



Report of the State Comptroller of Israel |
November 2022

Israel Postal Company Ltd.

Israel Postal Company Ltd. – International Mail Handling – Follow- up Audit



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Background

The Israel Postal Company Ltd. is a government company wholly owned by the state. It began operating in March 2006 under a license granted by the Postal Law, 1986 (the Company). The Company is subject to the supervision of the Government Companies Authority, and some of its activity is also subject to the supervision of the Ministry of Communications. In recent years, the Company has been facing a significant reduction in the volume of letters sent through it and, on the other hand, a significant increase in the volume of postal items and packages that Israeli citizens purchase on online trading sites abroad being sent to their destination through the Postal Company.



Key Figures

**46 million
postal
items**

the annual volume of postal items sent from abroad in 2021 in the framework of online trade

threefold

the volume growth of the shipment imports of international online trade in 2012–2019

73.4%

the rate of justified complaints on the Postal Company arbitrated by the Ombudsman at the State Comptroller's Office in 2020

**NIS 116
million**

the scope of taxes collected by customs for online trade items in 2021 (until November)

**5,000
postal
items per
hour**

sorted by the automatic sorting machine that entered service in 2021

**20,253
tons**

the total weight of postal items sent from abroad in 2021 in the framework of online trade


**359
grams**

the average weight of a package in 2021. More than three times its average weight in 2010 (98 grams)

**tens
of percent**

the decreased rate in operating profit from incoming international mail in 2019–2020






Audit Actions

 The State Comptroller's Annual Report 67A, published in 2016 (the Previous Audit), dealt with the Postal Company's handling of international mail. From August to December 2021, the State Comptroller's Office examined the rectification of the deficiencies, the implementation of the recommendation noted in the Previous Audit, and rectifying some of the deficiencies published in another audit report from 2018¹ (the Previous Audit From 2018). The audit was conducted at the Postal Company, the Customs Administration in the Israel Tax Authority, and the Postal Administration in the Ministry of Communications.

¹ The State Comptroller, Annual Report 69A (2018), "The Government's Handling of the Increase in Online Commerce".



Key Findings

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A Monitoring System for Postal Items Arriving in Israel – the Previous Audit raised that the Company did not operate a system for monitoring postal items and mailbags as stipulated in the license instructions. By the follow-up audit, as of the audit completion, the deficiency had not been rectified, and the Company had not fully implemented the monitoring system as required by the license.
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Implementation of the "Ben Gurion Airport Module" for Integrity Controls – the Previous Audit raised that the registration of the airmail bags arriving from abroad is carried out manually, making it difficult to track the bags. By the follow-up audit, the deficiency has been slightly rectified. Currently, the Company's employees manually enter into a computerized system the containers and pallets numbers loaded onto the trucks on their way to the Modiin Trade Center, and not through computerized indicator reading, enabling adequate computerized integrity control, and by reading a barcode indication, on their arrival at the Modiin Trade Center. It was further raised that the development of the "Ben Gurion Airport Module" for computerizing the records carried out at the Modiin Trade Center was not completed.
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The Handling of International Mail Inquiries by the Postal Company Customer Service Department – the Previous Audit noted a sharp increase in international mail inquiries. By the follow-up audit, the number of international mail inquiries to the Postal Company's customer service increased by more than fivefold in 2018–2021, from 43,895 inquiries in 2018 to 235,612 in 2021. The Ombudsman at the State Comptroller's Office received 2020–2021 hundreds of customer complaints about the level of service, particularly regarding the operation of mail delivery centers that are far from the residents' homes.
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Accounting Presentation in the Financial Statements of Incoming and Outgoing International Mail – the Previous Audit raised that the Company's financial statements do not present the profitability of the various segments in the international mail activity. By the follow-up audit, the deficiency was not rectified. The data in the Company's financial statements are presented without fully detailing the various segments of the Company's activity; in the incoming international mail segment, the income and expenses data are not presented, while in the outgoing international mail segment, only the expense data are presented.
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The Rate of Operating Profit and the Transition to Cargo Deliveries – it was raised that in 2019–2020 there was a decrease of tens of percent in the operating profit rate in the incoming international mail segment. Moreover, the operating profit rate from cargo deliveries is significantly lower than that of postal deliveries, resulting in financial harm estimated by the Company at tens of millions of NIS per year. It should be noted



that according to the Postal Company, the decrease in operating profit in 2019–2020 was affected, among other things, by the Covid-19 crisis and by the growth of about 20 million items sent in 2019 compared to 2020.



A Dedicated and Adapted Information System for Managing Audits in the Postal Administration in the Ministry of Communications – the Previous Audit raised that the Postal Administration in the Ministry of Communications does not use a dedicated information system to manage its audits of the Postal Company and the other bodies providing similar services under its supervision. By the follow-up audit, the deficiency was not rectified. The Ministry has not implemented a dedicated system for managing its audits on the postal services provided by all the permit holders under its supervision.



Damage to Postal Items Arriving from Abroad – the Previous Audit noted a phenomenon of theft of postal items. By the follow-up audit, the phenomenon continues. The data provided by the Security Department to representatives of the State Comptroller's Office indicates that from January 2017 to the end of 2021, 98 investigations and inspections took place in the Company's Security Department (about 20 incidents per year on average) that dealt with damage to mail from abroad.



Receipt of the Postal Items at the Post Office in Ben Gurion Airport – the Previous Audit raised that postal items are held for an extended time at the post office in Ben Gurion Airport before their processing begins. By the follow-up audit, the deficiency has been rectified to a large extent, and the postal items release procedures at the Company's terminal in Ben Gurion Airport and their handling have improved.

Transport of EMS Items² – the Previous Audit noted the Postal Company's inefficiency in transporting EMS items, manifested in repeated and unnecessary trips to transfer the items. By the follow-up audit, the deficiency has been fully rectified. Currently, no repeated and unnecessary transportation trips are made. EMS items are delivered from Tel Aviv to the courier unit in the Modiin Trade Center, and from there, they are delivered directly to the recipients' homes.

The Online Trade Center – the Previous Audit From 2018 raised that in about two-thirds of the stations in the Modiin sorting center, the typing of the packages' details and their sorting are done manually. By the follow-up audit, the deficiency in the typists' work procedure has been rectified to a large extent. The mechanized sorting of online trade items significantly improves the speed and efficiency and reduces the probability of human errors and the use of manpower required, thus considerably saving financially.

2 Express Mail Service; Express international post.



Inspection of the Legality of Importing Postal Items and Goods Prohibited for Importation – the Previous Audit raised that the Customs officials carry out limited and manual sample inspections of postal items and that the Customs Department has no prior information about the contents of the postal items sent to Israel through the Postal Company. By the follow-up audit, the deficiency has been rectified to a large extent. Given the transition of about 50% of international mail traffic to cargo shipments, the Postal Company sends Customs preliminary information on these and other shipments through the "World Gateway" system³. It enables more efficient analysis of the shipment data in the risk management system to examine whether it is necessary to check the shipment. However, it was raised that the sample tests scope and the actual opening of the packages by the Customs personnel has decreased compared to previous years. Thus, in 2021 Customs checked about 21,500 (0.03%) out of about 60 million packages.

Computing and Interface Aspects Between the Postal Company and the Customs Department – the Previous Audit raised that the Postal Company did not allocate the necessary resources to connect to the "World Gateway" system and that Customs did not have information on the content of the incoming mail. By the follow-up audit, the deficiency has been rectified to a large extent. The management of the Postal Company's incoming international mail system is currently carried out mainly⁴ (to about 80%) by the "World Gateway" system. However, it was raised that the management of the outgoing international mail system is not done through the "World Gateway" system.






Collection of Taxes for Postal Items – the Previous Audit raised that the lack of inspection by the Customs Department results in a potential tax loss of about NIS 200 million per year. By the follow-up audit, the deficiency has been rectified to a large extent. Currently, tax is collected for all items imported into Israel using the cargo method and postal items sent by regular postal delivery for which preliminary information is available. Therefore, currently, the tax loss has decreased. From the data provided by the Customs Division to the representatives of the State Comptroller's Office, the scope of tax collection for incoming international mail traffic has increased over the past few years and was about NIS 116 million in 2021 (until November).

³ A computerized system for foreign trade management that enables electronic information sharing with customs.

⁴ With the exception of unmonitored postal items, postal items to which the sender did not attach preliminary information and postal items with an incorrect barcode.



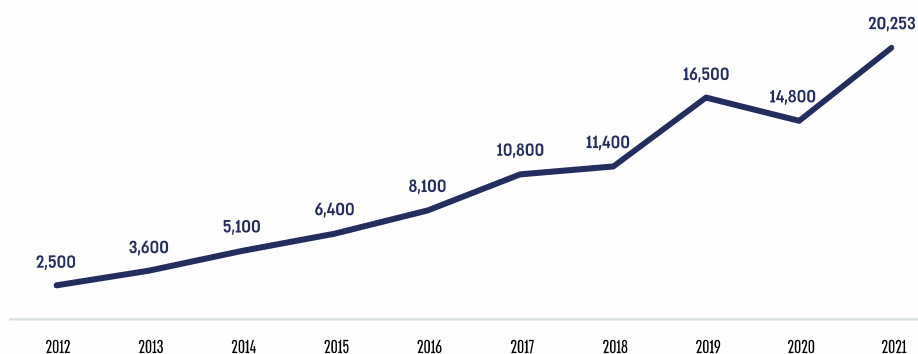
Key Recommendations

-  **A System for Monitoring Postal Items Arriving in Israel** – the Postal Company should implement the monitoring system as required by the license.
-  **Implementation of the "Ben Gurion Airport Module" for Integrity Controls** – it is recommended that the Postal Company complete the development of a computerized system that enables full control of the integrity of the containers and pallets that are loaded onto trucks at Ben Gurion Airport until they arrive at the Modiin Trade Center. It is also recommended that the Company complete the transition to a fully mechanized sorting method to the extent possible.
-  **Referral of Postal Items to Remote Delivery Centers** – given the many complaints about a referral to remote delivery centers, it is recommended that the Postal Company prevent the recurrence of the phenomenon of referral to remote delivery centers, which mainly affects the elderly and persons with disabilities, who find it challenging to reach centers far from their homes to collect postal items they ordered.
-  **Accounting Presentation in the Financial Statements of Incoming and Outgoing International Mail** – given the considerable importance of the trade sector, from which the revenue rate is about 39% of the Company's total revenue, and given the international mail activity in the Company, it is recommended that the Company consider presenting in its financial statements the financial results of the international mail sector, while separating the incoming mail sector from the outgoing mail sector.
-  **Aspects of Computing and Interface Between the Postal Company and the Customs Department** – it is recommended that the Tax Authority and the Postal Company connect the outgoing international mail system as well to the "Global Gateway" system.



The Weight Increase of Incoming International Mail, 2012–2021

Package weight, in tons



Source: data from the postal company's finance department.

The Extent of Rectification of the Key Deficiencies Noted in the Previous Audit

The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit	The Rectification Extent of the Deficiency in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Receipt of postal items at the post office terminal in Ben Gurion Airport	Israel Postal Company	The Previous Audit noted delays in handling and releasing the postal items at the Company's terminal at Ben Gurion Airport.				
Transport of EMS items	Israel Postal Company	The Previous Audit raised that the Postal Company's handling of the transportation of EMS items is inefficient, expressed in the performance of repeated transportation trips.				



The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit	The Rectification Extent of the Deficiency in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
The Online Trade Center	Israel Postal Company	The Previous Audit from 2018 raised that the process for typing the package details and sorting was still done manually in about two-thirds of the stations.				
Damage to postal items arriving from abroad	Israel Postal Company	The Previous Audit noted the phenomenon of theft of postal items.				
Inspection of the legality of the import of postal items and goods that are prohibited from import	The Customs Administration in the Tax Authority	The Previous Audit raised that the Customs officials carry out limited and manual checking of postal items and that the Customs Division does not have prior information about the contents of the postal items entering Israel through the Postal Company.				
Inspection of the legality of the import of postal items and goods that are prohibited from import	Israel Postal Company	The Previous Audit raised that the Postal Company did not allocate the necessary resources to connect to the "World Gateway" system. Therefore, Customs did not have advance information on the contents of the incoming mailbags, and its control was not done according to any criteria.				
Collection of taxes for postal items	The Customs Administration in the Tax Authority	The Previous Audit raised that the lack of inspection by the Customs Department resulted in a possible tax loss of about NIS 200 million per year.				



The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit	The Rectification Extent of the Deficiency in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Implementation of the "Ben Gurion Airport Module" for integrity controls	Israel Postal Company	The Previous Audit raised that the airmail bags arriving from abroad are manually registered, thus making it difficult to track them.				
A system for monitoring postal items arriving in Israel	Israel Postal Company	The Previous Audit raised that the Company did not operate a system for monitoring postal items and mailbags as stipulated in the license provisions.				
Customer Service Department at the Postal Company handling of inquiries about international mail	Israel Postal Company	The Previous Audit raised that the Customer Service Department's handling procedure for registered postal items arriving from abroad is not managed in the CRM system as required and that those who handle inquiries in the Southern and Tel Aviv districts do not directly answer inquiries from abroad.				
Accounting presentation in the financial statements regarding incoming and outgoing international mail	Israel Postal Company	The Previous Audit raised that the Company's financial statements do not present the profitability of the various segments in the international mail activity.				



Summary

The trade sector and international mail traffic have significantly grown in recent years. For example, in 2019, about 68 million online trade items were sent from abroad to Israel, over three times the number in 2012 (about 22 million online trade items).

Over the years since the publication of the Previous Audit, the Postal Company has made comprehensive changes to the entire operating system of international mail, mainly establishing the online trade center in Modiin. These changes helped it to meet the growing volumes of international postal item traffic.

However, the service level is still not as satisfactory as expected. There are still deficiencies: the implementation of the monitoring system, the control procedures in the process of transferring the postal items from Ben Gurion Airport to the Modiin Trade Center, sorting the postal items manually, connecting the outgoing international mail system to the "World Gateway" system" and checking the traffic of online trade items by Customs.

It is recommended that the Postal Company, the Customs Administration in the Tax Authority, and the Ministries of Communication and Finance rectify the deficiencies noted in this audit and consider implementing the recommendations accordingly.