




OFFICE OF INSPECTOR GENERAL
**SEMIANNUAL REPORT
TO CONGRESS**

APRIL 1 – SEPTEMBER 30, 2005

MISSION STATEMENT

The mission of the U.S. Postal Service Office of Inspector General is to conduct and supervise objective and independent audits, reviews, and investigations relating to Postal Service programs and operations to:

- *Prevent and detect fraud, waste, and misconduct;*
 - *Promote economy, efficiency, and effectiveness;*
 - *Promote program integrity; and*
 - *Keep the Governors, Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.*
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A MESSAGE FROM THE INSPECTOR GENERAL

After two years of reform and restructuring, the U.S. Postal Service Office of Inspector General (OIG) has achieved a state of health and maturity as an organization. We have significant increases in the quality and volume of our audit and investigative work products. And we are nearing optimal production.

In Fiscal Year (FY) 2005, we issued 378 audit reports, management advisories and other products. These efforts resulted in total monetary benefits of \$386,288,465. We made 109 significant audit recommendations, of which 104 were accepted by the Postal Service. In addition, we closed 3,400 investigative cases and referred 1,292 to management for administrative action, and made 376 arrests and indictments that resulted in nearly \$66.5 million in fines, restitutions, and recoveries.

This is the year we began to fully implement the Inspector General Act (the Act) within our Office of Investigations.

As background, Congress's 1996 amendment to the Inspector General Act establishing an independent OIG provided two operational imperatives for the Postal Service. The Act directs consolidation of audit and internal investigative functions within the OIG. The amending legislation specifically requires coordination and cooperation to avoid duplication of efforts by the U.S. Postal Inspection Service (USPIS) and the OIG.

Additionally, a formal opinion by Department of Justice Office of Legal Counsel explains that "The Act's mandate to consolidate audit and investigative functions, its prohibition of interference with the Inspector General's performance of those functions, and the Senate Report's warning against duplication of effort, combine to dictate extreme caution when assigning audit or investigative responsibilities to another agency official."

In hearings, Congress gave ample direction when it created the independent OIG. Congress told the Postal Service to stop investigating itself. It did not want the Postal Service's chief law enforcement officer and member of postal management serving as its Inspector General. The

Committee on Government Reform and Oversight, Activities of the House Committee on Government Reform and Oversight noted "the Chief Postal Inspector [is] to focus his energies on his duties of ensuring the security of postal facilities and employees, protecting the public from mail fraud schemes and other criminal usage of the mail, and enforcing the laws regarding revenue protection."

The Postmaster General announced in September 2004, "We are planning to move appropriate internal crimes work to the OIG to be consistent with Congressional intent. The USPIS will focus its efforts on areas of responsibility which congress has designated as within its exclusive jurisdiction."

Following the Postmaster General's announcement, the OIG has prepared itself and is ready to assume the jurisdiction on internal matters.

In closing, this semiannual report discusses the management challenges facing the Postal Service today, as determined by the OIG: cost control; revenue; human capital; preserve safety and security; and strategic direction. We are also continuing our exploration of ideas and concepts on postal operations and programs that may contribute to reduced costs, improve efficiencies, increase revenue, or introduce new ways of doing business.



SUMMARY OF PERFORMANCE

April 1 – September 30, 2005

AUDIT

Reports issued	205
Significant recommendations issued	60
Total reports with financial impact	81
Funds put to better use	\$146,674,881
Questioned costs ¹	\$58,230,112
Unrecoverable costs	\$9,201,939
Potential additional revenue	\$1,919,843
Potential additional expense	\$22,608
TOTAL²	\$216,049,383

INVESTIGATIONS³

Investigations completed	2,131
Arrests	101
Indictments/informations	81
Convictions/pretrial diversions ⁴	57
Administrative actions	986
Cost avoidance	\$25,730,568
TOTAL FINES, RESTITUTIONS, AND RECOVERIES⁵	\$54,193,376
Amount to Postal Service (included in total figure above) ⁶	\$4,344,881

HOTLINE CONTACTS

Facsimile – FAX	284
E-mail	3,765
Standard Mail	750
Voice mail messages	1,458
Telephone calls	18,387
TOTAL CONTACTS	24,644

¹ Includes unsupported costs of \$994,664.

² The Postal Service agreed to recommendations or proposed alternative corrective actions that, if implemented, could result in more than \$216 million in savings.

³ Statistics include joint investigations with the U.S. Postal Inspection Service and other law enforcement agencies.

⁴ Convictions reported in this frame may be related to arrests made in prior reporting periods.

⁵ Some fines and recoveries were from the previous reporting period, but not previously reported.

⁶ Amount included in fines, restitution, and recoveries.

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FEATURE STORIES

This section has two separate feature stories. One focuses on the importance of disaster preparedness for the Postal Service, including the impact of Hurricane Katrina. The second describes mail processing operations. It begins with a primer on processing First-Class Mail and Standard Mail and ends with future plans for processing changes.

DISASTER PREPAREDNESS

From anthrax and ricin attacks through the mail to recent hurricanes, the Postal Service is challenged with numerous disasters, both natural and man-made,

focus on key vulnerabilities, the Postal Service made significant strides toward protecting the integrity of the mail stream by making its systems safer and more secure.

In August 2005, the Gulf Coast experienced a natural disaster of historic proportions. Damaging or destroying Postal Service facilities in three states, Hurricane Katrina seriously degraded the Postal Service's ability to operate and secure mail along the coastline. To respond, the Postal Service had to rely on mobile mail processing units to service affected areas. In the days following the disaster, we responded by deploying more than 60 personnel to these areas to assist in recovery operations, locate employees, help assess damage to hundreds of post offices, and work with the U.S. Postal Inspection Service (USPIS) to ensure the security of Postal Service operations.

The Postal Service's Office of Emergency Preparedness is making efforts to better manage incidents, implement protective measures, and better integrate processes. It is responding to the Homeland Security Presidential Directive 5 by implementing a comprehensive emergency management plan throughout the Postal Service. The Postal Service's Integrated Emergency Management Plan (IEMP) has a goal to improve coordination of planning and response activities among functional areas. It should minimize duplication of planning efforts and establish a standardized emergency management process.

To support emergency preparedness initiatives, the USPIS implemented internal and external procedures to protect the Postal Service, and the public, from threats to homeland security. Postal inspectors are developing plans to enable the Postal Service to continue government functions, even during times of



Two OIG special agents examine a stolen Postal Service Long Life Vehicle abandoned on I-10 near Canal Street in New Orleans.

which adversely impact mail delivery. These incidents led to a renewed emphasis on developing initiatives to more effectively secure the nation's mail system.

After terrorist attacks in September 2001, the federal government began focusing attention on improving the safety and security of our nation's critical infrastructures. Due to its sheer size and geographic dispersion, securing the nation's mail system is a significant challenge. However, through innovation and

crisis. Further, inspectors assist with implementing training for IEMP and Biohazard Detection Systems (BDS) for the Postal Service. This training provides Postal Service employees with procedures for handling emergencies and activations of the BDS.

In support of Postal Service security, we participate in the Mail Security Task Force and attend training relating to IEMP and Dangerous Mail Investigations. We are also a member of the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable, which shares information on related security work performed by all OIGs. We have reviews planned related to natural disasters, and are currently conducting an extensive body of work related to Hurricane Katrina in coordination with the PCIE.

Hurricane Katrina's Impact on Mail Processing Operations

While the Postal Service continues addressing inefficiencies and excess capacity in its vast processing and distribution network, some excess capacity in the network provides flexibility for the Postal Service to respond to various situations. This was evident after Hurricane Katrina, when mail processing operations were suspended at four key mail processing facilities and operations were severely constrained at other facilities along the Gulf Coast.

The Postal Service reacted by redirecting mail to other locations and quickly implementing procedures to restore mail processing operations. These measures included:

- Moving some mail out of facilities in the path of the hurricane.
- Relocating mail and equipment to higher elevations at facilities in the path of the hurricane before the storm arrived.



OIG special agents stop to survey local damage after just having assisted the Postal Service Human Resources team in recovering personnel files from the New Orleans District Office.

- Temporarily restricting Standard Mail delivery to storm-stricken areas.
- Establishing alternative mail processing and delivery methods, including temporary mail distribution at facilities for evacuated residents.
- Facilitating Change of Address procedures to provide mail services for displaced customers. More than 100,000 changes of address were filed during the first three weeks after the hurricane.
- Locating and leasing an existing warehouse building to serve as a temporary mail processing facility near New Orleans.
- Restoring mail services and returning post offices to full or limited service as soon as possible.

The Postal Service mail processing operations were well prepared for the aftermath of Hurricane Katrina. We plan to continue working with the Postal Service to assess mail processing operations and recovery efforts in the wake of this natural disaster.

MAIL PROCESSING OPERATIONS

From the time of Benjamin Franklin, the nation's first Postmaster General, through the middle of the 20th century, most mail was sorted by hand, one letter at a time. Today, the Postal Service relies on a sophisticated automation program to electronically read addresses, apply barcodes that represent the addresses, and then sort the mail. Mail prepared for automation bypasses manual processes resulting in less handling, lower costs, and quicker delivery. For the most part, all mail is processed in a similar fashion.

Many large mailers also apply barcodes to their mail in-house to take advantage of automation discounts offered by the Postal Service.

The following sections describe typical mail flows for First-Class Mail and Standard Mail at the Postal Service.

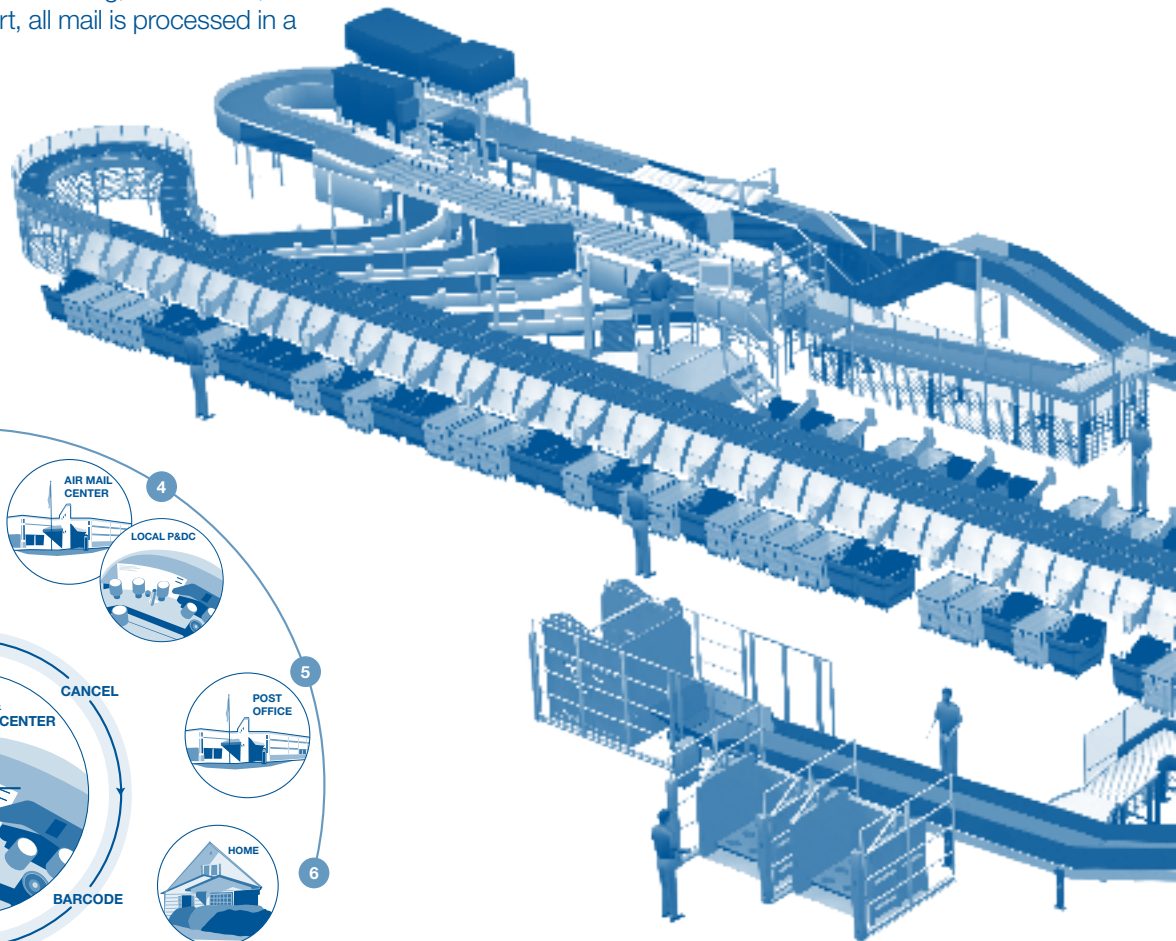
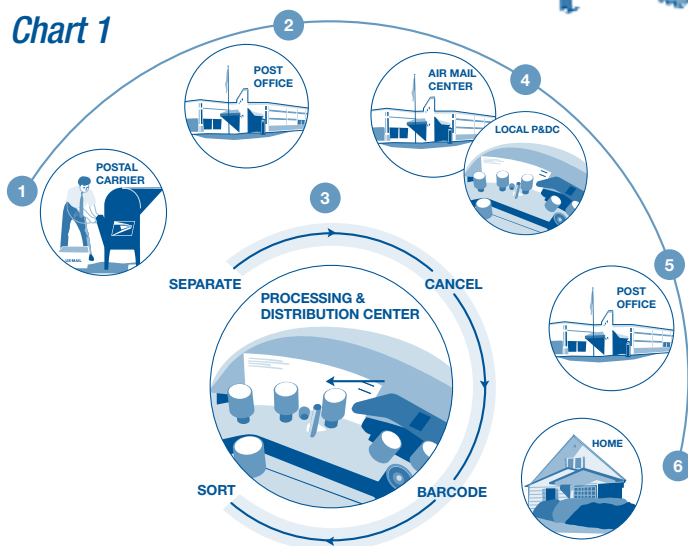


Chart 1

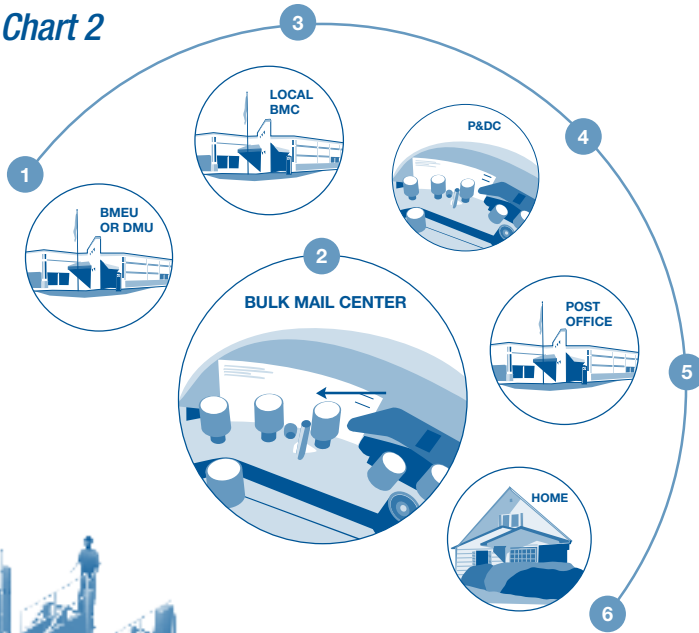


First-Class Mail Processing

An example of First-Class Mail processing is a greeting card mailed from Alexandria, VA, to Los Angeles, CA. This card would be processed as follows (see Chart 1):

- It is picked up from a mailbox by a carrier and brought to the local post office.
- It is next transported to the Northern Virginia Processing and Distribution Center (P&DC) where:
 - First, it joins other letters and packages for separation by mail handlers with the assistance of a machine that separates the mail based on its size.
 - Next, a different machine applies the postmark and cancels the postage stamp.
 - Then, another machine, operated by a mail processing clerk, applies a barcode reflecting the proper destination.
- Last, the greeting card is subsequently sorted to the first three digits of the ZIP Code by the same machine that applied the barcode and then sent to its next destination. (Multiple sorts are required because of the high number of five-digit ZIP Codes.)
- Next, the card is transported to the Washington-Dulles Air Mail Center (AMC) in Virginia and flown to the Worldway Air Transfer Office (ATO) in California.
- After arriving at the Worldway ATO, mail is transferred to the Los Angeles P&DC where mail processing clerks again use the same type of machine to perform a final sort of the mail to its five-digit ZIP Code for the letter carrier.
- Finally, the greeting card is transported to the local post office to be picked up by a letter carrier and delivered to the addressee.

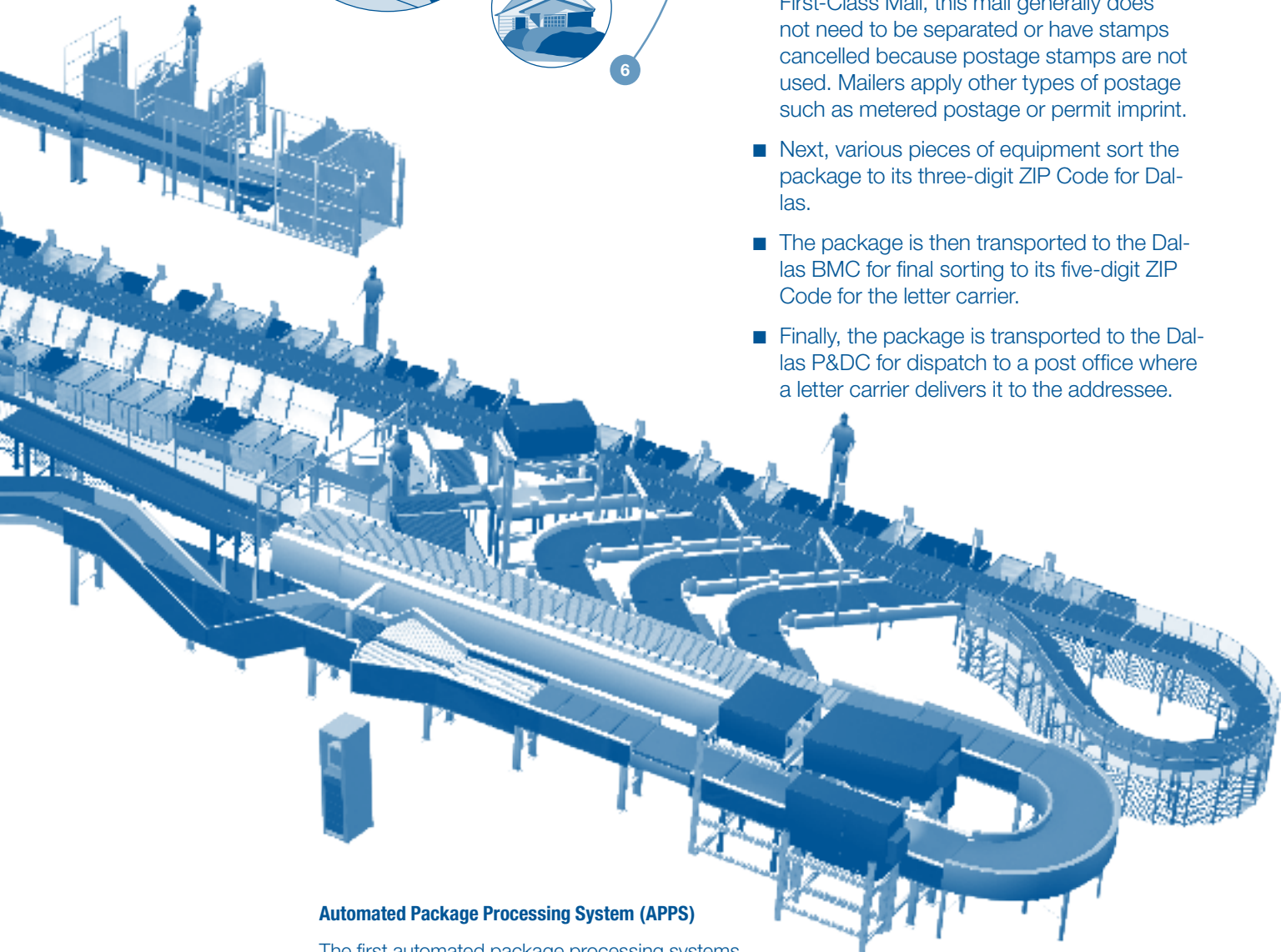
Chart 2



Standard Mail Processing

An example of Standard Mail processing is a package mailed from Arlington, VA, to Dallas, TX, that takes the following steps (see Chart 2):

- The package enters the mail stream via a Business Mail Entry Unit (BMEU) in Northern Virginia, a post office, or a detached mail unit (DMU) (an area in a mailer’s facility where postal employees perform mail verification, acceptance, dispatch, and other postal functions).
- It is then transported to the Washington, DC, Bulk Mail Center (BMC) where it is processed by clerks and mail handlers. Unlike First-Class Mail, this mail generally does not need to be separated or have stamps cancelled because postage stamps are not used. Mailers apply other types of postage such as metered postage or permit imprint.
- Next, various pieces of equipment sort the package to its three-digit ZIP Code for Dallas.
- The package is then transported to the Dallas BMC for final sorting to its five-digit ZIP Code for the letter carrier.
- Finally, the package is transported to the Dallas P&DC for dispatch to a post office where a letter carrier delivers it to the addressee.



Automated Package Processing System (APPS)

The first automated package processing systems (APPS) were installed in the New York Metro Area in FY 2005.

Changes to the Mail Processing Network

The Evolutionary Network Development (END) is the Postal Service's network redesign strategy. The END initiative is to migrate to a flexible network that increases operational efficiency, reduces costs, and improves consistency of service. This future network will have Regional Distribution Centers, Local Processing Centers, and Destinating Processing Centers. Significant changes are also taking place in the mail processing operations at the network level. Some examples of processing changes are:

- New automated equipment that is being developed will sequence flats (large envelopes, magazines, and publications) in delivery order. This will eliminate manual sorting and thereby achieve savings. The Postal Service plans to field test this equipment in April 2006 with deployment scheduled to begin early in 2008.
- Other new equipment has been developed to further automate the parcel process and eliminate manual keying of addresses. These machines are currently being deployed in large plants to replace small parcel sorting machines.
- Elimination of some outdated and labor-intensive mail bag sorting machines will increase efficiency in plants. Mail in trays is more efficient and easier to process.

The Postal Service is also making network infrastructure changes to improve efficiency and service, as well as reduce costs. Examples include:

- Closing over 50 annexes that are temporary plants used for mail processing when space is limited.

- Closing over 38 Remote Encoding Centers that assign barcodes to mail pieces from out-of-town locations.
- Converting BMCs that process and distribute bulk Standard Mail and parcels to Regional Distribution Centers to address redundancies in the network.
- Converting Priority Mail Processing Centers that process only Priority Mail, to Logistics and Distribution Centers that process multiple types of mail.

Looking Toward the Future

The Postal Service and the OIG will continue working together to identify opportunities to improve operations and reduce costs. Some of the near-term challenges for the Postal Service in making END a reality include continuing to:

- Transition to a new infrastructure that focuses on processing mail based on shape.
- Streamline the processing network by implementing Area Mail Processing proposals.
- Streamline the transportation network, including the Surface Transfer Centers (formerly called the Hub and Spoke Program) and AMCs.
- Develop and deploy various types of new mail processing equipment.
- Perform an analysis of trailer requirements and lease versus buy decisions to optimize vehicle management prior to the possible extension of the National Trailer Lease in 2006.

MANAGEMENT CHALLENGES

In this section, we identify and assess the status of the major management challenges confronting the Postal Service: cost control, revenue, human capital, preserve integrity and security, and strategic direction.

COST CONTROL

The Postal Service has made a significant infrastructure investment to meet its universal service obligation. Delivery now extends to more than 144 million delivery points involving more than 290,000 city and rural letter carriers, and approximately 7,100 box delivery highway route contractors. Based on these facts and our work in the areas of delivery, mail processing operations, transportation, and contracting, we believe cost control continues to be a significant issue for the Postal Service, and will likely remain so for some time. The greatest opportunities to reduce costs continue to be in the areas of optimizing the network to control delivery costs, increasing efficiencies of technology investments, and maximizing the cost-effectiveness of contracts.

As part of our ongoing initiative to add value to the Postal Service, we implemented the Value Proposition. Its aim is developing audit work that maximizes benefits to the Postal Service and assists top management in reaching their goals. Highlighted below are three Value Propositions for mail processing facilities, highway transportation routes, and city letter carrier operations.

Evaluation of Mail Processing Plants

The Postal Service spends more than \$20 billion annually on the mail processing infrastructure. It continues to create a flexible logistics network that reduces Postal Service and customers' costs,

increases operational effectiveness, and improves operational efficiency.

In 2002, we developed a methodology to evaluate the efficiency of the Postal Service's mail processing operations. During this reporting period, we identified opportunities to improve operations by reducing more than 300,000 workhours in four mail processing facilities.

We recommended that the Postal Service:

- Improve efficiency and consolidate the network by reducing 202,000 work hours at the Canton P&DF. This work hour reduction could produce a cost avoidance of approximately \$64 million in labor savings over 10 years.
- Improve efficiency of operations at the Los Angeles International Service Center by reducing 85,000 work hours, producing a cost avoidance of \$26 million over 10 years.
- Improve efficiency of the Airmail Records Units at the Los Angeles and San Francisco International Service Centers by reducing 13,207 work hours, producing a monetary impact of about \$4.4 million over 10 years.

Mail Evaluation, Readability, and Lookup Instrument

The Mail Evaluation, Readability, and Lookup Instrument (MERLIN) is designed to improve the quality of mail, automate acceptance, make verification consistent, and ensure appropriate revenue collection. Operationally, MERLIN machines determine whether individual mailings qualify for the discounts claimed by the mailer. The OIG issued a series of eight reports on MERLIN utilization focusing on specific BMEUs and detached mail units. Targets were established to measure MERLIN use based on the number of qualified mailings processed. We

concluded that mail quality has improved and the appropriate revenues assessed were collected, although the Postal Service was not fully utilizing MERLIN by not achieving established targets for larger mailings.

We conducted a MERLIN satisfaction survey of Postal Service employees who operate this equipment. Respondents generally indicated that MERLIN has improved mail quality and treats mailers in a fair and consistent manner. Survey respondents believed MERLIN provides excellent barcode readability analysis for mailings and verifies more aspects of a mailing than the previous manual process. However, they said that the process of verifying mailings with MERLIN took more time than the previous manual process, and that MERLIN requires regular maintenance.

In addition, the survey responses showed that the training provided for MERLIN did not always cover interpreting reports or verifying mailings. This survey provides a feedback mechanism that Postal Service managers can use to monitor and improve MERLIN, thereby aiding in controlling costs. Postal Service management generally agreed with the survey results.



We identified 351 bulk mail transportation trip eliminations, consolidations or modifications — potentially resulting in savings of more than \$36 million over the life of the contracts.

Evaluation of BMC Highway Transportation Routes

The Postal Service spends more than \$2.6 billion annually for contracted highway transportation to move mail across nationwide highway networks. A major component of the Postal Service's highway transportation network is the BMC network. It services the nation's 21 BMCs and other processing facilities. The BMC network transports magazines, advertising, and merchandise shipped by major mailers, such as publishers, catalog companies, and on-line retailers.

We signed a pilot Value Proposition agreement with the Vice President of Network Operations Management (NOM) in April 2005. Under this agreement, we committed to completing four audits on BMC highway transportation routes. We examined about 600 surface transportation contracts covering more than 5,400 surface trips, issued four value proposition reports, recommended elimination of more than 140 scheduled surface trips, and identified potential savings exceeding \$14 million.

The Postal Service agreed with close to 99 percent of all trip reduction, elimination, or consolidation proposals. Our Value Proposition efforts helped Postal Service management to optimize its surface network that resulted in savings. We will continue our work under this agreement in FY 2006.

Dating back to September 2004, we issued 10 audit reports under our national audit project covering BMC Highway Transportation Routes. Working with Postal Service headquarters, area, and plant transportation officials, we identified 351 bulk mail transportation trip eliminations, consolidations or modifications — potentially resulting in savings of more than \$36 million over the life of the con-

tracts. The Postal Service eliminated or modified most of these 351 trips without negatively affecting service or operational flexibility.

The transportation network is dynamic and fluid, and transportation requirements continually change. This was especially evident immediately after Hurricanes Katrina and Rita in August and September 2005, respectively, when all Postal Service areas were reassessing the transportation needs of the affected areas, redirecting transportation to locations such as Houston, and quickly implementing changes in surface transportation service. We will continue to work with the Postal Service to assess its changing transportation needs.

City Letter Carrier Operations

Controlling delivery costs is critical for the Postal Service because mail delivery requires a significant infrastructure investment, especially as delivery points increase each year with population growth.

Delivery operations are the Postal Service's largest cost center, making up 42 percent of the total labor hours in the FY 2006 Field Operating Budget. These are hours that the city and rural letter carriers expend casing mail in the office and delivering mail on routes. Salaries and benefits for city carriers are budgeted at more than \$16 billion, which represents 34 percent of the Postal Service's salaries and benefits in the FY 2006 Field Operating Budget.

In FY 2004, the Postal Service began implementing early morning standard operating procedures (AMSOP), designed to assist the managers and postmasters in making better business decisions for city delivery operations (for example, estimating work hours accurately). The Vice President of Delivery & Retail established

a goal of 100 percent implementation of AMSOP in FY 2005 at all facilities using the Delivery Operations Information System (DOIS) that was deployed in 2002.



In the office, letter carriers manually case (sort) mail. The majority of the letter mail, however, now comes in delivery sequence. It is presorted on automated equipment and does not require casing.

At the end of FY 2005, 100 percent of the DOIS facilities (6,198) have implemented AMSOP. DOIS provides delivery supervisors and managers with data (such as workload status reports and carrier performance information) to improve daily delivery operational performance. The system also allows the supervisors and managers to determine the number of work hours required to deliver the mail on daily carrier routes. Managed Service Points (MSP), a part of DOIS, is a computerized tool designed to monitor consistency of delivery time and enhance street management.

Beginning in FY 2005, AMSOP was enhanced with standard delivery management practices called the Lean Enterprise. This new initiative will establish standard practices for managing all deliv-

ery and retail functions at the unit level and oversight responsibilities at each tier of management above the unit level. A key component of this standardization is identifying the “vital few” delivery units — those units with the largest opportunity for improvement that require specific management actions. In those units the AMSOP, rural delivery standard operating procedures, and customer service reviews will serve as tools to aid senior management in identifying problems and developing suitable remedies.

One of our initial Value Proposition Agreements is with the Vice President of Delivery & Retail to assess management of City Letter Carrier Operations. During this reporting period, we expanded our ongoing assessment of city letter carrier operations to the Pacific and Great Lakes Areas.

We assessed the management of city letter carrier operations in the Santa Ana, San Diego, and Chicago Districts in 18 delivery facilities (six per district). These audits showed that management can improve operations by adequately reviewing the daily mail volumes and data in DOIS when determining daily work hours for each carrier’s route to maintain efficiency and cost, using the MSP information, and documenting carriers’ unauthorized overtime occurrences.

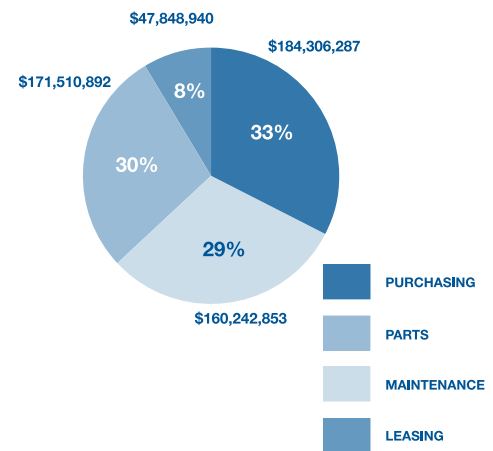
Our audits determined that delivery unit supervisors and managers in these three districts did not adequately match work hours with workload (mail volume). We identified almost 216,000 unjustified work hours in these three districts valued at about \$5.5 million total in unrecoverable costs for five-month periods in 2004 and 2005. We are continuing to review city letter carrier operations in the Great Lakes Area, and plan to conduct additional audits in delivery operations to assist the

Postal Service in reducing the cost of delivery.

Delivery Vehicles

The Postal Service supports its delivery network with a vehicle fleet of about 212,000 vehicles. The fleet travels 1.19 billion miles each year to an increasing number of delivery points. It also has a vehicle management infrastructure designed to ensure operational readiness, safety, and reliability. Approximately 188,000 of its vehicles are used for mail delivery and collections.

FY 2004 VEHICLE SUPPLIER EXPENSE ANALYSIS



In addition to these vehicles, the Postal Service augments its delivery fleet with leased vehicles obtained through local commercial sources or the General Services Administration (GSA). In 2004, the Postal Service spent \$564 million on delivery vehicles (\$184 million for vehicle purchasing, \$48 million for leasing, and \$332 million for parts and maintenance).

We assessed the utilization of GSA-leased vehicles used in support of delivery operations, and determined that management needs to more effectively use Postal Service-owned delivery vehicles. Of

nine Postal Service areas, seven leased GSA vehicles for delivery, even though Postal Service Headquarters identified a nationwide overage of 787 Postal Service-owned vehicles.

Leasing excess GSA vehicles occurred primarily because management did not routinely enforce procedures for lease approvals and justifications, and did not evaluate existing leases to determine current vehicle requirements. Eliminating these GSA leases would save the Postal Service more than \$1.7 million annually or more than \$5.3 million over the next three years.

We plan to further assess the Postal Service's ability to control costs through improved utilization, efficient use, and proper maintenance of delivery vehicles by conducting a nationwide audit on the utilization of delivery vehicles. Areas to be addressed include eliminating under-utilized Postal Service-owned or leased vehicles, using Postal Service-owned vehicles instead of leasing (when available), and reducing maintenance expenses through timely preventive maintenance.

Voice Systems Cost Savings

The Postal Service is committed to providing a high-quality, secure, reliable, and cost-effective voice and data telecommunications environment to its nearly 38,000 facilities nationwide. A robust telecommunications network is critical to the business needs of the Postal Service.

In FY 2004, the Postal Service spent more than \$107 million for telecommunications services, including telephone and cable, telegrams, and other communication services. The Postal Service must constantly reassess its telecommunications network needs to ensure that optimal services are provided to meet its business needs,

particularly as these needs change and technology becomes obsolete.

We conducted a pilot audit of Public Branch Exchange (PBX) security and telephone bill monitoring in a Southwest Area district, which has 1,668 local telephone lines. We found overpayments, duplicate billings, and unnecessary telephone lines, resulting in a total financial impact of approximately \$361,716. Further, we estimated the district could save an additional \$286,356 by reassessing telephone lines at facilities we did not visit during our audit. Management agreed to disconnect and suspend unnecessary telephone lines and to conduct quarterly reviews of the telephone lines in the district audited.

Subsequent to the pilot audit, we conducted a nationwide audit and found that the Postal Service could capture savings by performing a comprehensive inventory and assessment of local telephone line needs in accordance with existing policy. During the audit, we verified 677 local telephone lines at 100 randomly selected facilities and found that 29 percent of the lines were not needed. Additionally we verified 217 lines at 29 additional facilities



The Postal Service must constantly reassess its telecommunications network needs to ensure that optimal services are provided to meet its business needs.

and found 46 percent of the lines were not needed.

We commend the Postal Service for their support and proactive response to this audit. During our audit, some districts began to reassess their telephone needs and terminate unneeded lines. So far, four districts have identified 1,043 local telephone lines for termination. The total financial impact is approximately \$9.8 million. Management agreed to strengthen internal controls and processes, and to establish a centralized control point to manage voice services. We have an additional telecommunications audit in progress, focusing on cost reduction.

Contract Issues

One of the OIG's mandates is to investigate contract fraud. Our contract fraud investigations resulted in more than \$58 million in fines, restitutions, recoveries, and settlements in FY 2005. We continue to work with the Postal Service's Supply Management team to suspend and debar suppliers from government contracting when warranted. We highlight results from these investigative efforts in this section.

Our Contract Fraud Investigations program and our Supply Management and Facilities audit teams provide oversight of the Postal Service's active contracts, which totaled more than \$24 billion in FY 2005. To assess the Postal Service's management of acquisitions and contracts, we have various initiatives focusing on each of the following five Postal Service portfolios:

Services Portfolio. The Postal Service issued more than 4,000 contract actions for services with a commitment value of approximately \$456 million during FY 2005. One of our initiatives includes proactive contract file reviews of all Vehicle Maintenance Facility (VMF) billing records to identify suspicious contract

awards and unusual billing activity. The Postal Service has more than \$250 million in active contracts supporting VMFs nationwide.

In a major services investigation, we determined that a California contractor billed the Postal Service for work it did not perform and for work the contract did not allow. The company was supposed to provide services for facilities in California and North Carolina, and eventually billed the Postal Service more than \$21 million. The review identified more than \$1.1 million in fraudulent billing. As part of settlement negotiations in June 2005, the company agreed to pay all of this money back to the Postal Service.

Supplies Portfolio. The Postal Service issued more than 3,000 contract actions for supplies with a commitment value of more than \$1.2 billion during FY 2005. As a result of our investigation, a Texas medical equipment company, and two of its former employees, were indicted for filing more than \$1.4 million in false billing claims to the Postal Service. The company submitted excessive rental fees to the Department of Labor's Office of Workers' Compensation Programs for medical equipment. In one instance, the Postal Service rented a piece of equipment for \$495 a week and eventually paid more than \$500,000, when the purchase price of the unit was only \$225.

Facilities Portfolio. The Postal Service issued more than 32,000 facilities-related contract actions with a commitment value of approximately \$1.27 billion in FY 2005. In August 2005, Hurricane Katrina swept into the Gulf Coast region, causing an estimated \$128 million in damages to the Postal Service's infrastructure. More than \$69 million of that amount will be attributed to the repair and replacement of damaged facilities. As a result, we established a task force comprised of auditors

and investigators to identify potential fraud, waste, and abuse, especially in connection with contracts associated with the Gulf Coast recovery and rebuilding projects.

Transportation Portfolio. The Postal Service issued more than 5,000 transportation-related contract actions with a commitment value of approximately \$851 million in FY 2005. An OIG initiative in this area is focusing on potential fraud in high-way contract route (HCR) contracts as well as other contracts for surface and air transportation assets. For example, one company failed to pass almost \$1 million in fuel rebates to the Postal Service and cashed more than \$170,000 in contract payments to which it was not entitled. The president of the company was indicted in April 2005, and the company itself was sold to another shipping company.

Mail Equipment Portfolio. The Postal Service issued more than 800 mail equipment contract actions with a commitment value of approximately \$732 million in FY 2005. We monitor contractual activity involving mail sorting and processing equipment, address-recognition technology, and bioprotection. In FY 2005, our investigations were key factors in the debarment of eight companies and 14 individuals, up from only two in FY 2004.

We also performed audits and reviews on Postal Service contracts. Contract reviews completed during the reporting period follow:

Contract-related audits. We issued 11 contract-related audits during the reporting period. The audits evaluated cost proposals associated with the Universal Coding System, Automated Postal Center, Biohazard Detection System Dual Identifier, and Biohazard Detection System Consumable Replenishment. We also audited certified price adjustment claims, verified incurred costs, conducted



Hurricane Katrina swept into the Gulf Coast region causing an estimated \$128 million in damages to the Postal Service's infrastructure.

a financial condition and capability review, and performed a limited scope review of a contractor's purchasing system.

We considered most of the proposals acceptable for negotiating fair and reasonable rates; however, the claims were not considered acceptable as a basis for negotiation of a fair and reasonable settlement. We identified a total of \$20 million as potential contract savings. Included in the \$20 million was a review of an \$84 million firm fixed-price proposal for the Universal Coding System. The audit disclosed more than \$12 million in questioned costs and \$988,651 in unsupported costs. The questioned costs consisted primarily of excessive proposed direct labor hours, unreasonable hedging costs and exchange rates, and indirect costs based on erroneously applied overhead, general, and administrative rates. Unsupported costs were primarily comprised of proposed warranty expenses that were based on the application of an arbitrary warranty rate.

Further, the audit results were qualified to the extent that additional costs may be questioned pending the contracting officer's determination on the appropriateness of the continued use of a pricing agreement with the subcontractor for labor and travel costs.

Postal Automated Redirection System's Contract Incentives. We identified opportunities to improve management of the Postal Automated Redirection System's (PARS) contract. Specifically, the PARS Phase 1 incentive pool structure allowed the contractor to earn all available performance incentives

without having met all key performance requirements.

Also, while not contractually obligated, Postal Service officials increased the contract value by more than \$1.5 million and did not validate the PARS performance in accordance with contract provisions. Finally, we could not determine whether the adjustment for the contractor's non-performance was appropriate.

Postal Service management agreed with the report recommendations but did not agree with how these findings were presented. They believe performance testing throughout Phase 1 showed that the contractor exceeded PARS performance objectives. In addition, Postal Service management said the addition of \$1.5 million was to compensate the contractor for improved system performance, as measured by a cost model.

Contract Invoice Approval Procedures. Information Technology (IT) requested an OIG audit of the IT help desk contract. The results showed that the Postal Service needs to improve procedures for reviewing, certifying, and paying invoices. For example, Postal Service officials did not ensure that adequate data were captured and maintained to allow a comprehensive analysis of billed tickets. Lacking adequate data, the contracting officer's representative certified invoices for payment without determining whether billed help desk tickets were payable in accordance with the contract.

The contract specifies that a contact to the help desk results in one ticket, yet the vendor often generated multiple tickets from one contact. As a result, we identified paid tickets that appeared to be billed outside of the contract terms.

Postal Service management reviewed the issue and has improved the process by establishing a report, which identifies each billable case.

REVENUE

A management challenge facing the Postal Service is increasing revenue while streamlining core services and providing greater value to its customers. We believe there are opportunities to increase revenue in the areas of establishing customized mail agreements, collecting package surcharges, and improving the management of vending equipment sales and service. We further believe the Postal Service could do more to ensure that all revenue is being collected, recorded, and reported accurately; and take appropriate steps to strengthen internal controls to minimize risks relating to financial transactions.

Customized Mail Agreements

To generate revenue, the Postal Service began using customer unique pricing techniques via its International Customized Mail (ICM) agreements in 1992. ICM agreements are contracts between the Postal Service and mailers for a period of one to two years. These agreements represent individually negotiated discounts with mailers within certain categories of outbound international mail in exchange for meeting prescribed annual minimum revenue or volume commitments.

In FY 2003, the Postal Service decided as a matter of public policy, to hold rates steady until FY 2006, realizing that as the costs of international products rose, the contribution levels for ICM agreements decreased. In response, Postal Service management made changes to the program that eliminated several international mail categories and reduced some ICM agreement terms.

During this reporting period, we issued a final report on ICM agreements stating that although the ICM program had made a positive contribution to the Postal Service, management controls could be

further improved. We identified \$905,438 in additional revenue that Postal Service management could have collected by enforcing of guarantee clauses from mailers who did not meet their commitments. Postal Service management agreed with our recommendations and has initiatives planned or completed addressing the issues in the report, but they did not agree with our potential monetary benefits. Implementing our recommendations could help prevent the problem from recurring.

Collecting Package Surcharges

Each day, more than seven million Americans generate revenue for the Postal Service by visiting post offices, branches, and contract postal units to buy stamps, mail packages, and collect mail from their post office boxes. It is critical for the Postal Service to monitor retail operations to ensure that all revenue is being collected, recorded, and reported.

We initiated an audit to determine whether the Postal Service received the correct surcharge revenue for Priority Mail and Parcel Post Packages from retail sales during FY 2005, in the Philadelphia and Pittsburgh districts.

Our audit found neither district collected the correct revenue from surcharges on 234 Priority Mail and Parcel Post packages during the period we reviewed. Although retail associates were trained to assess surcharges, the current training does not include hands-on demonstrations on how to properly measure packages. Further, retail associates infrequently handled packages requiring surcharges. As a result, the districts missed potential additional surcharge revenue of \$24,600.

Resulting from our audit on parcel surcharges and discussions with Postal Service management, we benchmarked

the Postal Service's surcharge procedures with three private companies. Our joint efforts with the Postal Service identified options to ensure correct surcharge



Our audit found two districts that did not collect the correct revenue from surcharges on 234 Priority Mail and Parcel Post packages during the period we reviewed.

revenue is being received such as: (1) enhancing the Point of Service (POS) ONE system to prompt retail associates to enter package dimensions when assessing surcharges; and (2) revising the Postal Service Internet rate calculator to require the customer to enter the package dimensions to estimate the shipping cost.

POS ONE is an electronic system that records sales and payment transactions at retail facilities. In FY 2006, we plan to review POS ONE and other major revenue components of Postal Service retail operations.

Vending Equipment Sales and Service

We assessed the accuracy of the Vending Equipment Sales and Service (VESS) System data in the Atlanta District. VESS is an online database that offers real-time tracking of product sales, miscellaneous costs, and maintenance and service for vending machines. Postal Service officials use VESS information to ensure they

reach revenue goals and keep work hour costs within specified guidelines.

We found that the Atlanta District could improve the accuracy of VESS data. Specifically, Self-Service Vending Program managers did not adequately manage VESS data, and did not ensure sales and service information were accurate and transferred timely to the Postal Service financial systems during FYs 2003 and 2004. As a result, during that time period, Atlanta District VESS sales data, when compared to the Postal Service Form 8130, Vending Equipment Sales and Service Daily Report, was understated by approximately \$1.31 million.

Financial Investigations

We also conduct financial investigations. They cover a wide range of activity, including embezzlement, theft, misconduct, falsification of records, and conversion and misuse of Postal Service property. Financial investigations frequently involve employees and contractors.

One case during the reporting period involved a postmaster who allegedly embezzled \$147,000 in Postal Service funds and is now facing criminal indictment. Another case involved a maintenance supervisor who may have submitted more than \$200,000 in fraudulent work repair invoices. The supervisor was arrested by investigators and the matter is pending prosecution.



We assessed the accuracy of the Vending Equipment Sales and Service (VESS) System data in the Atlanta District.

HUMAN CAPITAL

Maximizing human capital resources by maintaining an efficient work force is the Postal Service's keystone to capitalizing on performance and productivity. Adding to that challenge is creating a flexible workforce as part of the Evolutionary Network Development (END), particularly when more than 80,000 jobs have been eliminated through attrition over the past four years. Further, the Postal Service's ability to resolve workforce and workplace issues, including addressing hostile work environment complaints and controlling costs associated with the Office of Workers' Compensation Programs (OWCP), are critical to its success.

We conduct reviews after we receive complaints of a hostile work environment. In each location reviewed for hostile work environment issues, we found that improvements to the environment would be beneficial.

Our reviews also found that labor relations have improved. This is evidenced by the reduction in grievances, filed and backlogged, between the Postal Service and the four major unions (the American Postal Workers Union, the National Association of Letter Carriers, the National Postal Mail Handlers Union, and the National Rural Letter Carriers' Union). While the Postal Service experienced a significant increase in known costs related to labor-management issues for FY 2003, costs decreased more than five percent in FY 2004. This decline in costs is expected to continue due to the reduction in the total number of grievances backlogged and filed, and by settling them at the lowest possible level. In addition to potential cost savings, relationships among Postal Service management, employees, and unions can be expected to improve.

Resolving Workforce and Workplace Issues

During this reporting period, we completed seven audits on complaints of hostile work environments at Postal Service facilities. We found hostile work environments did not exist at these facilities as a whole, but some employees believed the management style of some supervisors at these locations was offensive and perceived their actions as hostile in nature. We also found that Postal Service management, in general, quickly responded to employee complaints. They took the steps necessary to improve the environment, including training, holding stand-up talks for employees, and reassigning supervisors who acted inappropriately.

We also reviewed employee complaints of nepotism, favoritism, and mismanagement by Postal Service officials at Puerto Rico facilities located in the Caribbean District under the New York Metro Area. The audit found these managers did not always follow Postal Service policies and procedures regarding personnel practices. Area and district management initiated or agreed to initiate corrective actions to address the 18 issues identified.

We also reviewed filed and backlogged grievances from FY 1999 through 2004, and found significant reductions over the last few years. The grievance-arbitration process generally consists of three steps to resolve grievances. The process includes a fourth step, available at the national level, but it is used only when a case of contract interpretation is at issue. The process also allows appeals of unresolved grievances to go to arbitration, where the Postal Service and the union select an arbitrator who makes a binding decision.

The review showed that the Postal Service experienced an overall 21 percent decrease in the number of grievances the four major unions filed from FYs 1999 through 2004; with a 15 percent decrease occurring from FYs 2003 to 2004 alone. Even more significant was the overall 83 percent decrease in the number of backlogged grievances from FYs 1999 to 2004, and the 66 percent decrease just from FYs 2003 to 2004.

We attribute the reduction in grievances largely to several initiatives the Postal Service and its four major unions successfully implemented to improve labor-management relations and the grievance-arbitration process. One initiative is a new performance-based pay system to evaluate and hold Postal Service managers and supervisors accountable for improving the labor-management climate. Another is the joint development of manuals to provide all parties with a better understanding of the national labor relations agreements.

We plan to review the quality of operations at the six Grievance-Arbitration Processing Centers to determine whether they are operating cost-effectively. These centers log grievance appeals in the Grievance-Arbitration Tracking System and schedule arbitration hearings for the four major unions.

Controlling Costs Related to Office of Workers' Compensation Programs

A significant cost continuing to impact the Postal Service is workers' compensation expenses for injured workers. The sheer size of the workforce, and nature of work performed, are the primary factors that made the Postal Service the largest participant in the Department of Labor's (DOL) OWCP in chargeback year (CBY) 2005. OWCP's Chargeback System is

the mechanism by which the costs of compensation for work-related injuries and death are billed annually to employing agencies. The chargeback billing period is from July 1 of one year to June 30 of the following year.

In FY 2005 the Occupational Safety and Health Administration (OSHA) injury and illness frequency rate for the Postal Service is 5.74 per 100 employees. This is down 12 percent from last year and equates to 5,646 fewer OSHA injuries and illnesses. In the past four years, the Postal Service has reduced the total



A significant cost continuing to impact the Postal Service is workers' compensation expenses for injured workers.

number of OSHA injuries and illnesses by 29,110, a 41 percent reduction.

The Postal Service represented about 46 percent of the total federal workforce cases that participated in the OWCP. The Postal Service is also the largest payee to OWCP, with approximately \$818 million in payments for the same year. This amount is more than 35 percent of the \$2.3 billion

in total federal workers' compensation payments.

While Postal Service workers' compensation payments decreased slightly over the last two years, they rose by approximately 30 percent over the last five years — from \$638 million in 2000 to \$818 million in 2005. Postal Service officials attributed the decreases to their safety program, increased payment accuracy, and anti-fraud work.

At the same time, the administrative fees that OWCP charges the Postal Service increased 33 percent, from \$33 million in 2000 to \$44 million in 2005. Administrative fees represent the amount OWCP assesses for managing workers' compensation claims. The amount paid in 2005 is approximately five percent of the Postal Service's total medical and compensation costs.

Finally, the Postal Service records, as a liability, the present value of all future payments it expects to make to those employees receiving workers' compensation. At the end of FY 2004, the estimated total liability for future workers' compensation costs is \$7.5 billion. The estimated total claim costs are based upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee, the trend of experience with such an injury, and other factors.

We examined a contract between the Postal Service and a preferred provider organization supplying injury compensation medical bill review services. The review determined, and verified, \$2.2 million in cost savings claimed and realized by the Postal Service, due to the contractor's billing reviews from March 2001 through July 2004.

According to the preferred provider and Postal Service officials, the savings did not reach the anticipated level of \$30 mil-

lion annually because many providers bill the OWCP directly rather than the preferred provider. This occurred because there was no provision in the Memorandum of Understanding with the OWCP that medical bills can only be forwarded to the preferred provider. Postal Service management is working with the DOL and the preferred provider to remedy this issue, and they anticipate that this will substantially increase the realized savings.

We also reviewed the Postal Service's schedule award costs in the Pacific Area, and found that the Postal Service was overcharged about \$291,200 and undercharged about \$251,200 in CBY 2004. Schedule award compensation is payable to employees based on the severity of the impairment for the partial loss or loss of use of a certain member, organ, or function of the body due to an OWCP-accepted injury. The over- and under-charges represent 26 percent of the Pacific Area employees who received schedule award payments.

In addition, the Postal Service reviewed records of more than \$173.5 million in billings to OWCP from January 1, 2000, to September 30, 2005 using a database that we developed to help identify potential fraudulent billing schemes. Since its implementation in July 2003, the Postal Service discovered more than \$3 million in duplicate medical billings, of which \$408,000 was credited back to the Postal Service.

We have several more audits planned relating to OWCP issues including reviews of the workers' compensation claims adjudication process, the administrative fee formula, and the causes of DOL duplicate payments.

We also investigate allegations of workers' compensation claimant and provider fraud. During this reporting period, we initiated more than 2,006 claimant and

provider fraud investigations. These healthcare fraud investigations resulted in more than \$20 million in cost avoidances and approximately 169 administrative personnel actions, including removals, letters of warning, and claims terminations.

In April 2005, we spearheaded a Federal Workers' Compensation (FWC) Forum to reduce costs and combat fraud related to the Federal Employees Compensation Act (FECA) across the federal government. To date, 18 federal OIGs have agreed to participate. The participating agencies annually spend more than \$2 billion dollars in OWCP benefits, which is 90 percent of all government OWCP costs. The FWC Forum has the following objectives:

- Adopt best business practices to effectively manage and reduce workers' compensation costs.
- Identify measures that may substantially reduce these costs.
- Form an alliance with other OIGs to address potential fraud, waste, and mismanagement within the FECA program.

Representatives of this forum will present investigative best practices at upcoming President's Council for Integrity and Efficiency and Executive Council for Integrity and Efficiency meetings.

PRESERVE INTEGRITY AND SECURITY

A significant management challenge facing the Postal Service is preserving the integrity and security of the nation's mail system and safeguarding its more than 700,000 employees, nearly 38,000 facilities, and about 212 billion pieces of mail in FY 2005. The integrity of processes and personnel is an essential element for safeguarding Postal Service products, customers, services, and assets. This includes maintaining the integrity of payment processes. It also includes the security and privacy of electronic information maintained within the Postal Service's network infrastructure and voice systems. Ultimately, this integrity helps maintain a stable and sound Postal Service.

IMPAC and Voyager Fleet Cards

In addition to acquiring goods and services through contracts, the Postal Service uses International Merchant Purchase Authorization Cards (IMPAC) and Voyager Fleet Cards. The IMPAC purchase card program processed transactions totaling approximately \$405 million in FY 2005 and earned the Postal Service more than \$2.8 million in refunds during 2005. The Voyager Fleet Card Program pays for the fuel, oil, repair, maintenance, and washing of more than 220,000 Postal Service vehicles.



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maintenance, and washing of more than 220,000 Postal Service vehicles. It also pays for fuel-only purchases for more than 26,000 HCR contractor vehicles. In FY 2005, this program processed more than \$332 million in purchases, with documented savings and cost avoidance to the Postal Service in excess of more than \$35 million.

In a Dallas area investigation, special agents identified and arrested several civilians and Postal Service employees allegedly using stolen Voyager accounts and personal identification numbers (PIN) to purchase fuel in exchange for cash. In another incident in New York, our investigators identified a gas station manager who processed more than \$436,800 in fraudulent Voyager transactions. This manager admitted stealing Voyager account and PIN information to process fraudulent fuel purchases. He was eventually prosecuted in federal court and ordered to pay back the entire amount to the Postal Service as restitution.

Oversight of Investigative Activities

Under the Inspector General Act of 1978, as amended, we are required to provide oversight of the USPIIS. To accomplish this statutory requirement, we conduct program audits and reviews of the USPIIS. This work provides an independent assessment of USPIIS programs, including related investigative and administrative processes. The team performing these reviews is supplemented by subject matter experts with extensive investigative experience. Our audits and reviews of the USPIIS have resulted in recommendations to strengthen internal and management controls, including the quality, standards, and management oversight of investigative and related administrative processes.

Using a facility risk-rating model, the USPIIS implemented several initiatives to identify potential vulnerabilities of Postal Service facilities through security reviews and observation of mail processing conditions. The OIG, in coordination with the USPIIS, plans to assess security programs and report on the effectiveness of security in place for facility, employees, customers, and mail. Additionally, together we will continue reviewing new initiatives for detection and protection systems and the development, implemen-



The OIG provides an independent assessment of USPIIS programs, including related investigative and administrative processes.

tation, and coordination of emergency preparedness plans. We are reviewing the Postal Service's and USPIIS's emergency management policies and training efforts to ensure that they are adequate and follow Department of Homeland Security and executive guidance.

We will continue reviewing USPIIS programs and operations to ensure investigative and related administrative processes efficiently and effectively support their mission.

Vulnerability of International Mail Transportation

Postal Service officials continue to be concerned with transportation security associated with Extraterritorial Offices of Exchange (ETOE) operations. ETOEs are commercial businesses affiliated with foreign postal administrations that compete in the international shipping and delivery market with the Postal Service and commercial shippers not affiliated with foreign posts.

ETOE operations in the United States, as permitted by international agreements intended to foster cooperation in the international mail market, and focus their business on high-dollar bulk shipments from large customers in major cities.

Postal Service officials believe ETOEs may engage in improper and unauthorized practices, adversely impacting legitimate competition and creating a security risk. Prior USPIIS reviews found improper and unauthorized Postal Service equipment use by U.S.-based ETOEs to dispatch international shipments. The USPIIS concluded that unauthorized use of Postal Service equipment had significant financial and security implications.

Due to these concerns, the Postmaster General asked us to examine ETOE operations. In response, we conducted an audit to determine whether practices or procedures used by ETOEs were unfair, improper, or unauthorized. Our audit was narrowly focused and neither examined the broader international competitiveness issues that gave rise to ETOEs nor sought to evaluate whether they should be allowed to continue to operate in the United States. However, we did conclude that some ETOE practices are improper or unauthorized and that ETOEs have a competitive advantage over the Postal Service.

During the audit, our staff joined a USPIIS task force to interdict improper use of Postal Service equipment. The task force identified instances of unauthorized use of Postal Service equipment by ETOEs at international airports in New York, Newark, Chicago, Miami, Los Angeles, and San Francisco.

The task force concluded that ETOE use of Postal Service mail transport equipment disguises commercial shipments as mail and creates a significant security risk. The task force further found that freight shipments, contained in equipment bearing universally identifiable Postal Service logos or markings, are easily mistaken for mail and not afforded the same security screening as other freight. In addition, officials explained that the misidentification of ETOE freight as U.S. Mail could lead to increased airport mail security procedures and increased cost to the Postal Service.

We pointed out that to address these concerns, the Postal Service would need to continue working with the Departments of State, Justice, and Homeland Security; the Universal Postal Union; and foreign nations to properly regulate ETOE operations and ensure the security of international mail.

Security Vulnerability Assessments

Challenged with providing products and services to better meet customer needs, the Postal Service introduced new technologies. These technologies make customer access to services more convenient while balancing the need for the security and privacy of electronic information maintained within its network infrastructure. Last year, the Nielsen/NetRatings named usps.com the number one brand among all U.S. government

websites with more than 21 million transactions per month.

The Postal Service has an aggressive program to identify security issues using vulnerability assessment techniques. We support this initiative by identifying security weaknesses that could allow access to critical information that should not be available to casual users. Using state-of-the-art diagnostic software tools, we perform security assessments of the firewall, server, and database technologies that drive and protect critical Postal Service applications. These assessments provide the Postal Service with a comprehensive picture of the environment tested, as well as the technical information needed to enhance the high level of security Postal Service customers expect.

During this reporting period, we performed technical assessments on technologies that support the Web Bank Secrecy Act and Property and Equipment Accounting System financial applications, and we reviewed selected kiosks and servers that support the newly deployed Automated Postal Centers (APCs).

As technology moves forward and new applications are developed, the Postal Service also remains challenged to secure more than 245 legacy applications deployed prior to January 2003. We will play a major role in assessing this effort in FY 2006.

Vulnerability Issues – Security Controls and Voice Systems

The Postal Service is challenged with ensuring its voice systems have adequate security, minimize toll fraud, and provide continuous availability to users. In its first required Department of Homeland Security plan submission for the shipping sector, the Postal Service reported that the availability of voice systems was critical to its core mission. The Postal Service

Information Security Services routinely performs tests to identify potential vulnerabilities.

In support of the Postal Service's initiatives, we conduct assessments to ensure voice systems provide a level of security commensurate with the criticality of the system and the information it contains. We conducted a pilot audit of PBX security and telephone bill monitoring in the Louisiana District. In this review, we found the Postal Service does a good job detecting toll fraud on its PBX system, and noted areas that could be improved. The Postal Service was responsive to these findings. It implemented voice security standards and replaced and upgraded their administrative tools systems. They also outlined a plan to implement structured timelines and safety briefings for employees with access to information security computer rooms.

Providing Reliable and Transparent Information

The Postal Service requires accurate information to make decisions that affect day-to-day operations, to meet congressional reporting requirements, and to



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conduct long-term planning. To be effective, the information must also be timely, reliable, and available to those who need it, yet protected from those who do not.

We performed financial audits at Postal Service installations and accounting service centers. We also audited information systems of general and application controls in FY 2005, and plan similar audits in FY 2006. These audits provide insight into the reliability of, and security over, critical information systems.

The Postal Service posts quarterly reports on its financial condition and results on its public website, usps.com, as part of its strategy to increase reporting transparency. Implementation of the new general ledger in FY 2004, and the single repository of corporate data in the Enterprise Data Warehouse (EDW), further enhance the transparency of the Postal Service's financial reporting by enabling monthly reporting capabilities.

Serving an average of 4,300 users and generating more than 100,000 reports per week, the EDW collects approximately 45,000 data files every month from 70 source systems. Design capabilities allow for data manipulation, deeper data analysis, and reporting across functional lines that can lead to reduced costs, additional revenue, and improved business practices.

STRATEGIC DIRECTION

A significant management challenge facing the Postal Service is balancing its public service obligation with the need to remain commercially viable. One of the tools the Postal Service used to meet this challenge was its April 2002 Transformation Plan. In September 2005, the Postal Service issued its Strategic Transformation Plan for FY 2006-2010 to build on the earlier plan and continue to meet the challenge of remaining commercially viable. As in the earlier plan, the Postal Service continues to find innovative solutions for customers to conduct business with the Postal Service.

Retail Strategy

The Automated Postal Center (APC) was one of several breakthroughs in expanding access to Postal Service products and services for customers that visit post offices each day. APCs are a state-of-the-art, smart vending platforms providing convenient and reliable access to a broader range of services and information than traditional vending machines. These kiosks can provide customers with access to products and services 24 hours-a-day, 7 days-a-week.

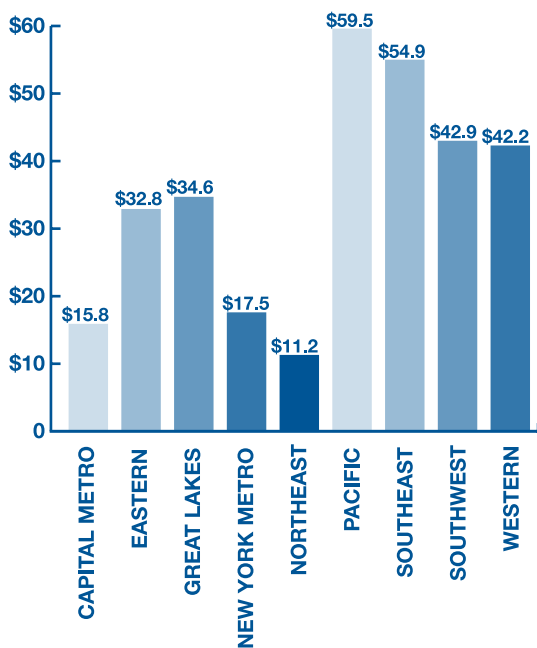
The 2002 Transformation Plan retail strategies were to:

- Move simple transactions away from the post office counter;
- Create new, low-cost retail alternatives;
- Optimize the retail network; and
- Develop new retail services that increase customer value and Postal Service revenue.

The APCs directly address the first two strategies and play a role in making the latter two possible.

Since the deployment of the first 2,500 APCs in 2004, the Postal Service generated revenue of more than \$311 million as of September 30, 2005. Revenue has varied greatly depending on the area of the country, as shown in the following chart.

**APC REVENUE
AS OF SEPTEMBER 30, 2005**



APC revenue performance, so far, achieved a major objective of the *2002 Transformation Plan* — to meet the Postal Service’s ever-increasing need for convenient access without relying exclusively on traditional, and costly, “brick and mortar” solutions. In March 2005, Postal Service officials identified potential facilities, nationwide, that could receive APCs during future deployments.

We reviewed the FY 2004 deployment strategy for APCs in the Central Florida District and found that Postal Service officials adequately placed APCs in these facilities. This assessment was based on the walk-in revenue associated with the self-service platform products; wait time

in line; and facility type, size, and location. The 65 district facilities that received 67 APCs increased revenue and decreased wait time in line.

In August 2005, Postal Service management considered redeploying up to 800 of the original 2,500 APCs because they were underperforming compared to the monthly APC revenue goal. The Postal Service is evaluating the redeployment process while planning to redeploy the bottom 100 of the 800 underperforming APCs in November 2005. The underperforming machines will be reevaluated in January 2006 to determine redeployment of additional APCs.

We are currently assessing whether the Postal Service is adequately redeploying the underperforming APCs (deployed in FY 2004) and properly planning for future placement of 3,000 new APCs at an estimated cost of \$30 million.



APCs can provide customers with access to products and services 24 hours-a-day, 7 days-a-week.

IDEAS WORTH EXPLORING

This section outlines concepts for improving Postal Service operations. The first four concepts are presented here for the first time, specifically: lobby of the future, expanding wireless service, selling advertising space, and Medicare Part D rebates. The last two concepts were presented in the March 31, 2005, semiannual report and evaluated during this reporting period. These concepts are commercialization of employee benefits programs and letter carrier models. Each concept is presented here for comment and not as a formal recommendation for action. We invite public comments to these ideas via the following website: <http://www.usps.gov/semiannual.aspx>.

LOBBY OF THE FUTURE

The Postal Service looks to foster growth through customer value by providing convenient and efficient access to postal services through innovative and cost-effective means. Its focus in this area involves managing expenses and improving customer service, in part through the use of advanced technology. Technology

solutions introduced to date include vending machines and APC kiosks that move transactions away from the retail counter and allow customers convenient access to Postal Service products and services 24 hours-a-day, 7 days-a-week in most locations, without the necessity of 24-hour staffing. Customer wait time in line is reduced by diverting transactions such as mailing parcels up to 70 pounds, purchasing postage, looking up ZIP Codes, and tracking Delivery Confirmation from retail clerks to self-service operation.

Building on this initial success, the Postal Service is considering the Next Generation Kiosk (NGK) to leverage the success of the APC. The NGK will sell stamps printed on demand, allow payment by cash, and enhance revenue-reporting capabilities for management. We believe the Postal Service could look beyond the NGK to a lobby of the future. This could consist of a lobby kiosk (LK) that can perform all post office transactions — purchasing stamps, mailing parcels, renting post office boxes, initiating retail sales transactions — 24 hours-a-day, 7 days-a-week with payment by debit, credit, cash cards, and cash.

In a broader vein, the Postal Service could use the LK as an onsite portal to provide citizens increased access to government services, while simultaneously collecting additional revenue. Government agencies would pay the Postal Service a fee to have the LK provide access, similar to the reimbursement it already receives for passport processing from the Department of State. The LK could be used, for example, to access the services of the Department of Veterans Affairs or the Social Security Administration, file income taxes electronically, order Government Printing Office publications, and submit state unemployment applications.



The Postal Service looks to foster growth through customer value by providing convenient and efficient access to postal services through innovative and cost-effective means.

Finally, emerging wireless broadband technologies could enable the Postal Service to extend the lobby of the future to offsite locations while collecting fees from governmental agencies for extending the reach of their “field offices.” This would require placing additional wireless transmission towers on Postal Service premises. The Postal Service currently receives a small revenue stream from cellular phone companies for making a limited number of premises available for cellular tower placement.

In a lobby of the future, customers could:

- Use the LK to purchase a book of stamps, mail a parcel, or purchase postage on demand (one stamp at a time).
- Use the LK to complete all paperwork and payment needed to rent a post office box. An on-site sales and service associate would help the customer gain initial access to the post office box during regular business hours.
- Purchase retail sales merchandise through an online shopping catalog. A sales and service associate could provide the merchandise to the purchaser at that location or mail it to them.

Customers in the lobby of the future might require face-to-face customer support when using the LK. In those instances, the Postal Service could provide face-to-face customer support via a two-way audio/video link. Employees stationed at remote, centralized service centers, or even working from home could provide customer support. This would offer a number of advantages for the Postal Service, including:

- More effective communication to the customer support staff nationwide.
- Management could provide the same communication (such as an all-hands

meeting to discuss new procedures or initiatives) to all customer support staff simultaneously, ensuring delivery of a consistent, clear message.

- Meaningful employment for Postal Service employees who are injured and on extended light-duty service, after they receive LK customer service training.

These additional portal opportunities are an expansion of existing Postal Service policy to cooperate with federal agencies by providing facilities and non-postal services if the overall costs to government are reduced and there is no interference with postal operations. Additionally, the Postal Service can and does charge compensatory fees for services performed on behalf of other agencies when there is a significant or ongoing cost to the Postal Service.



Employees stationed at remote, centralized service centers, or even working from home could provide customer support.

We recognize that technology will not address all Postal Service customer needs and that on-site sales and service associates will still be required. However, due to the potential reduction of the number of sales and service associates, change in their work hours, and the use

of customer support personnel for the LK, management would need to resolve the resulting labor relations issues.

Along with these issues, “brick and mortar” issues would also need to be addressed, given the probable redesign of existing and future post office locations to ensure maximum utilization of space and security. Finally, not all existing post office locations may be able to benefit from the LK pending an evaluation of sales volume and/or location.

Despite these obstacles, the LK could allow the Postal Service to make significant inroads in fostering growth by providing the customer convenient and efficient access to all postal services as the banking industry did in 1969 when the first automated teller machine (ATM) was installed in New York.

Today there are more than 384,000 ATMs installed in the United States. The Postal Service is significantly beyond the banking industry’s initial ATM step, yet it is not close to where the banking industry is in 2005. As ATMs continue to evolve to provide new services unforeseen in 1969, the Postal Service could make similar evolutionary steps via the lobby of the future.

EXPANDING WIRELESS SERVICE

Wireless data communications are poised for a dramatic increase in capability that will transform how a mobile citizenry communicates. Presently, Wireless Fidelity (Wi-Fi) data communications are available for bandwidth-intensive users, although in relatively limited locations. Public access Wi-Fi networks, known as hotspots, are springing up in airports, coffee shops, bookstores, and other gathering spots to provide Internet connectivity to today’s mobile consumers. Wi-Fi hotspots allow connections within about a 50-foot radius

of the access point, at speeds up to 54 megabits per second.

Wi-Fi promises to become more pervasive and is beginning to support new types of cutting-edge services. In the future, Wi-Fi will be built into more types of devices, enabling new networking opportunities in the home and office. For example, Voice Over IP phone handsets, which greatly reduce or eliminate long-distance phone charges by using the Internet as a carrier, are already available.

Wi-Fi standards are evolving rapidly and, within the next two to three years, will offer a greater range of high-speed transmissions, depending upon the technology used. Transmission ranges will continue to increase, making it easier to connect to the local hotspot. Another long-distance technology being tested, known as WiMax, promises to deliver even greater reach than Wi-Fi, but will require outdoor transmission towers.

One complaint among current hotspot users is the inability to roam across many popular networks, requiring them to pay for day passes in areas that their monthly plan does not cover. To alleviate this, hotspot operators are aggressively adding new locations, which may provide revenue opportunities for the Postal Service.

Hotspot aggregators offer revenue-sharing plans for those who make their premises available for Internet connectivity. The Postal Service could consider selling this hotspot service to grow revenue and assess whether it makes business sense to offer customers an Internet portal for additional government services.

SELLING ADVERTISING SPACE

The Postal Service could generate revenue by selling advertising space on its infrastructure as well as on its website, *usps.com*. Private companies and public municipalities already do this. Municipalities typically contract with a firm that handles the operational aspects of the project for a share of the revenue. Advertisements appear on city buses, bus shelters, and private trucks; and businesses set up billboards on their property. Given the Postal Service's presence in every neighborhood in America, there are many possibilities. Delivery vehicles could carry ads for firms that ship using the Postal Service. Post offices could display flyers from local businesses. Postal Service facilities near major traffic arteries may have space for billboards.



The Postal Service could generate revenue by selling advertising space on its infrastructure as well as on its website: *usps.com*.

This idea is not new. In 2000, businesses expressed a desire to advertise in the Postal Service's nationwide employee publication, *Postal Life*, sent to all employees at their home addresses. Advertising revenue would have covered the cost of producing the 4-color, 32-page publication. However, the publication was discontinued before the proposed advertising policy could be tested.

In 2001, the Postal Service launched the Postal Ad Network to offer advertising space on delivery vehicles, collection boxes, Priority Mail and Express Mail packaging, stamp-booklet covers, websites, and within post office lobbies. Companies such as AOL Time-Warner, Kmart, and Pitney Bowes participated in the network or in earlier trials.

Although the Postal Ad Network raised less revenue than hoped and *Postal Life* was discontinued, we believe the concept of selling advertising space deserves another look. The potential exists to raise revenue with little additional cost.

The Postal Service could analyze its earlier ventures for any lessons that would help it decide whether to try again. When making its decision, the Postal Service may wish to consider costs that may be difficult to measure, such as a possible loss of the Postal Service brand.

MEDICARE PART D REBATES

Eligible employees who retire from the Postal Service can continue participating in the Federal Employees Health Benefits (FEHB) program and the Postal Service is responsible for a portion of the premiums. FEHB premium costs have risen rapidly in recent years, due in part to an increase in the cost of prescription drugs. In 2004, Postal Service payments

for retiree and survivor health benefits totaled \$1.3 billion.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) established a new voluntary prescription drug program (Part D). Effective January 1, 2006, Medicare participants will be able to purchase prescription drug coverage for an additional premium. To encourage employers to keep providing prescription drug coverage for retirees, MMA also includes a rebate provision. Qualified retiree plans can receive a rebate for each Medicare participant who chooses not to enroll in Part D. For 2006, the rebate equals 28 percent of a retiree's prescription drug costs greater than \$250 and not greater than \$5,000. The Centers for Medicare & Medicaid Services have estimated the rebate will average \$668 per covered retiree in 2006.

Government plans that meet the requirements, including FEHB plans, are eligible to receive the rebate, but the Office of Personnel Management has announced that the federal government will not request it. This decision makes sense for most federal agencies as taxpayers fund the prescription drug coverage through either Medicare or the FEHB program. However, unlike other federal agencies, the Postal Service provides the governmental contribution for its retirees' health plans, and that contribution is funded by postal ratepayers.

Postal Service ratepayers may be entitled to the same relief available to private-sector companies. The Postal Service has estimated that, over time, the rebate could reduce its total future annuitant health benefit obligations by more than \$6 billion. Moreover, taking advantage of the rebate provision would not require any changes to existing health coverage for Postal Service retirees or their survivors. In October, the Postal Service began the

application process. We support these efforts.

COMMERCIALIZATION OF EMPLOYEE BENEFITS PROGRAMS

We evaluated the Postal Service's participation in the DOL's OWCP, and focused on whether the Postal Service could replace its current OWCP program with a less costly one.

On the positive side, savings would most likely occur if the Postal Service had its own workers' compensation program. These savings would be in the areas of continuation of pay elimination and a three-day waiting period, reduced OWCP administrative fees and Postal Service third-party administrators, physician selection, buyout options, mandatory retirements, compensation limits, dependency status, and accountability controls.

Negative issues include potential resistance by the Postal Service's four major employee unions, if employee compensation benefits are reduced, and the need for legislative action to separate the Postal Service from the existing OWCP.

LETTER CARRIER MODELS

City and rural carriers' compensation systems are collectively bargained between the Postal Service and their associated unions. The Postal Service contracts with private individuals or firms for box delivery highway contract routes (HCR).

We examined issues pertaining to the city and rural carrier models. City carriers' workweek is 40 hours per week, eight hours per day. Overtime is paid in the event city carriers work beyond eight hours in a day and 40 hours in a week, at 150 percent of the carrier's regular rate

and at 200 percent beyond 10 hours on their scheduled work day or beyond 8 hours on their non-scheduled work day.

Evaluated compensation is the basis for compensating rural carriers. This compensation is based on a route review that includes mail counts, route miles, evaluated time as determined by the office, and the route standard time. Evaluated compensation is generally based on rural carriers assigned to evaluated routes totaling 35 hours or more.

On evaluated routes, there is an incentive to complete the routes more efficiently; hourly routes do not have incentives to be efficient. Because city letter carriers are compensated hourly, there is little incentive for them to deliver the mail quickly; in fact, this compensation method could encourage slower delivery because of overtime compensation.

The Postal Service has two methods at its disposal to achieve this lower cost — convert some existing city routes to rural routes or establish new growth as rural routes.

Conversion from city to rural routes presents the Postal Service with a challenging union and labor relations issue. Specifically, all changes to routes must be in accordance with applicable provisions of the city and rural letter carrier national labor agreements. Currently, the Postal Service has about 200 grievances relating to the conversion of deliveries from city service to rural delivery service.

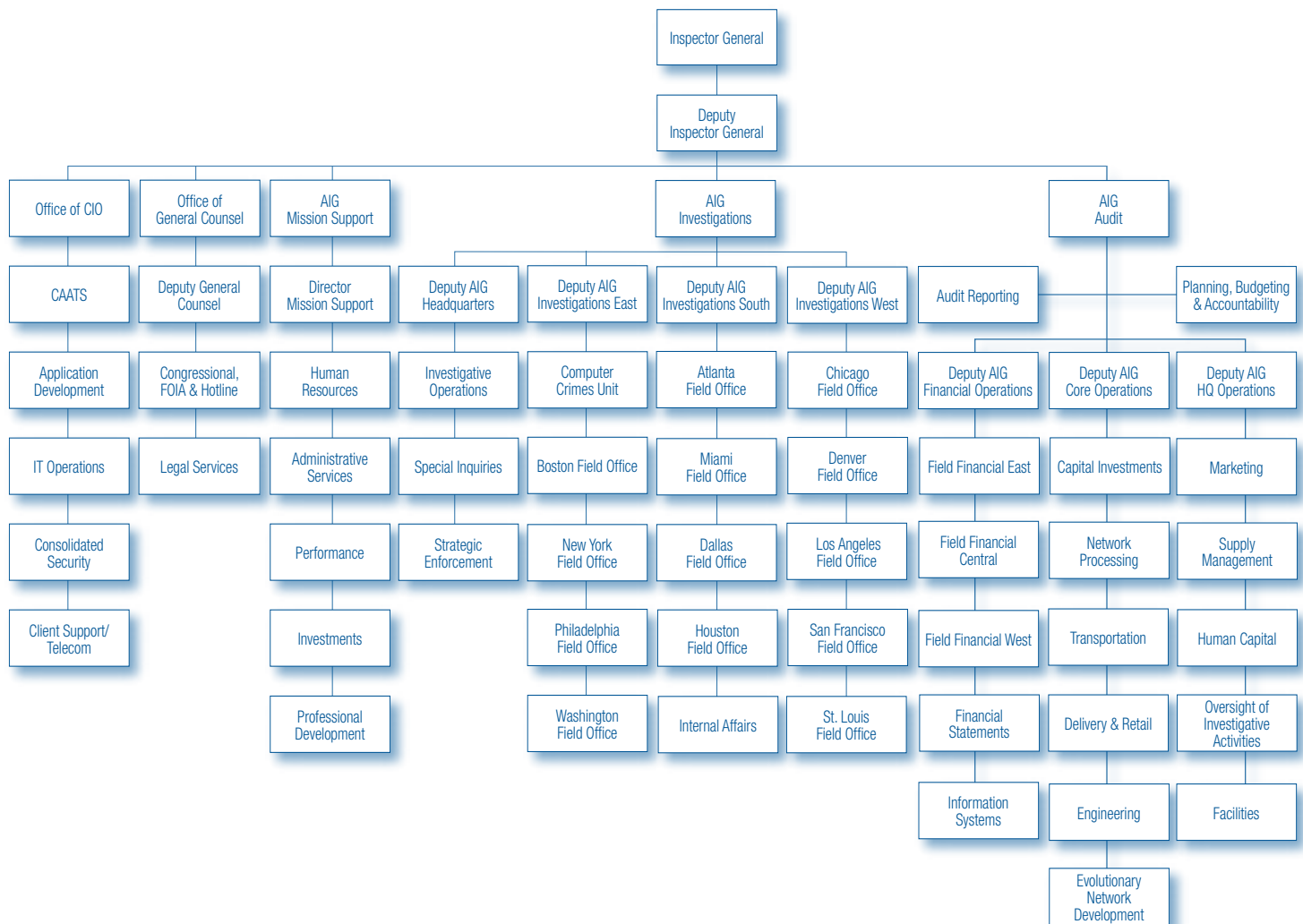
Arbitration has generally been favorable to the unions. However, the obstacles that exist in converting city to rural routes do not exist for new growth delivery service. The Postal Service estimates an increase of 1.89 million delivery points in FY 2005. Establishing rural routes in new growth areas, to the maximum extent possible, would provide the best opportunity for reducing delivery costs.



City and rural carriers' compensation systems are collectively bargained between the Postal Service and their associated unions.

U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL ORGANIZATIONAL CHART

As of September 30, 2005

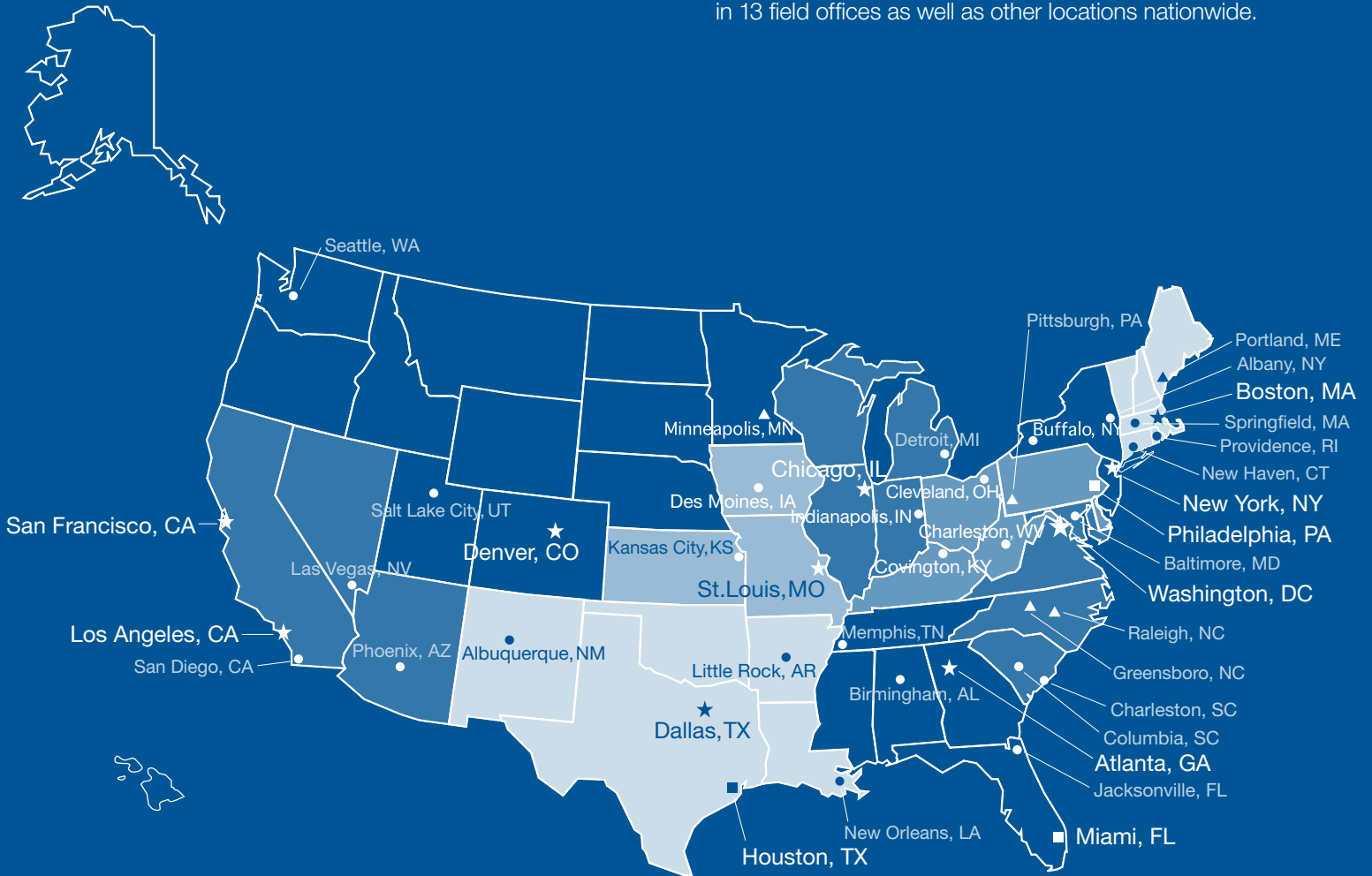


Abbreviations

- AIG Assistant Inspector General
- CAATS Computer Assisted Assessment Techniques
- CIO Chief Information Officer
- FOIA Freedom of Information Act
- IT Information Technology
- HQ Headquarters

U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL OFFICE LOCATIONS

The OIG currently has more than 800 employees located in 13 field offices as well as other locations nationwide.



 Puerto Rico

- ★ Field Offices
- Field Offices (Investigations Only)
- ▲ Audit & Investigations Offices
- Investigations Only

APPENDICES

The Inspector General Act of 1978 requires semiannual reports on the immediately preceding six-month periods ending March 31 and September 30. These reports are sent to Congress and made available to the public.

This report summarizes OIG activities and illustrates significant problems, abuses and deficiencies, along with recommendations and corrective actions related to the admin-

istration of U.S. Postal Service programs and operations during the reporting period.

During the last six months, the Postal Service agreed with OIG recommendations that identified potential monetary benefits of more than \$216 million.

The appendices on the following pages fulfill the requirements of the Act.

APPENDIX A

REPORTS ISSUED TO POSTAL SERVICE MANAGEMENT

For the period April 1 – September 30, 2005

OIG audit teams conduct performance and financial audits, evaluations, and other reviews to address the business of the Postal Service. Each team issues audit reports (AR) or management advisory reports (MA) in accordance with the identified needs of the project.

SUMMARY

Following is a summary by principal area of reports issued to Postal Service management. The following pages list each issued report.

Management Challenge	Number of Reports Issued	Questioned Costs ¹	Unsupported Costs	Recommended Funds Put to Better Use	Potential Additional Revenue	Potential Additional Expense	Unrecoverable Costs
Cost Control	165	\$58,125,487	\$994,664	\$46,770,103	\$989,805	—	\$9,137,875
Revenue	8	—	—	\$98,128,848	\$930,038	—	—
Human Capital	9	1,295	—	\$544	—	\$22,608	\$64,064
Preserve Integrity and Security	22	\$103,330	—	\$1,775,386	—	—	—
Strategic Direction	1	—	—	—	—	—	—
TOTAL	205	\$58,230,112	\$994,664	\$146,674,881	\$1,919,843	\$22,608	\$9,201,939

¹Total includes unsupported costs of \$994,664.

DEFINITIONS

QUESTIONED COSTS

A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

UNSUPPORTED COSTS

A cost that is not supported by adequate documentation. Unsupported costs are included in Questioned Costs.

FUNDS PUT TO BETTER USE

Funds that could be used more efficiently by implementing recommended actions.

POTENTIAL ADDITIONAL REVENUE

Amounts from revenue generating functions such as retail sales, rent, leases, or fees that were underpaid or not realized. In addition, this category includes increased revenue from existing functions and generating revenue from new sources.

POTENTIAL ADDITIONAL EXPENSE

An expense that perhaps should not have been incurred.

UNRECOVERABLE COSTS

A cost that perhaps should not have been incurred and is not recoverable.

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Report Title	Total Questioned Costs	Unsupported Costs	Recommended Funds Put to Better Use	Potential Additional Revenue	Potential Additional Expense	Unrecoverable Costs
COST CONTROL						
DELIVERY AND RETAIL						
City Letter Carrier Operations – Chicago District DR-AR-05-019; 9/29/2005	—	—	—	—	—	\$2,020,200
City Letter Carrier Operations – San Diego District DR-AR-05-014; 8/8/2005	—	—	—	—	—	\$1,423,935
City Letter Carrier Operations – Santa Ana District DR-AR-05-013; 8/8/2005	—	—	—	—	—	\$2,127,852
Delivery Vehicle Utilization – General Services Administration Leased Vehicles DR-AR-05-018; 9/29/2005	—	—	\$5,374,077	—	—	—
ENGINEERING						
Flats Identification Code Sort for Automated Flat Sorting Machine 100s DA-AR-05-001; 9/30/2005	\$29,474,775	—	\$7,711,005	—	—	\$3,551,291
FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDITS						
Atlanta Business Mail Entry Unit – Atlanta, GA FF-AR-05-166; 6/23/2005	—	—	—	\$2,200	—	—
Beverly Business Mail Entry Unit – Beverly, MA FF-AR-05-187; 7/20/2005	—	—	—	\$2,298	—	—
Bridgman Post Office – Bridgman, MI FF-AR-05-160; 6/27/2005	—	—	—	\$2,430	—	—
Cardiss Collins Postal Store – Chicago, IL FF-AR-05-228; 9/23/2005	\$70,641	—	—	\$267,637	—	—
Centereach Main Post Office – Centereach, NY FF-AR-05-163; 7/20/2005	—	—	—	\$775	—	—
Champlain Business Mail Entry Unit – Champlain, NY FF-AR-05-224; 9/27/2005	—	—	—	\$7,278	—	—
Colleyville Business Mail Entry Unit, Colleyville, TX FF-AR-05-134; 5/17/2005	—	—	—	\$1,444	—	—
Dallas Business Mail Entry Unit – Dallas, TX FF-AR-05-167; 6/30/2005	—	—	—	\$59,501	—	—
Dallas Main Post Office – Dallas, TX FF-AR-05-219; 9/13/2005	\$44,548	—	—	\$2,706	—	—
Daytona Beach Business Mail Entry Unit – Daytona Beach, FL FF-AR-05-140; 5/23/2005	—	—	—	\$1,838	—	—
Enfield Business Mail Entry Unit – Enfield, CT FF-AR-05-225; 9/20/2005	\$8,832	—	—	\$928	—	—
Eugene Business Mail Entry Unit – Eugene, OR FF-AR-05-155; 6/22/2005	—	—	—	\$2,197	—	—
Fair Oaks Business Mail Entry Unit – Fair Oaks, CA FF-AR-05-206; 8/15/2005	—	—	—	\$624	—	—
Gahanna Finance Station – Gahanna, OH FF-AR-05-198; 8/17/2005	—	—	—	\$24,552	—	—

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Report Title	Total Questioned Costs	Unsupported Costs	Recommended Funds Put to Better Use	Potential Additional Revenue	Potential Additional Expense	Unrecoverable Costs
Greenville Business Mail Entry Unit – Greenville, NC FF-AR-05-169; 6/27/2005	—	—	—	\$964	—	—
Hartford Business Mail Entry Unit – Hartford, CT FF-AR-05-142; 5/31/2005	—	—	—	\$234	—	—
Hayward Business Mail Entry Unit – Hayward, CA FF-AR-05-204; 8/12/2005	—	—	—	\$6,770	—	—
Highland Park Business Mail Entry Unit – Highland Park, IL FF-AR-05-109; 4/7/2005	—	—	—	\$760	—	—
Kaneohe Business Mail Entry Unit – Kaneohe, HI FF-AR-05-193; 7/28/2005	—	—	—	\$481	—	—
Kekaha Post Office – Kekaha, HI FF-AR-05-189; 7/27/2005	—	—	—	\$1,506	—	—
Klamath Falls Business Mail Entry Unit – Klamath Falls, OR FF-AR-05-103; 4/4/2005	—	—	—	\$680	—	—
Lancaster Business Mail Entry Unit – Lancaster, OH FF-AR-05-186; 7/26/2005	—	—	—	\$6,543	—	—
Lebanon Business Mail Entry Unit – Lebanon, OH FF-AR-05-162; 6/21/2005	—	—	—	\$335,636	—	—
Lodi Business Mail Entry Unit – Lodi, CA FF-AR-05-115; 4/20/2005	—	—	—	\$1,629	—	—
Long Lake Business Mail Entry Unit – Long Lake, MN FF-AR-05-197; 8/1/2005	—	—	—	\$1,612	—	—
Maquoketa Business Mail Entry Unit – Maquoketa, IA FF-AR-05-209; 8/23/2005	—	—	—	\$409	—	—
McAlester Business Mail Entry Unit – McAlester, OK FF-AR-05-145; 6/2/2005	—	—	—	\$6,085	—	—
McLean Self-Service Postal Center – McLean, VA FF-AR-05-119; 4/25/2005	—	—	—	—	—	\$12,090
Niagara Business Mail Entry Unit – Niagara, NY FF-AR-05-136; 5/18/2005	—	—	—	\$9,543	—	—
Pasadena Business Mail Entry Unit – Pasadena, CA FF-AR-05-192; 7/27/2005	\$817	—	—	\$17,482	—	—
Placerville Post Office – Placerville, CA FF-AR-05-127; 5/6/2005	\$2,128	\$2,128	—	—	—	—
Pontiac Main Post Office – Pontiac, MI FF-AR-05-153; 6/15/2005	\$1,309	\$1,309	—	—	—	—
Port Huron Business Mail Entry Unit – Port Huron, MI FF-AR-05-211; 8/23/2005	—	—	—	\$1,336	—	—
Reynoldsburg Finance Station – Reynoldsburg, OH FF-AR-05-179; 7/13/2005	—	—	—	\$2,025	—	—
Rice Lake Post Office – Rice Lake, WI FF-AR-05-129; 5/9/2005	—	—	—	\$2,213	—	—
San Carlos Main Post Office – San Carlos, CA FF-AR-05-151; 6/9/2005	—	—	—	—	—	\$686
San Leandro Business Mail Entry Unit – San Leandro, CA FF-AR-05-133; 5/19/2005	\$2,576	\$2,576	—	\$1,217	—	—

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Report Title	Total Questioned Costs	Unsupported Costs	Recommended Funds Put to Better Use	Potential Additional Revenue	Potential Additional Expense	Unrecoverable Costs
Santa Ana Processing and Distribution Center Window Unit – Santa Ana, CA FF-AR-05-217; 9/26/2005	\$29,149	—	—	\$14,424	—	—
South Padre Island Branch – South Padre Island, TX FF-AR-05-108; 4/7/2005	—	—	—	\$42,588	—	—
Southside Station – Richmond, VA FF-AR-05-131; 5/10/2005	—	—	—	\$2,239	—	—
Stockton Business Mail Entry Unit – Stockton, CA FF-AR-05-149; 6/8/2005	\$882	—	—	\$23,542	—	—
Sykesville Post Office – Sykesville, MD FF-AR-05-117; 4/25/2005	—	—	—	\$523	—	\$1,821
Tampa Main Office Window Unit – Tampa, FL FF-AR-05-229; 9/27/2005	—	—	—	\$9,114	—	—
Thousand Oaks Main Post Office – Thousand Oaks, CA FF-AR-05-156; 6/24/2005	\$5,306	—	—	\$117,734	—	—
Utica Business Mail Entry Unit – Utica, NY FF-AR-05-202; 8/17/2005	—	—	—	\$2,413	—	—
Westport Business Mail Entry Unit – Westport, CT FF-AR-05-191; 7/27/2005	\$6,762	—	—	\$3,695	—	—
INFORMATION SYSTEMS						
National Voice Services – Savings Opportunities IS-AR-05-016; 9/30/2005	—	—	\$9,883,972	—	—	—
SUPPLY MANAGEMENT						
Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number SNET-01-SER CA-CAR-05-016; 4/6/2005	\$864,898	—	—	—	—	—
Audit of Equitable Price Adjustment Claim Submitted by Advanced Construction Technologies, Ltd. Under Contract Number 362575-00-B-0399 CA-CAR-05-020; 6/15/2005	\$1,780,367	—	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Bowe Bell & Howell, Under Solicitation Number W52H09-04-R-0133 CA-CAR-05-025; 9/29/2005	\$237,382	—	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Bowe Bell & Howell, Under Solicitation Number W52H09-04-R-0133 CA-CAR-05-026; 9/29/2005	\$267,488	—	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by International Business Machines, Global Services, Business Consulting Services – Federal, Under Proposal Number APC 035R3 CA-CAR-05-017; 5/3/2005	\$3,127,088	—	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company, Under Solicitation Number 3BMHRD-03-Z5541 CA-CAR-05-022; 7/12/2005	\$1,373,941	—	—	—	—	—

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Report Title	Total Questioned Costs	Unsupported Costs	Recommended Funds Put to Better Use	Potential Additional Revenue	Potential Additional Expense	Unrecoverable Costs
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronic Systems, Company, Under Solicitation Number 3BMHRD-03-Z5541 CA-CAR-05-021; 6/27/2005	\$131,899	—	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Siemens Logistics and Assembly Systems Incorporated, Postal Automation Under Solicitation Number 3AAERD-05-A-1589 CA-CAR-05-018; 5/19/2005	\$12,151,394	\$988,651	—	—	—	—
Electronic Data Systems Contract Invoice Approval Procedures CA-AR-05-002; 5/13/2005	\$980,682	—	—	—	—	—
TRANSPORTATION						
Bulk Mail Center Highway Transportation Routes – Pacific Area NL-AR-05-012; 9/21/2005	—	—	\$3,123,562	—	—	—
Commercial Air Network Operations NL-AR-05-015; 9/28/2005	\$7,277,563	—	\$6,705,951	—	—	—
Mail Transport Equipment Service Center Network – Highway Transportation Routes – New York Metro Area NL-AR-05-014; 9/28/2005	\$285,060	—	\$740,752	—	—	—
Surface Networks – Intermodal Rail and Highway Transportation Between the Pacific and Southeast Areas NL-AR-05-011; 9/19/2005	—	—	\$1,261,308	—	—	—
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Capital Metro Area NL-AR-05-009; 9/2/2005	—	—	\$803,060	—	—	—
Surface Transportation – Bulk Mail Center Highway Transportation Routes – New York Metro Area NL-AR-05-007; 6/9/2005	—	—	\$1,499,371	—	—	—
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Northeast Area NL-AR-05-013; 9/26/2005	—	—	\$2,491,133	—	—	—
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southwest Area NL-AR-05-008; 8/3/2005	—	—	\$7,175,912	—	—	—
REVENUE						
DELIVERY AND RETAIL						
Balloon Rate and Parcel Surcharges DR-AR-05-017; 9/29/2005	—	—	—	\$24,600	—	—

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Report Title	Total Questioned Costs	Unsupported Costs	Recommended Funds Put to Better Use	Potential Additional Revenue	Potential Additional Expense	Unrecoverable Costs
MARKETING						
Expedited Packaging Supplies MS-AR-05-002; 9/28/2005	—	—	\$4,000,000	—	—	—
International Customized Mail Agreements MS-AR-05-001; 8/16/2005	—	—	—	\$905,438	—	—
NETWORK PROCESSING						
Efficiency of the Airmail Records Unit at the Los Angeles International Service Center NO-AR-05-010; 4/28/2005	—	—	\$1,847,858	—	—	—
Efficiency of the Airmail Records Unit at the San Francisco International Service Center NO-AR-05-012; 9/6/2005	—	—	\$2,563,277	—	—	—
Efficiency of the Los Angeles International Service Center NO-AR-05-011; 6/17/2005	—	—	\$26,100,000	—	—	—
Efficiency Review of the Canton, OH, Processing and Distribution Facility NO-AR-05-013; 9/22/2005	—	—	\$63,617,713	—	—	—
HUMAN CAPITAL						
HUMAN CAPITAL						
Office of Workers' Compensation Programs' Schedule Award Payments to Postal Service Employees in the Pacific Area – Report II HM-AR-05-011; 9/29/2005	—	—	\$544	—	\$22,608	\$64,064
Verification of the Anticipated and Realized Medical Cost Savings Resulting From the Postal Service's Contracts With First Health Group Corporation HM-AR-05-005; 5/9/2005	\$1,295	—	—	—	—	—
FACILITIES						
Environmental Remediation Project at the Pompano Beach Auxiliary Vehicle Maintenance Facility FA-MA-05-001; 4/28/2005	—	—	\$25,000	—	—	—
INFORMATION SYSTEMS						
Security Controls in Voice Systems – Louisiana District IS-AR-05-007; 4/18/2005	\$103,330	—	\$258,386	—	—	—
OVERSIGHT OF INVESTIGATIVE ACTIVITIES						
Postal Service Law Enforcement Vehicles SA-AR-05-002; 5/24/2005	—	—	\$1,492,000	—	—	—

REPORT LISTING

The following complete listing of all OIG reports issued to Postal Service management. It is grouped first by management challenge, second by category of review and year, if applicable, and then alphabetically by title.

For the period of April 1, 2005, through September 30, 2005

COST CONTROL

AUDIT OF STATISTICAL TESTS FOR FISCAL YEAR 2005 COST AND REVENUE ANALYSIS

Caribbean District FF-AR-05-199; 8/4/2005	Dallas District FF-AR-05-118; 4/25/2005	Triboro District, John F. Kennedy Air Mail Facility FF-AR-05-146; 6/3/2005
Central PA District FF-AR-05-195; 7/29/2005	Erie District FF-AR-05-126; 5/6/2005	
Colorado/Wyoming District FF-AR-05-171; 6/29/2005	Richmond District FF-AR-05-203; 8/10/2005	

DELIVERY AND RETAIL

Benchmarking of Parcel Surcharges DR-MA-05-001; 9/30/2005	City Letter Carrier Operations – Santa Ana District DR-AR-05-013; 8/8/2005	Self-Service Vending Program DR-AR-05-012; 4/11/2005
City Letter Carrier Operations – Chicago District DR-AR-05-019; 9/29/2005	Delivery Vehicle Utilization – General Services Administration Leased Vehicles DR-AR-05-018; 9/29/2005	
City Letter Carrier Operations – San Diego District DR-AR-05-014; 8/8/2005		

ENGINEERING

Flats Identification Code Sort for Automated Flat
Sorting Machine 100s
DA-AR-05-001; 9/30/2005

FACILITIES

Maintenance Offices' Acceptance of Facilities
Repair and Alterations Projects in the
Southeast Area
FA-AR-05-001; 9/29/2005

FINANCIAL STATEMENT

Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data FT-AR-05-010; 9/26/2005	Reporting Salary Overpayments to the Internal Revenue Service FT-MA-05-002; 9/28/2005
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FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDITS

Advance Business Mail Entry Unit – Advance, NC FF-AR-05-120; 4/29/2005	Austin Downtown Station – Austin, TX FF-AR-05-102; 4/6/2005	Bedford Business Mail Entry Unit – Bedford, IN FF-AR-05-170; 6/27/2005
Apex Business Mail Entry Unit – Apex, NC FF-AR-05-218; 9/8/2005	Bainbridge Business Mail Entry Unit – Bainbridge, GA FF-AR-05-176; 7/6/2005	Beverly Business Mail Entry Unit – Beverly, MA FF-AR-05-187; 7/20/2005
Arcadia Post Office – Arcadia, WI FF-AR-05-150; 6/9/2005	Beaufort Marine Corps Air Station Branch Post Office – Beaufort, SC FF-AR-05-111; 4/11/2005	Blair Business Mail Entry Unit – Blair, NE FF-AR-05-154; 6/13/2005
Atlanta Business Mail Entry Unit – Atlanta, GA FF-AR-05-166; 6/23/2005		

Boise Business Mail Entry Unit – Boise, ID FF-AR-05-212; 8/25/2005	Enfield Business Mail Entry Unit – Enfield, CT FF-AR-05-225; 9/20/2005	Kaneohe Business Mail Entry Unit – Kaneohe, HI FF-AR-05-193; 7/28/2005
Bonne Terre Post Office – Bonne Terre, MO FF-AR-05-175; 7/5/2005	Eugene Business Mail Entry Unit – Eugene, OR FF-AR-05-155; 6/22/2005	Kekaha Post Office – Kekaha, HI FF-AR-05-189; 7/27/2005
Bridgman Post Office – Bridgman, MI FF-AR-05-160; 6/27/2005	Evanston South Station, Evanston, IL FF-AR-05-210; 8/24/2005	Klamath Falls Business Mail Entry Unit – Klamath Falls, OR FF-AR-05-103; 4/4/2005
Buena Park Station – Buena Park, CA FF-AR-05-196; 8/1/2005	Fair Oaks Business Mail Entry Unit – Fair Oaks, CA FF-AR-05-206; 8/15/2005	Lake Park Automated Postal Center – Lake Park, FL FF-AR-05-113; 4/19/2005
Buzzards Bay Business Mail Entry Unit – Bourne, MA FF-AR-05-106; 4/7/2005	Fiscal Year 2005 Financial Installation Audit – Olympic Valley Post Office – Olympic Valley, CA FF-AR-05-223; 9/15/2005	Lancaster Business Mail Entry Unit – Lancaster, OH FF-AR-05-186; 7/26/2005
Califon Post Office – Califon, New Jersey FF-AR-05-200; 8/17/2005	Fortuna Business Mail Entry Unit – Fortuna, CA FF-AR-05-161; 6/20/2005	Landing Main Post Office – Landing, NJ FF-AR-05-208; 8/17/2005
Camino Media Station Automated Postal Center – Bakersfield, CA FF-AR-05-190; 7/27/2005	Fowler Post Office – Fowler, IL FF-AR-05-124; 5/4/2005	Lebanon Business Mail Entry Unit – Lebanon, OH FF-AR-05-162; 6/21/2005
Canandaigua Post Office – Canandaigua, NY FF-AR-05-214; 9/7/2005	Franklin Mills Station – Philadelphia, PA FF-AR-05-205; 8/15/2005	Liberty Post Office – Liberty, NC FF-AR-05-139; 5/23/2005
Cardiss Collins Postal Store – Chicago, IL FF-AR-05-228; 9/23/2005	Gahanna Finance Station – Gahanna, OH FF-AR-05-198; 8/17/2005	Lodi Business Mail Entry Unit – Lodi, CA FF-AR-05-115; 4/20/2005
Centereach Main Post Office – Centereach, NY FF-AR-05-163; 7/20/2005	Gainesville Business Mail Entry Unit – Gainesville, FL FF-AR-05-143; 6/1/2005	Long Lake Business Mail Entry Unit – Long Lake, MN FF-AR-05-197; 8/1/2005
Champaign Post Office – Champaign, IL FF-AR-05-112; 4/20/2005	Galena Post Office – Galena, OH FF-AR-05-144; 6/1/2005	Lowell Post Office – Lowell, OH FF-AR-05-183; 7/21/2005
Champlain Business Mail Entry Unit – Champlain, NY FF-AR-05-224; 9/27/2005	Galesburg Automated Postal Center – Galesburg, IL FF-AR-05-165; 6/23/2005	Magnolia Finance Station Automated Postal Center – Riverside, CA FF-AR-05-148; 6/7/2005
Colleyville Business Mail Entry Unit, Colleyville, TX FF-AR-05-134; 5/17/2005	Greenville Business Mail Entry Unit – Greenville, NC FF-AR-05-169; 6/27/2005	Manistee Post Office – Manistee, MI FF-AR-05-207; 8/16/2005
Coloma Post Office – Coloma, MI FF-AR-05-177; 7/5/2005	Harriman Main Post Office – Harriman, NY FF-AR-05-105; 4/6/2005	Maquoketa Business Mail Entry Unit – Maquoketa, IA FF-AR-05-209; 8/23/2005
Conroe Business Mail Entry Unit – Conroe, TX FF-AR-05-121; 4/29/2005	Hartford Business Mail Entry Unit – Hartford, CT FF-AR-05-142; 5/31/2005	Marshalltown Business Mail Entry Unit – Marshalltown, IA FF-AR-05-174; 6/30/2005
Council Post Office – Council, ID FF-AR-05-215; 9/7/2005	Hartford Main Post Office – Hartford, CT FF-AR-05-172; 7/11/2005	Marysville Business Mail Entry Unit – Marysville, KS FF-AR-05-164; 6/22/2005
Curwensville Post Office – Curwensville, PA FF-AR-05-104; 4/6/2005	Hartsville Business Mail Entry Unit – Hartsville, SC FF-AR-05-135; 5/17/2005	Mason City Self-Service Postal Center – Mason City, IA FF-AR-05-221; 9/13/2005
Dallas Business Mail Entry Unit – Dallas, TX FF-AR-05-167; 6/30/2005	Hayward Business Mail Entry Unit – Hayward, CA FF-AR-05-204; 8/12/2005	McAlester Business Mail Entry Unit – McAlester, OK FF-AR-05-145; 6/2/2005
Dallas Main Post Office – Dallas, TX FF-AR-05-219; 9/13/2005	Highland Park Business Mail Entry Unit – Highland Park, IL FF-AR-05-109; 4/7/2005	McLean Self-Service Postal Center – McLean, VA FF-AR-05-119; 4/25/2005
Daytona Beach Business Mail Entry Unit – Daytona Beach, FL FF-AR-05-140; 5/23/2005	Highlands Ranch Branch – Littleton, CO FF-AR-05-114; 4/19/2005	Mebane Post Office – Mebane, NC FF-AR-05-182; 7/18/2005
Deep River Business Mail Entry Unit – Deep River, CT FF-AR-05-201; 8/17/2005	Hope Mills Post Office – Hope Mills, NC FF-AR-05-157; 6/22/2005	Mobile Post Office – Mobile, AL FF-AR-05-132; 5/11/2005
Eastside Station – Lake Charles, LA FF-AR-05-125; 5/4/2005	Julian Post Office – Julian, CA FF-AR-05-107; 4/7/2005	
Edgerton Business Mail Entry Unit – Edgerton, WI FF-AR-05-152; 6/13/2005		

Moulton Post Office – Moulton, TX
FF-AR-05-173; 6/30/2005

Mount Vernon Business Mail Entry Unit –
Mount Vernon, IN
FF-AR-05-130; 5/10/2005

Mountain Road Branch – Glen Allen, VA
FF-AR-05-147; 6/6/2005

New Monmouth Branch – Middletown, NJ
FF-AR-05-185; 7/21/2005

Newburyport Business Mail Entry Unit –
Newburyport, MA
FF-AR-05-158; 6/21/2005

Niagara Business Mail Entry Unit – Niagara, NY
FF-AR-05-136; 5/18/2005

Norfolk Business Mail Entry Unit – Norfolk, NE
FF-AR-05-227; 9/22/2005

North Branford Business Mail Entry Unit –
North Branford, CT
FF-AR-05-220; 9/14/2005

Omaha Business Mail Entry Unit – Omaha, NE
FF-AR-05-213; 8/31/2005

Orting Post Office – Orting, WA
FF-AR-05-137; 5/20/2005

Pasadena Business Mail Entry Unit –
Pasadena, CA
FF-AR-05-192; 7/27/2005

Peoria Station Automated Postal Center –
Peoria, AZ
FF-AR-05-188; 7/27/2005

Placerville Post Office – Placerville, CA
FF-AR-05-127; 5/6/2005

Plainville Post Office – Plainville, CT
FF-AR-05-222; 9/21/2005

Plaza Vending Self-Service Postal Center –
Pasadena, CA
FF-AR-05-181; 7/13/2005

Pleasant Hill Post Office – Pleasant Hill, IL
FF-AR-05-123; 5/2/2005

Pontiac Main Post Office – Pontiac, MI
FF-AR-05-153; 6/15/2005

Port Huron Business Mail Entry Unit –
Port Huron, MI
FF-AR-05-211; 8/23/2005

Punta Gorda Post Office – Punta Gorda, FL
FF-AR-05-184; 7/20/2005

Quincy Business Mail Entry Unit – Quincy, FL
FF-AR-05-141; 5/31/2005

Reynoldsburg Finance Station –
Reynoldsburg, OH
FF-AR-05-179; 7/13/2005

Rice Lake Post Office – Rice Lake, WI
FF-AR-05-129; 5/9/2005

Ripley Post Office – Ripley, TN
FF-AR-05-178; 7/7/2005

Rockland Business Mail Entry Unit –
Rockland, ME
FF-AR-05-216; 9/7/2005

Salisbury Business Mail Entry Unit –
Salisbury, MD
FF-AR-05-159; 6/20/2005

San Carlos Main Post Office – San Carlos, CA
FF-AR-05-151; 6/9/2005

San Leandro Business Mail Entry Unit –
San Leandro, CA
FF-AR-05-133; 5/19/2005

Sandy Creek Station Automated Postal Center –
El Paso, TX
FF-AR-05-122; 5/2/2005

Santa Ana Processing and Distribution Center
Window Unit – Santa Ana, CA
FF-AR-05-217; 9/26/2005

South Padre Island Branch –
South Padre Island, TX
FF-AR-05-108; 4/7/2005

Southside Station – Richmond, VA
FF-AR-05-131; 5/10/2005

Spokane Business Mail Entry Unit – Spokane, WA
FF-AR-05-194; 7/28/2005

Stockton Business Mail Entry Unit – Stockton, CA
FF-AR-05-149; 6/8/2005

Sykesville Post Office – Sykesville, MD
FF-AR-05-117; 4/25/2005

Tampa Main Office Window Unit – Tampa, FL
FF-AR-05-229; 9/27/2005

Thousand Oaks Main Post Office –
Thousand Oaks, CA
FF-AR-05-156; 6/24/2005

Truro Post Office – Truro, MA
FF-AR-05-128; 5/10/2005

Tuscaloosa Automated Postal Center –
Tuscaloosa, AL
FF-AR-05-116; 4/21/2005

Tuscaloosa Business Mail Entry Unit –
Tuscaloosa, AL
FF-AR-05-168; 7/13/2005

Utica Business Mail Entry Unit – Utica, NY
FF-AR-05-202; 6/17/2005

Walls Business Mail Entry Unit – Walls, MI
FF-AR-05-110; 4/11/2005

Westfield Business Mail Entry Unit –
Westfield, MA
FF-AR-05-138; 5/31/2005

Westport Business Mail Entry Unit –
Westport, CT
FF-AR-05-191; 7/27/2005

Westwood Main Post Office – Westwood, NJ
FF-AR-05-180; 7/27/2005

Williston Business Mail Entry Unit – Williston, NC
FF-AR-05-226; 9/20/2005

INFORMATION SYSTEMS

National Voice Services – Savings Opportunities
IS-AR-05-016; 9/30/2005

NETWORK PROCESSING

Mail Evaluation, Readability and Lookup
INstrument (MERLIN) Internal User
Satisfaction Survey
NO-MA-05-002; 7/27/2005

SUPPLY MANAGEMENT

Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number SNET-01-SER CA-CAR-05-016; 4/6/2005	Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company, Under Solicitation Number 3BMHRD-03-Z5541 CA-CAR-05-022; 7/12/2005	Estimated Fiscal Year 2005 Supply Chain Management Impact Associated With National Office Supply Contract CA-OT-05-003; 8/19/2005
Audit of Equitable Price Adjustment Claim Submitted by Advanced Construction Technologies, Ltd. Under Contract Number 362575-00-B-0399 CA-CAR-05-020; 6/15/2005	Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronic Systems, Company, Under Solicitation Number 3BMHRD-03-Z5541 CA-CAR-05-021; 6/27/2005	Estimated Supply Chain Management Impact Associated With National Office Supply Contract CA-MA-05-002; 9/7/2005
Audit of Firm Fixed Price Proposal Submitted by Bowe Bell & Howell, Under Solicitation Number W52H09-04-R-0133 CA-CAR-05-025; 9/29/2005	Audit of Firm Fixed Price Proposal Submitted by Siemens Logistics and Assembly Systems Incorporated, Postal Automation Under Solicitation Number 3AAERD-05-A-1589 CA-CAR-05-018; 5/19/2005	Financial Condition and Capability of American Bank Note Company CA-CAR-05-023; 8/25/2005
Audit of Firm Fixed Price Proposal Submitted by Bowe Bell & Howell, Under Solicitation Number W52H09-04-R-0133 CA-CAR-05-026; 9/29/2005	Audit of Fiscal Year 2000 Incurred Costs Submitted by New Breed Corporations CA-CAR-05-019; 5/20/2005	Limited Scope Review of Purchasing System at Siemens Logistics and Assembly Systems, Incorporated, Postal Automation CA-CAR-05-024; 8/29/2005
Audit of Firm Fixed Price Proposal Submitted by International Business Machines, Global Services, Business Consulting Services – Federal, Under Proposal Number APC 035R3 CA-CAR-05-017; 5/3/2005	Electronic Data Systems Contract Invoice Approval Procedures CA-AR-05-002; 5/13/2005	Postal Automated Redirection System's Contract Incentives CA-AR-05-003; 8/15/2005

TRANSPORTATION

Bulk Mail Center Highway Transportation Routes – Pacific Area NL-AR-05-012; 9/21/2005	Surface Networks – Intermodal Rail and Highway Transportation Between the Pacific and Southeast Areas NL-AR-05-011; 9/19/2005	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Northeast Area NL-AR-05-013; 9/26/2005
Commercial Air Network Operations NL-AR-05-015; 9/28/2005	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Capital Metro Area NL-AR-05-009; 9/2/2005	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southwest Area NL-AR-05-008; 8/3/2005
Mail Transport Equipment Service Center Network – Highway Transportation Routes – New York Metro Area NL-AR-05-014; 9/28/2005	Surface Transportation – Bulk Mail Center Highway Transportation Routes – New York Metro Area NL-AR-05-007; 6/9/2005	Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations NL-MA-05-001; 4/21/2005

REVENUE**DELIVERY AND RETAIL**

Balloon Rate and Parcel Surcharges DR-AR-05-017; 9/29/2005	Vending Equipment Sales and Service Data – Atlanta District DR-AR-05-016; 9/26/2005
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MARKETING

Expedited Packaging Supplies MS-AR-05-002; 9/28/2005	International Customized Mail Agreements MS-AR-05-001; 8/16/2005
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NETWORK PROCESSING

Efficiency of the Airmail Records Unit at the Los Angeles International Service Center NO-AR-05-010; 4/28/2005	Efficiency of the Los Angeles International Service Center NO-AR-05-011; 6/17/2005
Efficiency of the Airmail Records Unit at the San Francisco International Service Center NO-AR-05-012; 9/6/2005	Efficiency Review of the Canton, OH, Processing and Distribution Facility NO-AR-05-013; 9/22/2005

HUMAN CAPITAL

HUMAN CAPITAL

Action Taken By Pacific Area Regarding Complaints of a Hostile Work Environment in the Sacramento District
HM-AR-05-010; 8/11/2005

Complaints of a Hostile Work Environment at a Bay Valley District Processing and Distribution Center
HM-AR-05-008; 6/8/2005

Complaints of a Hostile Work Environment at a Rio Grande District Processing and Distribution Center
HM-AR-05-006; 5/17/2005

Complaints of a Hostile Work Environment at an Alabama District Post Office
HM-AR-05-007; 5/31/2005

Complaints of a Hostile Work Environment at Five Houston District Post Offices
HM-AR-05-004; 4/29/2005

Complaints of a Hostile Work Environment in the Santa Ana District
HM-AR-05-003; 4/22/2005

Complaints Regarding Personnel Issues in the Caribbean District
HM-AR-05-009; 7/22/2005

Office of Workers' Compensation Programs' Schedule Award Payments to Postal Service Employees in the Pacific Area – Report II
HM-AR-05-011; 9/29/2005

Verification of the Anticipated and Realized Medical Cost Savings Resulting From the Postal Service's Contracts With First Health Group Corporation
HM-AR-05-005; 5/9/2005

White Paper on the Nature of Grievances and the Initiatives Taken to Reduce and Prevent Them
HM-OT-05-001; 9/30/2005

PRESERVE INTEGRITY AND SECURITY

ENGINEERING

Responses to Incidents Involving Suspicious Mail and Unknown Powders and Substances
DA-MA-05-001; 5/27/2005

FACILITIES

Data Integrity and Reliability of the Facilities Single Source Provider System
FA-MA-05-002; 8/11/2005

Environmental Remediation Project at the Pompano Beach Auxiliary Vehicle Maintenance Facility
FA-MA-05-001; 4/28/2005

INFORMATION SYSTEMS

Assessment of Patch Management Practices
IS-AR-05-011; 6/30/2005

CA-ACF2 Controls at the Eagan, MN, and San Mateo, CA Information Technology and Accounting Service Centers
IS-AR-05-014; 8/17/2005

Evaluation of Postal Service Information Security Program for Fiscal Year 2004
IS-MA-05-001; 4/25/2005

Human Capital Enterprise SAP Human Resources Project
IS-AR-05-015; 9/15/2005

Integrated Database Management System Controls at the Eagan, MN, Information Technology and Accounting Service Center
IS-AR-05-008; 5/12/2005

Mainframe and Midrange Software Controls at the Eagan, MN, and San Mateo, CA Information Technology and Accounting Service Centers
IS-AR-05-013; 8/17/2005

Physical Security Controls at the Eagan, MN; San Mateo, CA; and St. Louis, MO, Information Technology and Accounting Service Centers
IS-AR-05-012; 7/26/2005

Security Assessment Summary Report
IS-AR-05-010; 6/3/2005

Security Controls in Voice Systems – Louisiana District
IS-AR-05-007; 4/18/2005

Security Vulnerability Assessment of Automated Postal Centers
IS-CS-05-005; 9/23/2005

Security Vulnerability Assessment of Selected Financial Systems at the Host Computing Services Center, Eagan, MN
IS-CS-05-004; 8/17/2005

Security Vulnerability Assessment of the Advanced Computing Environment Phase II
IS-CS-05-003; 5/20/2005

Software Monitor Controls at the Eagan, Minnesota, and San Mateo, CA, Information Technology and Accounting Service Centers
IS-AR-05-009; 5/31/2005

OVERSIGHT OF INVESTIGATIVE ACTIVITIES

Organizational Efficiency and Program Performance of the Postal Inspection Service
SA-OT-05-001; 8/19/2005

Postal Inspection Service's Controls Over Firearms
SA-AR-05-003; 5/4/2005

Postal Service Law Enforcement Vehicles
SA-AR-05-002; 5/24/2005

Postal Service Practices with Regard to Handling Suspicious Mail
SA-OT-05-002; 5/20/2005

Qualitative Assessment Review – Postal Inspection Service's Houston Division
QAR-QA-05-007; 8/2/2005

TRANSPORTATION

Air Transportation Networks International Mail – Extra Territorial Offices of Exchange
NL-AR-05-010; 9/9/2005

STRATEGIC DIRECTION

DELIVERY AND RETAIL

Automated Deployment Strategy
DR-AR-05-015; 9/7/2005

APPENDIX B

FINDINGS OF QUESTIONED COSTS

For the period April 1 – September 30, 2005

Questioned Costs: A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, or contract.

OFFICE OF INSPECTOR GENERAL AND U.S. POSTAL INSPECTION SERVICE

As required by the IG Act, the following pages show the total number of audit reports and the total dollar value of questioned costs in audit reports.

Description	Number of Reports	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
Reports for which no management decision was made at the beginning of the reporting period.	21	\$77,105,693	\$6,716,428
Reports requiring management decision that were issued during the reporting period.	25	\$58,230,112	\$994,664
TOTAL	46	\$135,335,805	\$7,711,092
Reports for which a management decision was made during the reporting period (i+ii).	25	\$53,487,736	\$193,284
(i) Dollar value of disallowed cost		\$49,021,092	\$193,284
(ii) Dollar value of cost not disallowed		\$4,466,644	—
Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing.	21	\$81,848,069	\$7,517,808
Reports for which no management decision was made within six months of issuance (<i>See Note 1 for a list of individual reports</i>).	2	\$997,943	—
Reports for which no management decision was made within one year of issuance (<i>See Note 2 for a list of individual reports</i>).	7	\$61,735,596	\$6,529,157

Note 1 - Reports for which no management decision was made within six months of issuance:

Subject	Report Number	Report Date	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
Audit of Incurred Cost Price Adjustment Proposal and Reformation Proposal Submitted by Matheson Flight Extenders, Incorporated Under Contract Number SNET-01-WR	CA-CAR-05-004	12/1/2004	\$975,451	—
Audit of Firm Fixed Price Base Proposal Submitted by Lockheed Martin Systems Integration – Owego, Under Solicitation Number 3AAERD-04-Z-6397	CA-CAR-05-012	2/3/2005	\$22,492	—
OFFICE OF INSPECTOR GENERAL TOTAL			\$997,943	—

APPENDIX B

FINDINGS OF QUESTIONED COSTS

For the period April 1 – September 30, 2005

Questioned Costs: A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, or contract.

Note 2 - Reports for which no management decision was made within one year of issuance:

Subject	Report Number	Report Date	Total Questioned Costs	Unsupported Costs Included In Questioned Costs
Contract Audit – M.E.S. Incorporated	CA-CAR-02-045	6/28/2002	\$1,053,263	\$134,340
Contract Audit – Bell & Howell Mail and Messaging Technologies	CA-CAR-03-002	10/16/2002	\$343,759	—
Contract Audit – D. L. Kaufman, Incorporated	CA-CAR-03-011	2/11/2003	\$4,028,935	—
Audit of Termination for Convenience Price Adjustment Claim Submitted by Abcon Associates, Incorporated	CA-CAR-04-022	6/16/2004	\$4,478,385	\$2,702,465
Vehicle Management – Delivery Vehicles – Buy vs. Lease	NL-AR-04-005	9/30/2004	\$42,751,032	
Vehicle Management – Trailer Requirements-Northeast Area	NL-AR-04-006	9/30/2004	\$2,016,475	\$2,016,475
OFFICE OF INSPECTOR GENERAL TOTAL			\$54,671,849	\$4,853,280
Contract Audit; 181-1294644- AC(1)		11/17/99	\$7,063,747	\$1,675,877
POSTAL INSPECTION SERVICE TOTAL			\$7,063,747	\$1,675,877
COMBINED TOTAL			\$61,735,596	\$6,529,157

APPENDIX C

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period April 1 – September 30, 2005

Funds Put to Better Use: Funds that could be used more efficiently by implementing recommended actions.

As required by the IG Act, the following pages show the total number of audit reports and the total dollar value recommendations for funds that management can put to better use.

OFFICE OF INSPECTOR GENERAL

Description	Number of Reports	Dollar Value
Reports for which no management decision was made at the beginning of the reporting period.	9	\$162,288,441
Reports requiring management decision that were issued during the reporting period.	20	\$146,674,881
TOTAL	29	\$308,963,322
Reports for which a management decision was made during the report period (I + ii).	20	\$218,882,214
(i) Value of recommendations agreed to by management		\$125,824,314
(ii) Value of recommendations that management did not agree to		\$93,057,900
Reports for which no management decision was made by the end of the reporting period. ¹	9	\$90,081,108
Reports for which no management decision was made within six months of issuance. (See Note 1 for a list of individual reports.)		—
Reports for which no management decision was made within one year of issuance. (See Note 2 for a list of individual reports.)	4	\$71,175,672

Note 1 - There were no reports for which no management decision was made within six months of issuance.

Note 2 - Reports for which no management decision was made within one year of issuance:

Subject	Report Number	Report Date	Recommend Funds Put to Better Use
Bulk Fuel Purchase Plan	TR-AR-01-004	7/27/2001	\$15,918,035
Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006	9/30/2004	\$7,300,150
Vehicle Management – Delivery Vehicles – Buy vs. Lease	NL-AR-04-005	9/30/2004	\$40,296,954
Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004	9/29/2004	\$7,660,533
TOTAL			\$71,175,672

¹ Included are amounts where management agreed to take the recommended corrective action but could not comment on some of the potential savings until analyses were completed. The majority of identified savings were agreed to and decisions were reflected in a prior reporting period.

APPENDIX D

REPORTS WITH SIGNIFICANT RECOMMENDATIONS PENDING CORRECTIVE ACTIONS

For the period April 1 – September 30, 2005

As required by the IG Act, the following pages include a list of each audit report for which no management decision was made by the end of the reporting period.

OFFICE OF INSPECTOR GENERAL

Issue Date	Number of Recommendations*	Report Title	Report Number
7/27/2001	5	Bulk Fuel Purchase Plan	TR-AR-01-004
2/22/2002	3	Review of the Facilities Management System for Windows	IS-AR-02-003
3/29/2002	1	Review of Contracts Associated with Biohazard Threat	CQ-MA-02-002
5/8/2002	1	Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayments and Refundable Disbursements	LH-AR-02-003
7/9/2002	4	Review of eBusiness Agreements	EM-AR-02-012
9/3/2002	2	Postal Service's Corporate Succession Planning Process	LH-AR-02-004
9/26/2002	1	Utility Payments to Commonwealth Edison	FT-AR-02-015
9/27/2002	3	Effectiveness of the Postal Service's Asset Locator	FT-AR-02-017
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
1/30/2003	1	Fiscal Year 2002 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-03-008
3/28/2003	2	Work Performed by Business Mail Entry Employees in the Seattle, Minneapolis, and Des Moines Bulk Mail Centers	CQ-AR-03-001
6/13/2003	1	Postal Inspection Service Tracking of Investigative Workhours and Activity	SA-AR-03-003
8/21/2003	2	Propriety of Postal Service Utility Payments	FT-AR-03-011
9/25/2003	2	Efficiency of Work Performed by Business Mail Entry Clerks in the San Francisco Business Mail Entry Unit	AO-AR-03-002
9/29/2003	1	Enhanced Carrier Route Standard Mail Worksharing Discounts	AC-AR-03-006
9/30/2003	8	General Controls at the Engineering Research and Development Center	IS-AR-03-008
9/30/2003	3	Postal Service and Union Labor Relations	LH-AR-03-012
3/10/2004	1	Information Systems Disaster Recovery Process	IS-AR-04-004
3/30/2004	2	Compliance with the Bank Secrecy Act	FF-AR-04-100
3/31/2004	1	Efficiency of the San Francisco International Service Center and the General Services Administration Facility	NO-AR-04-006
3/31/2004	1	Efficiency of the Oakland International Service Facility and the Regatta Facility	NO-AR-04-007
4/21/2004	1	Postal Inspection Service's Postal Police Officers	SA-AR-04-001
6/8/2004	2	Follow-up of the Network Security and Security Testing of Load Balancers at the San Mateo Host Computing Services	IS-AR-04-006
9/24/2004	1	Technology Acquisition Management	DA-AR-04-003
9/24/2004	1	Efficiency of the New York International Service Center	NO-AR-04-009
9/29/2004	3	Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004
9/29/2004	3	Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006
9/30/2004	1	Fiscal Year 2003 Supply Chain Management Savings	CA-AR-04-003

* Pending corrective action

Issue Date	Number of Recommendations*	Report Title	Report Number
9/30/2004	1	Advanced Facer Canceler System Improvements	DA-AR-04-004
9/30/2004	2	Postal Service's Business Partner Connectivity	IS-AR-04-014
9/30/2004	5	Vehicle Management – Delivery Vehicles – Buy vs. Lease	NL-AR-04-005
10/25/2004	1	Reports Distribution	IS-AR-05-001
10/27/2004	2	Self-Service Vending Program – Pacific Area	DR-AR-05-006
12/10/2004	2	Self-Service Vending Program – Southwest Area	DR-AR-05-010
12/21/2004	1	Automated Postal Center Program Management	CA-AR-05-001
1/10/2005	2	Fiscal Year 2004 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center	FT-AR-05-005
1/25/2005	2	Mail Transport Equipment Service Center Network – Network Realignment – Pittsburgh, Detroit, Cleveland	NL-AR-05-001
2/1/2005	2	Self-Service Vending Program – Northeast Area	DR-AR-05-011
3/15/2005	1	Fiscal Year 2004 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-05-009
3/17/2005	2	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Eastern Area	NL-AR-05-003
3/18/2005	1	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southeast Area	NL-AR-05-005
3/29/2005	1	Efficiency Review of the Akron, OH, Processing and Distribution Center	NO-AR-05-009
4/18/2005	3	Security Controls in Voice Systems – Louisiana District	IS-AR-05-007
4/21/2005	2	Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations	NL-MA-05-001
6/3/2005	4	Security Assessment Summary Report	IS-AR-05-010
6/9/2005	1	Surface Transportation – Bulk Mail Center Highway Transportation Routes – New York Metro Area	NL-AR-05-007
6/17/2005	1	Efficiency of the Los Angeles International Service Center	NO-AR-05-011
7/22/2005	5	Complaints Regarding Personnel Issues in the Caribbean District	HM-AR-05-009
7/26/2005	1	Physical Security Controls at the Eagan, MN; San Mateo, CA; and St. Louis, MO, Information Technology and Accounting Service Centers	IS-AR-05-012
8/3/2005	2	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southwest Area	NL-AR-05-008
8/11/2005	1	Action Taken by Pacific Area Regarding Complaints of a Hostile Work Environment in the Sacramento District	HM-AR-05-010
9/21/2005	3	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Pacific Area	NL-AR-05-012
9/23/2005	1	Fiscal Year 2005 Financial Installation Audit – Cardiss Collins Postal Store – Chicago, IL	FF-AR-05-228
9/26/2005	2	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Northeast Area	NL-AR-05-013
9/28/2005	1	Mail Transport Equipment Service Center Network – Highway Transportation Routes – New York Metro Area	NL-AR-05-014
9/28/2005	3	Commercial Air Network Operations	NL-AR-05-015
9/29/2005	1	Balloon Rate and Parcel Surcharges	DR-AR-05-017
9/29/2005	3	Delivery Vehicle Utilization – General Services Administration Leased Vehicles	DR-AR-05-018
9/30/2005	1	Flats Identification Code Sort for Automated Flats Sorting Machine 100s	DA-AR-05-001
9/30/2005	3	National Voice Services – Savings Opportunities	IS-AR-05-016

* Pending corrective action

APPENDIX E

SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period April 1 – September 30, 2005

As required by the IG Act, the following page discusses information concerning any significant management decision with which the Inspector General disagrees and is currently in audit resolution.

OFFICE OF INSPECTOR GENERAL

The OIG has no significant management decisions in audit resolution as of September 30, 2005.

APPENDIX F

INVESTIGATIVE STATISTICS¹

For the period April 1, 2005, through September 30, 2005

	Misconduct Statistics	Employee Mail Theft Statistics⁴
Investigations completed	2,131	1,157
Arrests/Information/Indictments	81	607
Convictions/Pretrial diversions ²	57	354
Administrative actions:	306	621
Cost avoidance	\$25,730,568	—
Fines, restitution, and recoveries	\$54,193,376	—
Amount to Postal Service ³	\$4,344,881	—

¹ Statistics include joint investigations with the U.S. Postal Inspection Service and other law enforcement agencies.

² Convictions reported in this frame may be related to arrests made in prior reporting periods.

³ Amount included in fines, restitution, and recoveries.

⁴ Cases worked solely by the Postal Inspection Service.

APPENDIX G

SUMMARY OF U.S. POSTAL INSPECTION SERVICE ACTIONS UNDER 39 USC 3013

For the period April 1 – September 30, 2005

The Postal Reorganization Act requires the Postmaster General to furnish information on the investigative activities of the Postal Service by the U.S. Postal Inspection Service on a semiannual basis. With passage of the Deceptive Mail Prevention and Enforcement Act in December 1999, the Postal Service's reporting obligations were changed. The Act requires the Postal Service to submit its semiannual report on investigative activities to the Office of Inspector General rather than to the Board of Governors, expands the subject matter that must be reported, and revises the reporting schedule to coordinate with the OIG *Semiannual Report to Congress*. The information in the report includes actions directed at combating crimes involving the mail; costs and expenditures devoted to Postal Service investigative activities; use of subpoena power; and any additional information the OIG may require.

The following information summarizes the administrative and judicial actions initiated and resolved during the reporting period. These actions include the issuance of cease and desist orders directed to mailers, actions to intercept payments fraudulently induced, and orders seeking to intercept fraudulent mailings.

Type of Scheme	Complaints Filed	Consent Agreements	False Representation Orders	Cease & Desist Orders
Advance fee	4	2	1	4
False billings	17	2	5	6
Internet auction	1	1	0	1
Merchandise:				
Failure to furnish	2	2	1	3
Misrepresentation	3	1	0	2
Telemarketing	1	0	1	3
Work at home	33	24	10	28
TOTAL	61	32	18	47

INVESTIGATIVE EXPENSES

Type	Dollar Amount
Personnel	\$165,685,399
Non personnel	47,338,486
TOTAL	\$213,023,885
Capital obligations	\$33,332,370

SUBPOENAS

Case #	Date Issued	Scheme
05-001	4/13/2005	Sweepstakes
05-002	4/13/2005	Sweepstakes
05-003	4/13/2005	Sweepstakes
05-004	4/5/2005	False representations
05-005	6/3/2005	Solicitations in the guise of an invoice
05-006	6/8/2005	False representations
05-007	6/8/2005	False representations
05-008	6/29/2005	Work-at-home scheme
05-009	7/13/2005	False representations

OTHER ADMINISTRATIVE ACTIONS

Administrative action requests	66
Temporary restraining orders requested	3
Temporary restraining orders issued	3
Civil injunctions (Section 1345) requested	0
Civil injunctions (Section 1345) issued	0
Cases using direct purchase authority	2
Civil penalties imposed	\$60,000
Expenditures incurred for:	
Test purchases	\$53
Withholding mail orders issued	24
Voluntary discontinuances	19

APPENDIX H

CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period April 1 – September 30, 2005

This appendix lists the 27 Congressional and Governors inquiries the OIG closed during this reporting period. The OIG reviewed these inquiries to help identify systemic issues and to determine the need for future Postal Service-wide audits.

COST CONTROL

Requestor	Allegations/Concerns	Closure Date
Representative, Texas	Referral of allegations of employees working off-the-clock and falsifying time sheets.	4/18/2005
Representative, Illinois	Response to complaint of uncompensated overtime work by manager and declination to reexamine closed investigation into falsification of time.	5/10/2005
Representative, Alabama	Review of demand for back pay following expiration of Workman's Compensation.	5/11/2005
Senator, West Virginia	Referral of complaint of delay in establishing cluster-box delivery of mail to new community.	9/21/2005
Representative, California	Referral of complaint of late delivery of mail.	9/22/2005

REVENUE

Requestor	Allegations/Concerns	Closure Date
Representative, California	Review of employee complaint of non-payment for a submission under the IDEA program and referral to payroll office.	5/10/2005

HUMAN CAPITAL

Requestor	Allegations/Concerns	Closure Date
Representative, Illinois	Audit and investigative inquiry into 18 issues related to employee complaints of inappropriate personnel actions and mismanagement in Puerto Rico facilities.	7/29/2005
Representative, California	Workplace climate review, Bay Valley.	6/23/2005
Representative, Virginia	Declination of request for renewed investigation of alleged false accusations, investigation, and defamation by Postal Service officials.	4/6/2005
Senator, California	Declination of further review of allegations of inappropriate new job postings and misreported work hours in order to increase performance ratings.	4/4/2005
Representative, Texas	Referral of allegation of non-compliance with Americans with Disabilities Act at a Texas post office.	4/4/2005
Senator, Virginia	Request for investigatory records; treated as a FOIA request.	5/17/2005
Representative, Alabama	Referral of demand to return to work and receive back pay following medical absence.	5/18/2005
Senator, Alaska	Review of allegations of unfair hiring practices and preferential treatment already addressed by management.	6/29/2005
Representative, Mississippi	Review of complaint of personnel infractions and systematic discrimination in the Mississippi District and referral to Area office.	9/2/2005

PRESERVE INTEGRITY AND SECURITY

Requestor	Allegations/Concerns	Closure Date
Senator, California	Review safety inspection certifications and scheduling of San Francisco stations.	4/25/2005
Representative, Michigan	Review of steps needed to safeguard post office facility from improper entry.	4/8/2005
Representative, Florida	Review of allegations by former employee that a "suspicious" letter was pulled from a Postal Service machine three weeks prior to 9/11/01 and not properly reviewed.	6/16/2005
Senator, Virginia	Referral of complaint of threatening mail.	6/6/2005

Requestor	Allegations/Concerns	Closure Date
Senator, Virginia	Referral of mail fraud and identity theft request for assistance.	6/28/2005
Representative, Texas	Referral of complaint of threatening hate mail.	7/8/2005
Representative, California	Review of allegations stemming from an incident during surveillance conducted by the Postal Inspection Service.	8/10/2005
Representative, Alabama	Referral of complaint of stolen mail and efforts to address it.	7/26/2005
Senator, Virginia	Referral of complaint of a stolen check.	8/4/2005
Representative, Florida	Request for investigatory records; treated as a FOIA request.	9/9/2005

STRATEGIC DIRECTION

Requestor	Allegations/Concerns	Closure Date
Senator, Iowa	Request for audit determinations of whether postal rate increases are properly supported by data systems.	6/22/2005
Representative, Virginia	Referral of complaint objecting to revised Postal Service procurement regulations and failure to negotiate fairly.	6/30/2005

SUPPLEMENTAL INFORMATION

INVESTIGATIVE CASE HIGHLIGHTS

For the period April 1 – September 30, 2005

Computer Security Company to Repay Postal Service \$1.1 Million
A Redwood City, CA,-based contractor agreed to repay the Postal Service \$1.1 million on June 20, 2005, to settle allegations of billing for computer network security services it did not perform and for work not reimbursable under its contract.

As background, in 1998 the Postal Service awarded the firm a \$5 million contract, which it later expanded to \$25 million. From 1998 to 2002, the firm billed the Postal Service more than \$21 million under the contract. Our investigation of the firm was prompted by a qui tam complaint made to the Hotline. The negotiated settlement resulted when the U.S. Attorney's Office in San Francisco intervened in the qui tam action. The settlement released the contractor from all claims against it once it made final payment to the Postal Service. The company stopped active business operations during our investigation.

Confronted About a \$147,780 Shortage, NJ Postmaster Retires
On August 4, 2005, South Jersey District managers interviewed a New Jersey postmaster who denied embezzling missing Postal Service funds but opted to retire and repay the shortage of \$147,780.

As background, the South Jersey District Internal Working Group identified problems with the stamp vending machine accountabilities at the New Jersey post office in January 2005. The group reported the problems to the postmaster, who failed to correct the problems. The group then reported the problems to the OIG. Our special agents identified the shortage in the stamp vending machine accountabilities on July 19, 2005, and tried to interview the postmaster, who requested legal representation. Postal Service management placed the postmaster on administrative leave pending completion of the ongoing investigation.

Court Issues Judgment Against Permit Mailer for Submitting NSF Checks

The U.S. Attorney's Office in Los Angeles obtained a default judgment against a California permit mailer on August 1, 2005, for giving the Postal Service nonsufficient checks.

As background, in FY 2004, the Eagan Accounting Service Center, which provides nonsufficient funds (NSF) check information to the Postal Service, received 135,000 returned checks totaling approximately \$27 million from Postal Service districts nationwide. One California company, a permit mailer, had submitted 36 NSF checks totaling \$107,737 to the Postal Service. This company was one of many permit mailers submitting multiple NSF checks to the Postal Service, while ignoring requests to pay off the returned checks. During FY 2004, the company sent one payment of \$2,000 toward the returned checks, leaving a debt of \$106,637 — including collection fees of \$25 per check — to the Postal Service.

Firm Pays Back \$1,919,742 for False Claims and Statements

The U.S. Postal Service received more than \$1.9 million from the Department of Justice (DOJ) on September 15, 2005, which acted on its behalf in a settlement negotiation with a New York management consulting firm. The firm allegedly submitted false claims for travel expenses incurred under contracts with the Postal Service and other U.S. government agencies, and also allegedly submitted inflated and false invoices for travel rebates it had received.

From 1990 through 2003, the firm sought reimbursement from government agencies for nearly \$24 million in discounts and rebates it had received and was supposed to turn back to the government.

In 2001, we determined that the Postal Service had awarded the New York firm 157 contracts, 31 of which were still active. Losses to the Postal Service amounted to \$1,424,875 in false claims and statements, \$275,323 in investigative costs, and \$219,544 in interest.

Gas Station Manager Jailed for Stealing Postal Service Funds

A New York City U.S. District Court judge sentenced a gas station manager on April 15, 2005, to 18 months imprisonment, three years supervised release, and payment of \$436,800 in restitution for numerous charges, including stealing government funds and mail fraud. The manager admitted stealing and using Postal Service Voyager account and Personal Identification Number (PIN) information to process phantom fuel purchases over the past five years. He acquired PINs by watching postal employees enter them when purchasing fuel. After making fake fuel purchases with the stolen PINs, the manager then withdrew cash from his drawer equaling the bogus charges.

Michigan Relief Postmaster Indicted on 61 Counts of Embezzlement and Theft

Our special agents learned that from October 2003 to March 2005, a Michigan relief postmaster embezzled \$143,741 via 321 fraudulent money order transactions. The relief postmaster admitted embezzling approximately \$100,000 in Postal Service money orders. She was indicted on 61 counts of embezzlement and theft of public money and Postal Service money orders. The postmaster resigned from the Postal Service on May 10, 2005 and surrendered to U.S. marshals on August 18, 2005.

As background, we opened an investigation stemming from a discovery made by the Internal Control Working Group for the Greater Michigan District, which found \$126,000 in money orders had been cashed but not remitted at a local post office. The USPS had also been investigating reports of missing money orders from the same Michigan post office. One money order, which appeared to be improperly issued, had been written for \$990 and cashed by the relief postmaster.

New Jersey Contractor Admits Overcharging Postal Service \$184,356

A Postal Service contractor pleaded guilty on June 8, 2005, to charges of postal fund theft. The contractor, who owned a car repair shop and mobile car wash business, billed at least 10 New Jersey Postal Service facilities for excessive services and repairs between October 1998 and November 2003. Using the Postal Service credit card system to misappropriate money, the contractor billed for services not performed, performed at an inflated price, or performed unnecessarily. He also admitted giving supervisory postal employees and their family members benefits in the form of cash, free repair services, and used cars. The loss to the Postal Service was \$184,356. This ongoing investigation was prompted by an OIG Hotline complaint alleging excessive vehicle maintenance costs and related manager misconduct.

Postal Plant Supervisor Arrested for Misappropriation of Postal Funds

A Westchester, NY, Postal Service maintenance supervisor created a fictitious company to defraud the Postal Service. Beginning in October 2004, he submitted approximately 25 fraudulent invoices to his "company" for various services, including pump repairs and

equipment purchases. Another plant maintenance supervisor determined that pump repairs had not been made as claimed.

On August 11, 2005, the maintenance supervisor admitted to special agents that he billed the Postal Service for fraudulent repairs totaling about \$20,616 and deposited the Postal Service checks into his personal bank account. The total loss to the Postal Service was approximately \$200,000. The Postal Service suspended the maintenance supervisor with pay on August 11, 2005. He was arrested on the same day for misappropriation of Postal Service funds.

President of New York Construction Company Falsified Payrolls

The president and owner of a New York-based construction company pleaded guilty to mail fraud in U.S. District Court in Brooklyn, NY, on April 21, 2005, by submitting and mailing fraudulent certified payroll records to the Postal Service. The owner also made restitution of \$96,000 for a wage violation. He was arrested with the company vice president on December 14, 2004.

The firm was a subcontractor on a \$7 million contract the Postal Service awarded for renovations at the John F. Kennedy International Airport Post Office in Jamaica, NY. The subcontractor received about \$470,000 for services it performed at the post office from October 7, 2001 through May 13, 2002. An investigation revealed the president and vice president gave false statements to the Postal Service by underreporting the number of employees and over-reporting what the company paid them. We conducted this investigation jointly with the Department of Labor OIG and the New York City Department of Investigation.

\$704 Million Global Settlement Reached in Health Care Fraud Case

On October 17, 2005, an overseas drug company and its U.S. subsidiaries agreed to a \$704 million settlement to resolve criminal charges and civil liabilities from illegal schemes to promote and sell their AIDS drug. Under the terms of the settlement, the third largest involving health care fraud in the United States, the firms will pay \$136.9 million in criminal fines and more than \$567 million to settle federal civil liabilities under the False Claims Act. One of the U.S. subsidiaries will be excluded from all federal health care programs for at least five years.

Since April 2002, we have been participating in a multi-agency investigation, which was prompted by a qui tam lawsuit. Our involvement is based on the alleged fraud of the Federal Employee Health Benefits Program — as the Postal Service is the second largest contributor.

The case involved executives who allegedly falsified multiple health claims and drug-approval documentation to increase sales of an AIDS drug that the Food and Drug Administration conditionally approved. The defendants also allegedly improperly offered inducements to physicians, causing overbillings to the U.S. government. Four former drug company executives were indicted in April 2005 in U.S. District Court in Boston on multiple counts of false claims, kickbacks, and conspiracy. Two other individuals pleaded guilty to conspiracy and kickback charges and are awaiting sentencing.

Texas Medical Equipment Company Indicted for Overcharging Postal Service

A Dallas federal grand jury returned a 27-count indictment against a Dallas-area medical business and two of its employees on August 8, 2005. The grand jury indicted the employees and the business with one count

each of conspiracy to commit mail fraud and health-care fraud and 26 counts of health care fraud.

According to the indictment, the two employees and the parent company conspired to defraud health care benefit programs by submitting false and fraudulent reimbursement claims to state and federal workers' compensation insurance carriers from late 1999 to mid-2003.

We initiated the investigation and were later joined by the USPI; U.S. Department of Labor OIG; Texas Workers' Compensation Commission; and Texas Mutual Insurance Company. The total identified loss to the Postal Service was approximately \$1.2 million, and total fraudulent activity to other federal agencies and private insurance companies was about \$2.2 million.

Trucking Contractor Subverts More Than \$1.4 Million in Postal Service Funds

On behalf of the Postal Service, the DOJ filed a civil complaint on September 30, 2005, against a trucking company owner for violations of the Civil False Claims Act. The DOJ is seeking more than \$4.2 million in damages and penalties. The owner had pleaded not guilty on April 20, 2005, to charges of embezzlement, theft, and making false statements.

The owner, whose companies provided mail transport services to the Postal Service, illegally accepted \$902,772 in fuel rebates and \$170,237 in contract payments to which he was not entitled. While managing the companies, the owner subverted fuel-purchase discounts to personal use rather than pass them to the Postal Service, as his contracts required. He also cashed contract payments the Postal Service mistakenly provided to him.

Waste Recycler to Reimburse Postal Service \$133,000

The DOJ and an Arizona waste management company reached a \$133,000 settlement agreement on May 5, 2005, stemming from our investigation into the company's practices. A postal manager prompted the investigation, alleging the recycling company had overbilled the Postal Service. Investigators determined the company improperly charged the Postal Service \$33,280 for services related to the removal of recycling materials and \$2,280 for other unidentified services from 1998 through 2001. The company also failed to reimburse the Postal Service \$81,335 in recycling rebates.

SUPPLEMENTAL INFORMATION

FREEDOM OF INFORMATION ACT

ACTIVITIES

For the period April 1 – September 30, 2005

REQUESTS	Number of Requests
Carryover from prior period	5
Received during period	103
TOTAL ON HAND DURING THE PERIOD	108

OIG ACTIONS	Number of Requests
TOTAL PROCESSED DURING THE PERIOD	99
Request released in full	11
Request partially granted	23
Request not granted	14
Request referred to another agency	17
No records	32
Not a proper FOIA request	2

BALANCE	Number of Days
Requests pending at the end of the period	9

PROCESSING DAYS	Number of Days
Median processing days to respond to a FOIA request	9

SUPPLEMENTAL INFORMATION

GLOSSARY

Advance fee scheme – Obtaining fees purporting to secure buyers or obtain loans.

AMC – An Air Mail Center is a postal facility at an airport that receives, concentrates, transfers, dispatches, and distributes mail transported by air.

AMSOP – Early morning standard operating procedures that assist the managers and postmasters in making better business decisions for city delivery operations.

APC – Automated Postal Center, a kiosk that dispenses postage and provides several mailing services. APC's allow customers to weigh, calculate, apply exact postage, and ship Express Mail and Priority Mail items, packages, and First-Class letters right at the kiosks. They also provide easy access to postal products and services.

ATO – Air Transfer Office only supports core airport operations such as tender and receipt of mail and ramp activities.

Bargaining unit employee – A Postal Service employee who is represented by a labor organization (union) that negotiates with the Postal Service for the wages, hours and other terms and conditions of employment. These employees include city carriers, clerks, mail handlers, rural carriers, special delivery messengers, maintenance employees, and motor vehicle operators.

BDS – See Biohazard Detection System.

BMC – Bulk Mail Center, where packages and standard mail are processed.

BMEU – See Business mail entry unit.

Bulk mail – Mail that is rated for postage partly by weight and partly by the number of pieces in the mailing. The term is generally used to refer to Standard Mail (A).

Business mail entry unit (BMEU) – The area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance. The BMEU includes dedicated platform space, office space and a staging area on the workroom floor.

Biohazard Detection System – The Biohazard Detection System (BDS) detects the presence of harmful bio-agents that may exist in mailpieces that are processed in Processing and Distribution Centers (P&DCs) operated by the Postal Service.

Click-N-Ship – Click-N-Ship is an online, self-service mailing application that allows customers to enter a delivery address and weight, choose a service shipping option, method of payment, and then print out postage-paid shipping labels.

DOIS – Delivery Operations Information System, deployed in 2002, provides delivery supervisors and managers with data (such as workload status reports and carrier performance information) to improve daily delivery operational performance.

END initiative – The Evolutionary Network Development (END) initiative is the next step in the Postal Service's efforts to create a flexible logistics network to reduce costs, increase overall effectiveness, and improve consistency of service.

ETOs – Extraterritorial Offices of Exchange (ETOs) are commercial businesses affiliated with foreign postal administrations that compete in the international shipping and delivery market with the Postal Service and commercial shippers not affiliated with foreign posts.

Express Mail Service – A mail class that provides expedited delivery service for mailable matter subject to certain standards. It is available in five basic domestic service offerings (Same Day Airport Service, Custom Designed Service, Next Day Service, Second Day Service, and Military Service). Express Mail International Service is available between the United States and most foreign countries. Express Mail is a Postal Service trademark.

False billings scheme – Mailing solicitations in the guise of billings.

FECA – Postal Service employees injured while performing their duties may be eligible for compensation under the Federal Employee's Compensation Act (FECA).

FEHB – The Federal Employees Health Benefits (FEHB) program helps federal employees, retirees, and their survivors meet health care needs through a wide selection of health plans across the country.

First-Class Mail – A class of mail that includes all matter wholly or partly in writing or typewriting, all actual and personal correspondence, all bills and statements of account, and all matter sealed or otherwise closed against inspection. First-Class Mail comprises three subclasses: postcards, letters and sealed parcels, and Priority Mail. Any mailable matter may be sent as First-Class Mail. First-Class Mail is a Postal Service trademark.

Flat-size mail – A mailpiece that exceeds one of the dimensions for letter-size mail (11-1/2 inches long, 6-1/8 inches high, 1/4 inch thick) but that does not exceed the maximum dimension for the mail processing category (15 inches long, 12 inches high, 3/4-inch thick). Dimensions are different for automation rate flat-size mail eligibility. Flat-size mail may be unwrapped, sleeved, wrapped, or enveloped.

Fraud internet schemes – Fraudulent schemes using the Internet with a connection to the mail.

FY – Fiscal Year.

FWC Forum – Federal Workers' Compensation (FWC) Forum consists of more than 18 IG offices who work together to reduce costs and combat fraud related to the Federal Employee's Compensation Act (FECA) across the federal government.

Highway contract transportation routes – A route served by a postal contractor to carry mail by highway between designated points.

ICM – International Customized Mail agreements are contracts between the Postal Service and mailers for a period of one to two years. These agreements represent individually negotiated discounts with mailers within certain categories of outbound international mail in exchange for meeting prescribed annual minimum revenue or volume commitments.

IEMP – The Postal Service's Integrated Emergency Management Plan that improves coordination or planning and response activities among functional areas in the event of an emergency.

IMPAC – The International Merchant Purchase Authorization Cards (IMPAC) are how the Postal Service acquires goods and services, in addition to contracts.

LK – A lobby kiosk (LK) can perform all post office transactions — purchasing stamps, mailing parcels, renting post office boxes, initiating retail sales transactions — 24 hours-a-day, 7 days-a-week with payment by debit, credit, cash cards, and cash.

Logistical support network – Activities or programs that support the transportation of mail, such as fuel procurement, mail transport equipment procurement and management, and vehicle management and maintenance.

Lottery scheme – Advertisements seeking money or property by mail for participation in schemes to win prizes through chance.

Merchandise failure to pay scheme – Mail order merchandise acquired without providing payment.

Merchandise misrepresentation scheme – Mail order merchandise or services that are materially misrepresented in advertising.

MERLIN – Mail Evaluation, Readability, and Lookup INstrument determines whether individual mailings qualify for the discounts claimed by the mailer.

Negotiated Service Agreement (NSA) – A contractual agreement between the Postal Service and customers that gives pricing incentives in exchange for a shift in customer behavior that benefits the Postal Service.

NGK – Next Generation Kiosk (NGK) that could be designed to leverage the success of the APC. The NGK could sell stamps printed on demand, allow payment by cash, and enhance revenue-reporting capabilities for management.

OWCP – Administered by the U.S. Department of Labor, the Office of Workers' Compensation Programs (OWCP) provides direct compensation to providers, claimants, and beneficiaries.

PARS – Postal Automated Redirection System.

PCIE / ECIE – The President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency address integrity, economy, and effectiveness issues that transcend individual government agencies. This organization also seeks to increase the professionalism and effectiveness of IG personnel throughout the government.

POS ONE – Point of Service (POS) ONE is an electronic system that records sales and payment transactions at retail facilities.

Postal Rate Commission (PRC) – An independent federal agency that makes recommendations on Postal Service requests for changes in postal rates and mail classifications. The five commissioners are nominated by the President and approved by the U.S. Senate.

Postal Reorganization Act – The statute that requires postal rates and fees to “provide sufficient revenues so that the total estimated income and appropriations...will equal as nearly as practicable total estimated costs.” (Public Law 91-375, signed August 12, 1970.)

Priority Mail – First-Class Mail that weighs more than 13 ounces and, at the mailer's option, any other mail matter weighing 13 ounces or less. Priority Mail provides expedited delivery.

Processing and Distribution Center/Facility (P&DC/F) – A central mail facility that processes and dispatches part or all of both incoming mail and outgoing mail for a designated service area. It also provides

instructions on the preparation of collection mail, dispatch schedules, and sorting plan requirements to mailers.

Remote Encoding Centers – When all computer-based means of resolving address information have been exhausted at a mail facility, an image of an address is sent to a remote encoding center (REC), where operators use video display terminals and keyboards to process the address information. The results of this encoding are sent back electronically to the facility that has the mailpiece, thereby keeping the mailpiece in the automated mailstream.

Retail facility – A postal unit of a Post Office and its subordinate units as well as military Post Offices that sell postage stamps and provides other postal retail services to customers. The subordinate units are within the service area of a main post office and include post office stations, post office branches, contract postal units, and nonpersonnel units.

Standard Mail – A class of mail consisting ofailable matter that is not required to be mailed as First-Class Mail or is not mailed as Periodicals.

Unsupported costs – Costs that are questioned because of inadequate supporting documentation for the proposed/ claimed costs.

USPIS – U.S. Postal Inspection Service, a law enforcement arm of the Postal Service that provides assurance to American businesses for the safe exchange of funds and securities through the U.S. Mail; to postal customers of the “sanctity of the seal” in transmitting correspondence and messages; and to postal employees of a safe work environment.

Verification – The procedural checks of a mailing presented by a mailer to determine proper preparation and postage payment.

Value proposition – Develops audit work that maximizes benefits to the Postal Service and assists top management in reaching their goals.

VESS – Vending Equipment Sales and Service (VESS) System data is an online database that offers real-time tracking of product sales, miscellaneous costs, and maintenance and service for vending machines.

VMF – A Vehicle Maintenance Facility (VMF) is where the Postal Service maintains and repairs vehicles.

Voyager Fleet Cards – Credit cards used by postal employees to acquire automotive goods and services, such as gasoline or repairs.

Work at home scheme – Schemes, such as envelope stuffing, that do not provide home employment.

*The following are among the many trademarks owned by the United States Postal Service: United States Postal Service®, U.S. Postal Service®, USPS®, First Class Mail®, USPS.com®, Click-N-Ship®, Automated Postal Center®, APC®, Express Mail®, Priority Mail®, Standard Mail®, Parcel Post®, The Postal Store®, Media Mail®, Customized Market Mail®, United States Postal Service Office of Inspector General®, Post Office™, Postal Service™, Signature Confirmation™, Certified Mail™, Delivery Confirmation™, Registered Mail™, Post Office Box™, ZIP Code™, Carrier Pickup™ and Postmaster General™. The Sonic Eagle Logo and the Mail Truck Design are also registered trademarks belonging to the U.S. Postal Service.

OFFICE OF INSPECTOR GENERAL

Report

Fraud, Waste, and Misconduct in the Postal Service

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