIS' functions, agreeing to allocate an additional \$76 million (for the four years 1997-98 to 2000-2001). Of this, the Government provided over \$1.7 million to upgrade international mail operations and over \$5 million to increase the use of X-ray technology at airports and international mail centres. AQIS has been acting on these recommendations.

6.11 The Review also highlighted the prospect of fundamental change in the various border functions, canvassing the possibility of a single border agency undertaking immigration, customs and quarantine functions.²¹ In accordance with the Government's response to the Nairn Review²² and subsequent decisions by Government, a review of border control agencies (AQIS, ACS and the Department of Immigration and Multicultural Affairs) is under way to examine the rationalisation of their activities, including their activities in respect of postal operations. It is intended that the review be completed in time for government consideration in the latter part of 1998 and for implementation in 1999.

6.12 The Government's response in July 1998 to the National Competition Council's review of the *Australian Postal Corporation Act 1989*, foreshadowed changes to Australia Post's (and ACS') operating environment. Of particular relevance in the context of this audit is that all incoming international mail will be open to competition from 1 January 2000. Also relevant is the Government's approval of a Service Charter which aims to promote and protect consumers' rights. The Service Charter is underpinned by a set of performance regulations requiring Australia Post to meet a number of performance standards, including the timely delivery of mail.²³

²⁰ Nairn, ME, Allen, PG, Inglis, AR and Tanner C, *Australian Quarantine: A shared responsibility* Department of Primary Industries and Energy, Canberra, 1996.

²¹ *ibid*, pp.46-47.

²² Australian Government, *Australian Quarantine: A shared responsibility - the Government response*, circulated by The Hon. John Anderson, Minister for Primary Industries and Energy, Department of Primary Industries and Energy, Canberra, 1997, pp.25-26.

²³ Senator the Hon. Richard Alston, Minister for Communications, the Information Economy and the Arts, Media Release, 'Government delivers better postal services,' 16/7/98.

Coordination between the agencies

6.13 Coordination in postal operations is necessary because it is a diverse program spanning the interests of regulatory and service agencies. Coordination is also necessary because postal operations are dynamic and because they affect private and commercial interests' ability to communicate and to trade and also affect the community's rights to be protected from prohibited items.

6.14 Items coming through the postal system are diverse and the screening process is affected by its physical nature and the basic nature of the technology used to move the items. Where more than one agency is involved in screening and several other agencies are interested parties, the adequacy of administrative and coordination arrangements heavily influence the efficiency and effectiveness of the activity.

Other agencies with a stake in ACS screening

6.15 Other than Australia Post and AQIS which are discussed below, agencies which have a possible interest in the screening process include the Australian Federal Police (AFP), the Therapeutic Goods Administration (TGA), the Office of Film and Literature Classification (OFLC) and Environment Australia.

6.16 These agencies do not have a staff presence in the mail centres and, with the exception of the TGA and the AFP, they do not have staff assigned specifically to dealing with ACS' postal operations. The TGA and the AFP each have a liaison point for ACS matters (including postal matters). Nonetheless, ACS' screening should satisfy the needs and interests of other stakeholders.

6.17 The ANAO found that these stakeholders were satisfied that ACS took account of their interests and that ACS was meeting those interests within the constraints of the postal operations environment and resourcing.

Australia Post

6.18 Australia Post's functions relevant to international mail screening are to provide the premises in which the goods are held until they are cleared by ACS and to ensure that mail is processed for delivery and dispatch in accordance with international treaties and obligations and corporate service standards. The type and extent of coordination between ACS and Australia Post should reflect those obligations.

6.19 As a carrier of the items that ACS is required to screen and a provider of the premises (and staff to open and close the mail items chosen for inspection) it is vital that ACS and Australia Post (and AQIS) are coordinated in their planning and operations. Such coordination is necessary, for example at the most basic level, to ensure that ACS knows

the ports into which the various categories of mail are to be brought from overseas and to ensure that ACS has appropriate resources available to process these types of mail expeditiously and effectively.

6.20 A high level Tripartite Working Group meets to develop agreed approaches to operational issues facing ACS, Australia Post and AQIS and it is designed to address strategic issues as well. The Tripartite Working Group was established in April 1997 and after a lapse in activity it was reactivated in 1998 as a quarterly forum for the discussion of operational and strategic matters among the agencies. The ANAO endorses this as an important mechanism for agency coordination.

6.21 Another illustration of coordination between ACS and Australia Post and AQIS are the discussions between Australia Post, ACS and AQIS on Australia Post's program to renew its processing, sorting and delivery network. Australia Post's network renewal program is expected to result in the extensive rationalisation of its locations and facilities. This in turn will have an impact on the screening agencies and especially ACS. For example, Australia Post's network strategies will determine which particular categories of international mail will be directed to particular mail centres and regions and therefore influence what combination and level of screening resources ACS will require in those regions.

6.22 These discussions and briefings are crucial to ensure that the agencies appreciate the possible implications for their operations and have an opportunity to contribute to Australia Post's plans (and each others' plans) in a timely way.

6.23 The ANAO observes that such consultation and liaison between the postal operator and the regulatory agencies will be even more important in the light of the Government's decision to permit competition with Australia Post in international mail. As of 2000, the regulatory agencies will need to be able to provide appropriate screening arrangements in respect of the items carried by those operators competing with Australia Post in international mail.

6.24 The current administrative arrangements for operational coordination in the screening of international mail are broadly mapped out in the Memorandum of Understanding (MOU) between ACS and Australia Post. Although the framework is a useful one, we consider that aspects of the MOU are inappropriately restrictive (as outlined in Chapters 3 and 4) and recommend that the MOU be renegotiated to provide a better basis for screening.

6.25 At the local level, there appear to be cooperative working relationships between Australia Post, ACS and AQIS. In the regions we

visited, we observed that at the level of the particular establishment or facility there was good teamwork and acknowledgment of their interdependent roles. Australia Post advised that the staffing arrangements are satisfactory and that mail processing by AQIS and ACS typically allows service standards to be met.

6.26 The ANAO found that the coordination arrangements between Australia Post and ACS are quite well developed given the relationship between them. We note that there will be continued pressure for better coordination in the future as Australia Post seeks to respond to the prospect of increased competition in its international mail business.

AQIS

6.27 Coordination between ACS and AQIS is especially important because AQIS performs largely a secondary screening function in that it relies on referrals from the ACS target selection officers in the mail centres. ACS does not have an operative MOU with AQIS although AQIS participates in the Tripartite Working Group discussions, as noted above.

6.28 Following the Nairn Review, AQIS has taken a more active role in the mail screening process, evident in it specifying its risk profiles to inform the ACS target selection officers of its requirements and allocating extra resources to screening.

6.29 AQIS statistics show that there has been a trend of increased referrals from ACS and increased seizures by AQIS in the last 12 months. This suggests that improved profiling and targeting of items are reaping results, although Australia Post and ACS have expressed concern that AQIS' increased staff numbers and acquisition of its own X-ray equipment since the Nairn Review represent unnecessary duplication of screening resources.

6.30 AQIS and ACS coordinate their monitoring of screening results. AQIS appears to be well organised in collecting and analysing its activity and performance statistics, using that information to identify priority countries and products. AQIS provides data and analysis of its screening results and trends in the numbers of risk items and countries of origin on a monthly basis to ACS and ACS circulates these statistics to its target selection officers and screeners in the field for use in profiling and targeting.

6.31 As to ACS and AQIS coordination, the ANAO concludes that there are some mechanisms by which their activities are coordinated. However, in view of the need for them to be in close interrelationship in screening, we consider that there is scope for better coordination in their planning, operations and monitoring arrangements. This is considered in the following section.

Coordination between agencies in postal operations

In 1997, emergency services were called to attend to ten teenagers who had collapsed at an under-age, alcohol free dance at a Gold Coast night-club. Although they were all successfully revived, the cause of their collapse was not known. Later analysis showed that they had all, unknowingly, ingested the drug Sodium Oxybate. Sodium Oxybate, also known as GBH, GHB or Fantasy, had not been detected in Australia before and so it was not an approved drug, or ingredient of any approved drug product in Australia, nor was it controlled or regulated in Australia.

Several days later, AQIS personnel at the international mail centre in Brisbane detected a parcel addressed to a person at the Gold Coast containing 7.4 kg of a white powder. ACS and the AFP were notified and analysis of this powder determined it to be the same drug.

AFP liaised with the TGA in investigating this importation and the importer was prosecuted by the AFP under TGA legislation. Following this incident ACS liaised with the TGA to implement the Customs legislation that now controls this drug in the same way as any other drug of abuse.

The effective cooperation between several Commonwealth agencies — AQIS, ACS, AFP and TGA — resulted in the successful interdiction of this import and in the inclusion of this drug in the appropriate regulatory regime.



A whole of government approach to postal operations

6.32 ACS' and AQIS' roles in the international mail program were outlined in Chapter 1. There is a considerable degree of similarity in the objectives and sorts of activities ACS and AQIS seek to undertake to manage their respective parts of the international mail program. These activities cover, for example:

- off shore activities;
- risk profiling;
- collecting performance data;
- developing and implementing specifications for risk profiling;
- liaison with other agencies;
- surveillance by X-ray and dog detector teams;
- assessing individual parcels for treatment;
- raising community and industry awareness; and
- follow-up on individual articles of mail to:
 - assess opened parcels to establish whether they contain material of interest;
 - organise treatments and destruction; and
 - interact with clients.

6.33 With these similarities in roles and in activities, it is not surprising that there have been calls for a whole of government approach to postal screening. The ANAO considers that having two agencies independently seeking Australia Post's agreement to locate separate X-ray machines, for example, suggests that the agencies do not have a coordinated approach at that level.

6.34 The ANAO supports the principle of having a primary screener, with specialist expertise available for follow-up. The ANAO notes that this could, in theory, function well, whether there is one or more agencies involved in postal operations if, in the latter model, the current links between the agencies in the planning, execution and review phases were considerably strengthened.

6.35 Effective coordination would mean shared information about, and assessment of, the risk context and risks, the projected volumes and the types of mail and their ports of entry, the necessary combination of resources required to deal with these volumes and the best ways to deploy these resources.

6.36 Our analysis of the extent of agency coordination suggests that there is considerable scope for ACS and AQIS to improve the coordination of their planning, operations and monitoring of the program. ACS has advised the ANAO that ACS, AQIS and Australia Post agreed recently to form a high level steering committee in anticipation of the outcomes of the government review of border agencies to ensure that rationalised and better coordinated operations are implemented at international mail centres.

6.37 The ANAO supports efforts to rationalise and better coordinate activities under the current arrangements. The ANAO also observes that, in the future, it is likely that ACS will have to work more effectively with other agencies to improve the identification of strategic needs and to increase the extent to which it coordinates its operations in response action. The measures which should facilitate ACS achieving this are:

- involving all stakeholders in the process of postal operations;
- adopting explicit risk management principles and integrating these with an overall operational plan for the program; and
- having an operational plan to show it appreciates the business context, the combination of resources required to deal with the volumes and types of mail and the best ways to deploy available resources.

Recommendation No.13

6.38 The ANAO recommends that in managing postal operations within the framework of its risk management plan, ACS:

- adopt more explicit risk management principles;
- ensure that its risk management plan contains inputs from other stakeholders; and
- integrate these risk management principles with an overall operational plan for the program area demonstrating that it has assessed the combination of resources required to manage the risks of the program area and the best ways to deploy these resources to meet its needs and the needs of its stakeholders.

ACS response

6.39 Agreed. The risk management treatment plan for postal control is regularly reviewed and strategically analysed on an annual basis for all relevant agencies. Appropriate and explicit risk management principles will be used in this process.

Canberra ACT
24 November 1998

A handwritten signature in black ink, appearing to read 'P. J. Barrett', with a stylized flourish at the end.

P. J. Barrett
Auditor-General

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