



SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2003 - MARCH 31, 2004

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 public integrity; and*
- *Keep the Governors and Congress informed of problems, deficiencies and corresponding corrective actions.*

A MESSAGE FROM THE INSPECTOR GENERAL

Shortly after my arrival, Inspector General (IG) executives met with the U.S. Postal Service Board of Governors Audit Committee to discuss a range of topics. One of the topics was the Office of Inspector General (OIG) Semiannual Report. The *September 2003 Semiannual Report* had introduced many of the IG community's best practices to make the report more state-of-the-art. But the Governors wanted more than a state-of-the-art report. They asked for a report that provided a comprehensive analysis of the Postal Service. I agreed with them.

This report introduces a new approach that changes it from an account of OIG activities to an OIG analytical report on the Postal Service. This report format is aligned with the Postal Service's strategic goals. It fully complies with statutory requirements and attempts to present a cohesive picture of Postal Service programs and operations. The OIG's audit and investigative results are now embedded in the context of our reporting on Postal Service issues. Other statutory requirements are contained in the appendices.

I want to bring a few internal matters to the attention of our stakeholders and to Congress. I will do that in this message to preserve the report for our analysis. Before my arrival, the OIG had been gripped by crisis for many months, as a result of certain past management practices and fiscal activities. Upon arriving, I met with postal executives, the Board of Governors and congressional committees to understand those issues and practices that resulted in the dangerous crisis the office confronted.

Those meetings resulted in three initiatives to introduce changes that should make the office not just

a strong traditional OIG, but also one that anticipates and embraces emerging issues. The initiatives are: organizational redesign, value enhancement and performance orientation.

The OIG has been restructured to reduce mission support investments, in order to increase mission delivery investments. Increased mission delivery capacity will substantially increase value in a budget-neutral way. Also, the audit organization created issue areas that exactly mirrored Postal Service business units. The investigative organization developed field offices that were responsive to the Postal Service's nine geographic areas. Professional counterpart meetings have begun with business agendas that focus on improving the Postal Service's effectiveness and efficiency. OIG audit directors and special agents in charge work with Postal Service vice presidents in planning and reviewing work as well as tackling issues to assure integrity.

The OIG enhanced performance metrics for all components to increase value. Goals and expectations are aligned with a new pay-for-performance system. The OIG believes this will result in a performance-driven organization that delivers substantial value.

The OIG has also entered a strategic alliance with the Postal Inspection Service to end years of internal conflict and bring powerful new resources in support of new investigative operations. These include disability fraud, revenue assurance, contract fraud and new efforts to guard against embezzlement. I am confident that the investigative initiatives and the new tool of audit issue area planning will provide for the construction of a strong and responsive strategic planning process.

Our fifteenth semiannual report sets forth the significant activities and accomplishments of this office from October 1, 2003, through March 31, 2004. It details our efforts to improve the economy and efficiency of postal operations and to combat fraud, waste and misconduct within the Postal Service, and fulfills our reporting requirement under the Inspector General Act.

In this reporting period, the Office of Inspector General issued 199 audit reports, management advisories and other products. These efforts, some of which were accomplished by the OIG and postal management jointly, resulted in over \$277 million in questioned costs, unrecoverable costs, funds put to better use and revenue impact. In addition, the OIG completed 282 investigations resulting in 46 arrests, 48 indictments, 26 convictions; and over \$17 million in fines, restitutions, and recoveries, of which over \$4 million was returned to the Postal Service.

I wish to thank the Postal Service for its full cooperation and strong support of all our efforts. Postal executives have made a strong commitment to working with the OIG and have made that commitment known to their full leadership team.

This office is committed to innovations that will make the OIG a great deal for the American people and a powerful tool for the Postal Service and for Congress.

Sincerely,



David C. Williams
April 1, 2004

SUMMARY OF PERFORMANCE

October 1, 2003—March 31, 2004

AUDIT

Reports issued	199
Significant recommendations issued	43
Total reports with financial impact	38
Funds put to better use	\$78,706,060
Questioned costs ¹	\$197,232,283
Unrecoverable costs	\$1,256,827
Revenue impact	\$264,374
TOTAL	\$277,459,544²

INVESTIGATIONS³

Arrests	46
Indictments/informations	48 ⁴
Fines, restitution and recoveries	\$17,324,732 ⁵
Amount to Postal Service ⁵	\$4,155,269
Convictions/pretrial diversions	26
Actions affecting Postal Service employees	13

HOTLINE CONTACTS

Facsimile (FAX)	217
E-Mail	852
Standard Mail	568
Voice mail messages	465
Phone calls	6,482
TOTAL CONTACTS	8,584

¹ Includes unsupported costs of \$513,055.

² The Postal Service agreed to recommendations or proposed alternative corrective actions, that, if implemented, could result in over \$277 million in savings.

³ To the fullest extent possible, Office of Inspector General (OIG) investigative cases will be worked with the Postal Inspection Service. During this period, a number of cases were investigated jointly and plans call for working the majority of cases together in the future. The OIG expresses its appreciation at the willingness of the Postal Inspection Service to jointly work the strategic alliance with our Office of Investigations.

⁴ Includes 4 that occurred prior to the period but were not previously reported.

⁵ Amount included in Fines, restitution and recoveries.

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INTRODUCTION

The Postal Service's ability to maintain or increase its market share of the \$900 billion mailing industry is essential to providing universal service at affordable rates. To assist Congress, the Governors and postal management in addressing the challenges the Postal Service faces today, the OIG conducts audits of Postal Service programs and operations to improve economy and efficiency as well as investigations to prevent and detect fraud, waste, misconduct and mismanagement. OIG audits and investigations play a vital role in helping the Postal Service operate effectively and efficiently in a globally competitive environment.

WHAT DOES THE POSTAL SERVICE DO?

The Postal Service's mission is to bind the nation together by providing prompt and reliable mail delivery at fair and equitable prices to all customers. It delivers more

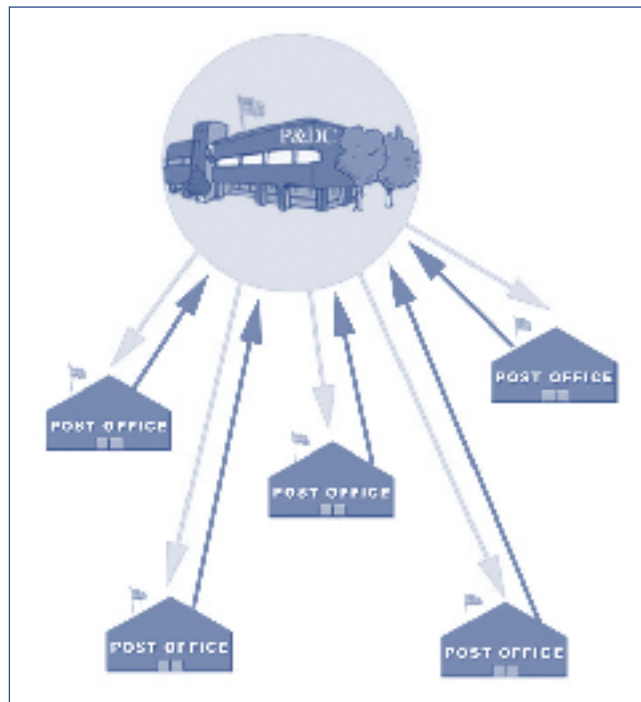
than 200 billion pieces of mail each year. This represents more than 46 percent of the world's mail.

Based on revenue, it is the eleventh-largest enterprise in the nation, collecting nearly \$68.5 billion in revenue annually. The Postal Service employs nearly 730,000 career employees, making it the second-largest civilian employer in the nation. To deliver world-class service, the Postal Service must excel in performing its core business processes of accepting, processing, transporting and delivering the mail, as well as marketing postal products and services.

HOW DOES THE POSTAL SERVICE DO IT?

Visualize over 650 million letters, cards, magazines, packages and catalogs in the mail stream each day, including mail dropped into any one of almost 300,000 street collection mail boxes. Postal

employees collect this mail and transport it to 258 mail processing facilities, where the mail is sorted by destination. Once the mail reaches the processing facility, state-of-the-art automated processing and sorting equipment moves it to the right equipment or processing location. At high speed, letters are sorted and barcoded. Each hour, tens of thousands of letters are fed through automated machines that apply or read a barcode denoting the ZIP Code and speeding delivery to your home or business.



Sending mis-sent mail to the correct mail distribution center keeps postal operating costs down.

During this process the mail is assigned to the proper air or surface transportation network to ensure that it is delivered on time.

The Postal Service spends billions of dollars per year to transport and deliver mail over a transportation network that stretches from Alaska to Florida and beyond. This network uses almost every mode of transportation possible, including plane, train, automobile, ship and even mule train to ensure the mail gets to the “last mile” in a timely fashion.

Approximately 300,000 carriers deliver mail six days a week (plus Express Mail service on the seventh day) to 142 million addresses. The average household receives about 1,420 pieces of mail each year. This is how the Postal Service delivers to everyone, everywhere, every day, and why it is considered the universal gateway to the American household.

WHAT PRODUCTS AND SERVICES DOES THE POSTAL SERVICE OFFER?

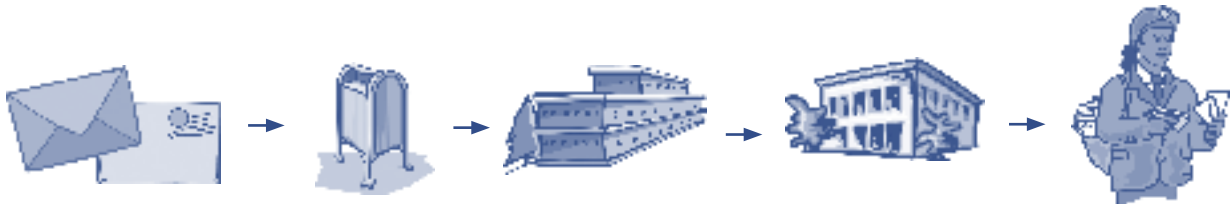
In today’s economy, creating customer value means both improving the quality and affordability of products and services and making them accessible and convenient for customers. So, the Postal Service works to understand its customers.

Postal customers range from major mailers, such as marketing companies mailing advertisements, to household mailers who use the Postal Service to

send bills and letters. Each group of customers has unique needs for which the Postal Service has created targeted products and services.

The Postal Service wants to ensure its services are available at places where its customers choose to do business. Most customers obtain postal products and services from the vast postal retail network that includes more than 37,000 Post Offices, stations, and branches. Post Offices provide local access to more than seven million Americans daily and offer various services for customers to send their mail. These services range from First-Class Mail® (postcards and letters) to expedited services such as Express Mail and Priority Mail and to packages. The Postal Service also offers other services—such as Certified and Registered Mail—that allow customers to confirm delivery of their mail. In addition to shipping supplies, the Postal Service sells stamp subscriptions and collectible stamps, packaged as patriotic keepsakes or combined with coins to create collectible products.

If you cannot get to the Post Office, the Postal Service tries its best to bring the Post Office to you. Limited services are offered at more than 4,000 privately operated contract retail units usually found in a local store or place of business. Customers can also purchase postage stamps through the mail, from more than 29,000 vending machines, online or at 20,000 ATMs and Automated Postal Centers, as well as at a variety of retail outlets.



The OIG conducts audits of Postal Service programs and operations to improve economy and efficiency.

THE POSTAL SERVICE'S STRATEGIC DIRECTION

The Postal Reorganization Act of 1970 established the Postal Service's business model, which was based on the assumption that mail volumes would continue to increase enough to cover rising costs and lessen rate increases. Under this business model, the Postal Service pays for nearly all of its operating costs with revenue generated from its products and services. It receives only a modest government appropriation for revenue foregone to cover free mail for the blind, postage for voting materials of military personnel and citizens living overseas and the postage on balloting materials mailed in bulk between state and local election officials. More recently, the Postal Service has received funding for Homeland Security and for its Emergency Preparedness Plan. Volume increases are needed to finance the cost of a growing delivery network. Were it not for the expanding network, prudent management should be able to limit price increases to the rate of inflation.

In today's environment, this business model presents challenges to the Postal Service. Mail volume is not increasing enough to cover operating costs. For example, volume from certain mail categories, such as First-Class Mail, is decreasing, while the number of addresses the Postal Service serves is increasing. In FY 2003 alone, the Postal Service added 1.9 million new delivery points (new addresses). The Postal Reorganization Act did not foresee this challenge to generating sufficient revenue; nor did it address the central challenge for the Postal Service's strategic planning in a dynamic and competitive environment.

To begin to address these issues, the Postal Service published its *Transformation Plan* in April 2002. The plan updated a series of cost-cutting measures that began in FY 2001 and committed to reduce costs by \$5 billion by FY 2006. The plan also offers alternative long-term structural changes

and strategies, and calls for legislative action by Congress that provides Postal Service management with greater managerial flexibility.

TRANSFORMATION PLAN, APRIL 2002

The General Accounting Office (GAO) placed the Postal Service on its High-Risk list in April 2001. The GAO stated that fundamental changes need to be made to the Postal Service's business model (as First-Class Mail volume declined)



The GAO, Congress and other stakeholders called on the Postal Service to develop a comprehensive transformation plan that would address financial, operational and human capital challenges.

and the legal and regulatory framework that supports it, to provide for the Postal Service's long-term financial viability.

The GAO, Congress and other stakeholders called on the Postal Service to develop a comprehensive transformation plan that would address financial, operational and human capital challenges.

The *Transformation Plan* calls for streamlining operations, attracting new revenue by adding value to core products, and establishing a performance-based culture to motivate and empower employees to perform at peak levels. The Postal Service believes these near-term solutions can be accomplished without legislative change. However, the longer-term solution for the business model requires congressional action, which would provide the Postal Service with a new business model offering greater flexibility in pricing, operations and human resources, while maintaining universal service.

THE PRESIDENT'S COMMISSION ON THE U. S. POSTAL SERVICE

Responding to concerns of the GAO and Congress, on December 11, 2002, the President established a nine-member bipartisan Commission to craft a vision to ensure the efficient operation of the Postal Service in the 21st century.

From January 2003 through July 2003, the Commission held nine public hearings, which solicited comments from customers, major mailers, postal unions, management associations and other interested parties on the subject of postal reform. In addition, the Commission obtained comments from the Postmaster General and the Treasury Under Secretary for Domestic Finance.

In July 2003, the Commission issued its report, *Embracing the Future*, which stressed the need for the Postal Service to remain an independent public entity with a new business model. This new business model would limit the Postal Service's activities to accepting, collecting, sorting, transporting and delivering letters, newspapers, magazines, advertising mail, and parcels; and providing other governmental services when in the public interest and where the Postal Service can recover the cost of such services. The model would also allow the Postal Service to maintain

the current mail monopoly and retain sole access to customer mailboxes. The Commission's other recommendations include:

- Transforming the existing Postal Rate Commission into an independent Postal Regulatory Board with broad oversight authority.
- Replacing the existing rate-setting process with an incentive-based rate-setting methodology that would streamline the existing rate-setting process.
- Creating a Postal Network Optimization Commission (P-NOC), similar to the Defense Base Closure and Realignment Commission, which would make recommendations on the consolidation and rationalization of the Postal Service mail processing and distribution infrastructure.
- Revolutionizing postal retail access by bringing a wider range of postal services and products to consumers in grocery stores, pharmacies and other convenient locations.

These and other recommendations are an indication of the wide-ranging postal reform the Commission proposes.

The OIG appreciates that the recommendations address many of the major management issues on which it advised the Commission during the initial comment period. The OIG rebutted charges made by a postal stakeholder that challenged the necessity of the OIG in the postal oversight process. In its final report, the Commission did not question the OIG's oversight function nor the audit and investigative role it plays in postal matters. The OIG will remain engaged in the consideration and implementation of the recommendations of the President's Commission by Congress, postal stakeholders and the Postal Service. As Congress may require, the OIG will continue to inform and advise on the recommendations of the Commission.

FIVE-YEAR STRATEGIC PLAN FY 2004-2008

The Postal Service's current five-year strategic plan provides four broad strategic goals focused on results and describes how the Postal Service will continue to respond to the American people and increase its value to the U.S. economy. The plan also describes an overarching initiative that connects the other goals through greater legislative and regulatory flexibility. The four strategic goals and overarching initiative are:

1. **Improve Service** by providing timely, reliable and accurate mail delivery service to a growing universal network, and convenient access to postal services for all customers and all communities.
2. **Manage Costs** and improve productivity to maintain fair and equitable prices for all customers.
3. **Enhance Performance-based Culture** by maintaining an accountable, motivated and diverse workforce empowered to maximize performance in a safe and secure work environment.
4. **Grow Revenue** through enhancing core services and providing greater value to customers.
5. **Pursue Legislative Change (Reform)** by obtaining greater legislative and regulatory flexibility to improve service, manage costs, empower employees and respond to customer needs.

The OIG concentrates on high-risk and strategically important areas to provide the Postal Service with an unbiased assessment on the progress made in achieving its goals. The OIG is currently looking at areas such as the Postal Service's performance measures and integration of its strategic goals.

GOAL 1: IMPROVE SERVICE

The Postal Service's first strategic goal is to provide timely, reliable and accurate mail delivery service to a growing universal network, and convenient access to postal services for all customers and communities. Most postal stakeholders would agree that prompt delivery of bills and payments; reliable delivery of magazines, newsletters and newspapers; timely delivery of information that makes shoppers aware of products, services and issues; and convenient, accurate delivery of packages are all critical to economic progress in the 21st century.

Service is one of the most fundamental indicators of postal performance.

The Postal Service has established standards and measurement systems for Priority, Express and First-Class Mail services, and is implementing programs to continue to improve service performance. The Postal Service believes that strategies supporting service improvements are tied with those supporting productivity improvements and has targeted two overarching strategies and supporting initiatives to guide it in achieving its goal of improving service. The strategies are: improve the consistency and quality of service and the efficiency of operational processes, and enhance tracking technology.

The strategies and initiatives to achieve convenient access to postal services for all customers and communities are discussed under the 'Grow Revenue' section of this report.

IMPROVE CONSISTENCY, QUALITY OF SERVICE AND THE EFFICIENCY OF OPERATIONAL PROCESSES

Delivery Operations. The Postal Service is making progress in improving delivery operations efficiency. For example, the Postal Service reported that the Delivery Operations Information System (DOIS) and the Managed Service Points (MSP)

system, both of which provide information to better manage delivery routes, were successfully deployed and use the Delivery Performance Achievement and Recognition System as a benchmarking tool to improve and recognize good performance.

The OIG is currently reviewing city letter carrier operations, with a focus on supervisory use of information in DOIS and MSP to manage carriers. This review will also assess managing workload to workhours, street management and route inspections, and mail volume reporting. The OIG also plans a future review of rural letter carrier operations.

Transportation Management Information Systems. New information systems to improve transportation performance are underway to capture information that will be used to optimize network design, improve transportation efficiencies and enhance service. The Postal Service has made progress on a number of these systems to enhance the Postal Service's ability to assure mail is planned and routed effectively and that transportation contractors and the Postal Service have the data to assess costs and service performance more accurately.

Further, the OIG is concerned about the reliability of systems developed. For example, the OIG has observed weaknesses in the Transportation Information Management Evaluation System (TIMES), particularly with regard to overstating utilization rates. This system may be the focus of a future OIG review. The Postal Service, however, has plans to replace TIMES with another system that may improve tracking of utilization rates.

Service Performance Measurement Systems Development. The Postal Service recognizes the need for reliable service performance tracking for all categories of mail and has been working on several programs to develop effective and efficient systems that will add value.

Many customers are currently obtaining relevant data from these systems and the Postal Service works closely with business customers to regularly evaluate and improve overall service performance, while using data from these systems as a diagnostic tool for improving service. However, none of the systems have yet been accepted as measurement systems for service performance evaluations under the Government Performance and Results Act, as applied to the Postal Service under 39 U.S.C. § 2803.

For example, First-Class Mail service performance is measured by the External First-Class (EXFC) Measurement System. EXFC externally measures collection box to mail slot delivery performance, continuously testing a panel of 463 ZIP Code areas selected on the basis of geographic and volume density, from which 90 percent of First-Class Mail volume originates and 80 percent destines. Based on an OIG review, the Postal Service has recognized that EXFC is not a system-wide measurement of all First-Class Mail performance.

In 2002, the OIG identified factors that Postal Service officials believed were critical to meeting EXFC Measurement System service standard scores. The critical factors included commercial airline performance; mail preparation, condition and arrival times; adequate facilities; and management stability and staffing. The OIG also noted that practices were implemented in efforts to control the factors affecting scores but that the Postal Service had no formal mechanism for identifying, assessing and sharing best practices affecting service standards on a nationwide basis.

International Mail. The Postal Service has significant competition in every major category of service, not only from traditional carriers, but also from deregulated and privatized foreign postal operators, such as those of the Netherlands, Germany, Canada and Great Britain. The Postal Service plans to retain and increase international market share by developing business relationships with major international

postal operators, improving service quality and redefining existing products. As part of its efforts to enhance the international mail segment, the Postal Service is cooperating with Canada and Europe to develop a valid and reliable external measure of international letter service between major cities.

Address Management. Service performance depends on the quality of addresses on the mail, proper preparation and induction points on mail entering the postal system. The Postal Service works closely with the mailing industry and major customers to establish relevant standards and effective systems, to provide both the lowest total mailing cost and improved service.

The Postal Service is pursuing an aggressive policy of ongoing quality reviews and implementing technological and procedural improvements to ensure better communication between delivery units and the address management program. A focus was placed on increasing the use of the Internet change-of-address service, which is the least expensive, most accurate and most timely way to collect change-of-address information. In FY 2003, customer usage of this service increased by more than 60 percent over FY 2002.

The OIG previously assisted the Postal Service in evaluating various options for change-of-address services offered by commercial Internet companies. Additionally, the OIG has advised the Postal Service of the high costs associated with mishandled mail using the Address Change Service (an automated address correction service). The Postal Service is in the process of implementing the Postal Automated Redirection System (PARS), which will identify and redirect undeliverable-as-addressed mail pieces at their induction point instead of at their destination point.

Worksharing. The GAO noted the President's Commission report proposed requirements for worksharing discounts to be based on the costs that the Postal Service is estimated to avoid, as a

result of mailer worksharing activities, to prepare, sort and transport the mail. Mailers may receive discounts if they make the extra effort to provide properly addressed mail that can be handled by automated postal equipment or can skip postal operations through presorting or using their own transportation to enter the mail into the postal system closer to the destination point.

Last year, the OIG recommended that postal management develop a rate case proposal to eliminate destination entry discounts for letters destinating at certain delivery units. Postal management disagreed, citing the need to weigh all relevant factors before formulating a rate proposal, but stated that it has been reviewing the issue and expects to complete the review before the next omnibus rate case.

ENHANCE MAIL TRACKING TECHNOLOGIES

The Postal Service is focusing on enhancing mail tracking technologies to improve service. Two initiatives, CONFIRM™ service and Intelligent Mail™, are discussed below.

CONFIRM™ Service. CONFIRM is a tracking system for letters and flats (oversized letters), using a second barcode, and is considered the first Intelligent Mail product. It allows mailers to make better business decisions based on knowing where mail is in the postal operating system and when it is scheduled for delivery. The CONFIRM system allows near real-time access to data through a convenient, easy-to-use website with dedicated customer support.

The OIG reported that if CONFIRM service was enhanced, it should enable the Postal Service to improve customer satisfaction by soliciting feedback, timely notification of system changes and improving training and communication with business customers.

Intelligent Mail™. In its Transformation Plan Progress Report, the Postal Service

recognized that capturing real-time information has revolutionized postal products and services, but acknowledges that a complex union of postal services and digital technology will be necessary, in order to meet customers' expectations of immediate feedback on the status of their letters and packages. The Postal Service is taking advantage of recent advances in item identification and coding technology to develop an integrated system that significantly improves the ability of the Postal Service and its customers to manage the mail.

The Postal Service continues to make progress in implementing strategies to use technology to identify and track mail pieces and improve access, speed and reliability of accountable mail services. As noted by the President's Commission, tracking mail is a standard service delivered by private carriers. While the Postal Service currently offers some tracking services, it lags far behind consumer expectations and the capabilities of technology. For example, except for Express Mail and Global Express Guaranteed services, the Postal Service will estimate—but not guarantee—a delivery date for any type of mail. The report continues to point out that if individual customers require more complete information about their mail, tracking is only available at very rudimentary levels for a premium price. The OIG plans reviews to assess the Postal Service's progress in developing Intelligent Mail initiatives.

The Postal Service is implementing technology to identify and track mail pieces and improve access, speed and reliability of accountable mail services.



GOAL 2: MANAGE COSTS

The Postal Service's goal in this area is to manage costs and improve productivity to provide service at the lowest possible price. The Postal Service has three main cost management strategies: replace labor-intensive processes with automation; optimize networks and enhance facility utilization; and reduce labor costs and improve employee utilization.

REPLACE LABOR WITH CAPITAL

Over the last 20 years, the Postal Service has invested more than \$13 billion in the deployment of automation equipment that supports the collection, sorting, and delivery of the nation's mail. Additionally, the Postal Service plans to invest another \$9 billion over the next five years. It has made great strides in automating letter mail.

By the end of FY 2002, the Postal Service distributed approximately 95 percent of letters in automated operations with significant savings when compared to manual processing. The Postal Service is applying lessons learned in program management from letter mail automation to flats. This program management experience streamlined the time required to implement the flats automation program.

The Postal Service's automation program for the future increases the emphasis on flats and package automation. To date, the Postal Service has been successful in reducing costs while improving service and productivity. In FY 2002 and 2003, the Postal Service reported \$2.8 billion in savings attributable to reductions in work-hours and non-personnel expenses.

The *Transformation Plan* described strategies to use automation technology to take more costs out of the Postal Service's operating systems. These strategies were designed to increase

machine throughput, improve address recognition and enhance processing. According to the Postal Service's November 2003 *Transformation Plan Progress Report*, the successful application of automation technology to letter operations is being duplicated for flat mail distribution. The challenge for the Postal Service is to achieve the same increased productivity and work-hour savings in flats and package processing as it did for letters.

- The Postal Service is implementing the Automated Package Processing System, which will improve sorting accuracy and productivity in the processing of parcels and bundles of mail. This system has an enhanced processing capacity and is designed to replace older, more labor-intensive machines. This system could ultimately save \$118.5 million in work-hours during its first full year in operation. However, a four-month delay in completion of system performance testing has delayed deployment. The OIG is concerned because, to date, improved productivity has not been achieved and staffing has not been reduced, potentially resulting in a lower return-on-investment.
- The Postal Service is testing a new system, Postal Automated Redirection System (PARS), to identify and redirect undeliverable mail at the point of origin as opposed to the point of destination. Undeliverable mail is expensive to process because some of this mail is processed to the destination location before it is identified. For example, if someone moves to a different city, their mail may not be rerouted to their new address until after it has already gone to their old address. This requires extra handling time. PARS, still in its infancy, did not achieve the expected

accuracy rate during the system performance testing. However, the PARS accuracy rate is much higher than the system it is replacing. The contractor and postal management are confident the PARS rate will meet expectations. The system has the potential to save between \$1 billion and \$1.4 billion through a reduction in sort passes and processing time associated with handling redirected mail.

The Board of Governors approves investments over \$10 million. In addition, postal management is required to prepare quarterly *Investment Highlights* reports for investments in this category. These reports provide the Board of Governors and postal management the status of implementation, achievement of planned benefits and performance measures. This is especially true for return-on-investment projects that reduce work-hours in the Postal Service's distribution, processing and delivery operations.

The application of technology to postal operations is not without risk. For example, during a past investigation into the production and use of a letter sorting machine, the OIG identified over-charges pertaining to a claim submitted by the contractor that resulted in the contract being reduced by \$151,000 and a credit of \$35,000 being issued.

The Postal Service has had success in applying automation technology to improve efficiency and manage costs in the processing and distribution of mail. However, several areas still need improvement:

- Meeting deployment schedules.
- Increasing equipment utilization rates.
- Consistently capturing empirical performance data.
- Creating meaningful performance metrics.

The OIG plans to conduct reviews of various systems, including the Postal Automated Redirection System and Automated Package Processing System,

as they progress from development to operation.

NETWORK OPTIMIZATION AND FACILITY UTILIZATION

One of the Postal Service's most costly expenditures is its infrastructure investment, which is set up to transport, process and deliver mail. This infrastructure was created incrementally over the last 30 years to improve service, in response to volume growth. With recent declines in mail volume, population shifts and advances in technology, the infrastructure contains excess capacity and may not be optimally located. The Postal Service also manages a vast highway, air, rail and water transportation network that moves billions of pounds of mail each year. In addition, the Postal Service recognized opportunities to further manage costs in the areas of facilities management, delivery, and supply chain management. Details on the Postal Service's major sub-strategies in this area follow.

Optimize the Distribution Networks. As part of its Transformation Plan, the Postal Service developed the Network Integration and Alignment (NIA) initiative, a sophisticated modeling effort to assess restructuring of the Postal Service's complex processing and distribution network.

Its aim is a flexible logistics network that reduces Postal Service and customers' costs, increases operational effectiveness and improves consistency of service. The NIA initiative will also examine alternative network distribution concepts that focus on simplifying and standardizing operations, with less need for dedicated class-based networks. NIA will also examine more than 500 processing and transportation facilities. The President's Commission indicated that this is the most tangible and important deliverable in the *Transformation Plan*. The network optimization, which includes NIA, is the linchpin that will facilitate driving down costs in mail processing, transportation and human capital.

The Postal Service formed a cross-functional team for this initiative that includes operations, facilities, finance experts, as well as several consultants (a postal management consulting firm and supply chain optimization experts). The team developed the models, collected and validated data inputs and completed initial modeling efforts. The Postal Service conducted limited verification and validation of the NIA models. This validation and verification was not independent or fully documented. Postal Service management agreed that independent verification and validation of the models was critical because this initiative has significant strategic implications, including the potential consolidation or closure of postal facilities.

The Postal Service subsequently assembled a team to conduct an independent verification and validation of the models. At the request of the Postal Service, the OIG is monitoring and providing guidance to the team, with regard to the independent verification and validation process, and has recommended best practices. The Postal Service will focus on model validation and concept testing during the remainder of 2004.

While the team is validating the NIA model, the Postal Service and the OIG, in a joint effort, identified inefficiencies associated with several international services facilities. Processing operations were consolidated, two facilities were identified for closure, and labor hours were reduced. This joint effort resulted in a monetary impact of approximately \$61 million over 10 years. The Postal Service and the OIG will continue this collaboration to identify opportunities to improve operations and reduce costs.

Efficient and Responsive Transportation and Logistics. Mail transport is one of the Postal Service's core operations, costing about \$5 billion annually, and is essential to the Postal Service's success.

Network operations and logistics include transportation by air and surface networks—plus logistical support to all transportation or other Postal Service functions. This movement is supported by major logistical activities, including 22 Mail Transport Equipment Service Centers, fuel procurement, vehicle acquisition and various supplies and services.

The *Transformation Plan* has identified network and logistics support strategies intended to reduce or offset costs. Among them are (1) sharing excess capacities across postal functions in order to raise revenue or share costs, (2) refining NIA to optimize air and surface transportation, (3) redesigning logistics to minimize costs, (4) reducing debt by leasing vehicles and equipment and (5) outsourcing transportation and maintenance services.

In general, the Postal Service continues to make progress towards achieving these goals. For example, at the request of postal management, the OIG reviewed 1,636 highway contracts, visited 103 plants nationwide, and in conjunction with Postal Service transportation managers, recommended the integration or elimination of 915 highway trips and identified almost \$43 million in potential savings, over the three years, or the term of the contract.

Furthermore, the OIG assists with cost efficiency by aggressively pursuing acts of fraud associated with the Postal Service's extensive transportation network. For example, in the Southeast area, the OIG is conducting a large joint investigation with other law enforcement agencies to break up a credit card theft ring. To date, 20 individuals have been arrested for their involvement in an organized scheme to fraudulently manufacture and/or use government and commercial credit cards. Postal Service credit cards were used to purchase approximately \$400,000 in fuel, which was subsequently resold. In California, theft-related charges were filed against a vehicle repair contractor for

billing the Postal Service over \$1 million while only performing \$160,000 in authorized work.

Retail Network Initiative. Most Americans purchase Postal Service products at retail outlets. The Postal Service's major retail challenge is to meet its customers' ever increasing needs for access, while reducing infrastructure and operating costs. The Postal Service, over the next five years, has plans to (1) provide customers with easier and more convenient access, (2) create new, low-cost retail alternatives, (3) achieve a stable and efficient network and (4) develop new retail services. The OIG plans to assess the retail network optimization initiative to determine whether the model has established performance measures and whether access will be provided to underserved areas while consolidating underutilized retail offices.

Managing Real Estate Assets. The Postal Service is one of America's largest owners, developers and managers of real estate. The Postal Service operates more than 37,000 geographically dispersed facilities—8,761 postal-owned facilities and 28,444 leased facilities—and occupies space in an additional 443 federal facilities.

The Postal Service has developed strategies to identify opportunities to reduce costs or maximize the return on investment. These key strategies include standardization of building design, disposal of underutilized or excess property and proactive leasing programs. The Postal Service needs to improve the process for identifying and reporting excess facilities and vacant space. This is a critical first step in meeting the strategic objective of disposal of underutilized or excess property.

The OIG plans to work with the Postal Service to identify opportunities for maximizing revenue through disposition of land. Additionally, the OIG is reviewing enforcement of lessor maintenance responsibilities to assist the Postal Service in reducing overall operating costs.

The OIG is also proactively reviewing common area maintenance clauses contained in leases of shared facilities to determine whether the Postal Service was overcharged for services such as trash removal, utilities, landscaping, maintenance and snow removal. The cost for these types of services is calculated based on a dollar amount per square foot of space occupied. One investigation recently resulted in a refund



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to the Postal Service of over \$64,000 and a credit of \$35,000 in future rent costs.

Delivery Efficiency Improvements. The annual increase in delivery points (new addresses) puts considerable upward pressure on costs. During 2003, the Postal Service added 1.9 million new delivery points to the system. The Postal Service has improved delivery productivity through the implementation of Delivery Point Sequencing (DPS) and other management improvements. DPS is an automated process used to sort mail in the sequence that the carrier effects delivery, which has dramatically reduced carrier in-office work hours. Major initiatives in this area include (1) benchmarking delivery performance, (2) testing city carrier route and optimization programs and (3) assessing methods to effectively staff retail units and customize services to meet local community needs.

The OIG plans to review the efficiency and effectiveness of city letter carrier operations, including office preparation of organizing the mail by address, street management and route examination.

Supply Chain Management. The Postal Service manages contracts with commitment values of over \$19 billion annually for its goods, non-mail transportation services and facilities-related services. It awarded over \$4 billion to its suppliers in FY 2003 for these commodities. Supply chain management is the analysis and adjustment of the purchasing process and business organizations working together, as required, to meet customer demand and lower overall cost. It was set up to maximize the effectiveness and efficiency of these expenditures, using public and private standard practices.

Supply Management, the Postal Service's strategically-aligned support purchasing organization, has begun to implement supply chain management practices in line with the *Transformation Plan's* goal of achieving cost reductions through increased supply chain savings,

operational efficiencies, and managing assets more effectively.

Strategies to reduce costs include reducing the supplier base to preferred suppliers and partnering with stakeholders. The November 2003 *Transformation Plan Progress Report* revealed that supply management initiatives have achieved \$700 million in cost reductions, cost avoidance and revenue generation, since FY 2002.

There have been improvements in business practices and cost-reduction strategies, evidenced through the use of commodity teams, national contracts, expanded use of web-based ordering and online auctions.

Also, the Postal Service recently adopted the OIG's proposed *Purchasing Manual* changes regarding adequate contractor accounting systems, critical contract clauses, and suspension and debarment of contractors for fraud, to decrease its exposure to fraud, waste and misconduct in its purchasing operations. It also announced intentions to amend its purchasing regulations to allow for the acquisition of goods and services in a manner similar to that followed by businesses in the commercial environment.

The OIG is assisting the Postal Service by reviewing the impact of supply chain management initiatives to increase customer satisfaction and decrease overall cost. It is also reviewing long-term professional services ordering agreements to maximize the value obtained from Information Technology investments. The OIG will also continue to work with the Postal Service to ensure purchasing policies are adequate to reduce overall risk in the purchasing process.

The Postal Service has made significant improvements to strengthen controls over management of contracts, including contract actions without definite pricing and/or terms and noncompetitive contracts.

The OIG is currently evaluating management controls, planning, design and implementation of a major acquisition to ensure that it meets cost, schedule and functional requirements. The OIG also plans to review how the Postal Service manages costs in its cost-type contracts. Also, through contract audits of about \$1.2 billion from October 2003 through March 2004, the Postal Service is better able to manage overall contract costs by excluding questionable items such as duplicate profits by interdivisional companies, indirect rates, interest costs and subcontract costs; thereby, potentially saving about \$194 million. The OIG will continue to coordinate with the Postal Service to conduct these contract audits.

Further, the Postal Service needs to remain vigilant in monitoring and ensuring the integrity of contractors. Recently the OIG identified inflated contractor costs and bribery involving a \$3.4 million construction and paving contract. In another investigation, substandard work and questionable charges were identified in a contract for asbestos abatement services, which resulted in a \$1 million restitution to the Postal Service.

During this reporting period, the OIG had 259 open contract fraud-related investigations. Types of fraud schemes commonly seen today include product substitution, defective pricing, cost mischarging and false claims for services or supplies not provided.

LABOR COST REDUCTION AND EMPLOYEE UTILIZATION IMPROVEMENT

The Postal Service's investment in human capital is by far its most costly. The Postal Service has nearly 713,000 career employees and spends more than 75 percent of its expenses on personnel-related costs. The Postal Service has developed strategies to address this critical component. In addition, in order to support current and future business needs, the Postal Service must optimize

its information infrastructure and reengineer its systems.

Reduce Labor. The vast majority of current postal labor requirements are inextricably tied to infrastructure issues, such as the postal retail network and the rising number of delivery points. The Postal Service has had some success in reducing labor costs by streamlining processes. In 2003, the Postal Service reengineered and automated accounting processes across the nation. As a result, 85 district accounting offices were closed and 800 positions were eliminated by consolidating the residual activities into three Accounting Service Centers. In addition, fully automating the Postal Service timekeeping system resulted in the reduction of 1,005 timekeepers. Its area and district consolidations process worked well and the Postal Service was able to consolidate administrative functions without impacting operations or involuntarily separating employees while still achieving the district consolidation goals.

In a joint effort to improve the efficiency of work performed by employees in Business Mail Entry Units (BMEUs), the Postal Service and the OIG identified that work-hours to accept business mailings at seven facilities were excessive. These joint reviews resulted in a monetary impact of \$28 million in reduced labor hours, over 10 years. Consequently, postal management requested and the OIG agreed to suspend future BMEU reviews, pending the completion of an analysis on staffing and the impact of the Mail Evaluation, Readability, and Lookup INstrument (MERLIN) system on acceptance activities at the BMEUs. MERLIN is a system designed to automate the mail verification process for business mailings and replaces most manual verifications.

The OIG is conducting a review of MERLIN operations at three BMEUs to assess MERLIN utilization and performance.

Managing Labor-related Costs. The Postal Service is a large, labor-intensive

organization that faces significant potential costs associated with injury compensation claims. The accident prevention and safety program at the Postal Service has shown improvement.

The OIG is performing a comprehensive review of accident prevention and safety issues, as well as benchmarking with private industry.

The combined investigative efforts of the OIG and the Inspection Service to secure access to claimant records will assist the OIG in conducting investigations more efficiently while assessing allegations of fraud.

For example, in California, the OIG partnered with the DOL and the California Department of Insurance on a case involving a San Diego physician who pled guilty to submitting false statements in connection with services not provided to Postal Service claimants. The physician's

medical license was suspended pending the outcome of the judicial proceedings.

Technology Infrastructure. A key initiative supporting the distribution of innovative technologies within the Postal Service is the Advanced Computing Environment (ACE) initiative. This initiative involves replacing the entire distributed computing infrastructure and upgrading existing hardware, software, processes and support, while enhancing the stability and reliability of the infrastructure.

The OIG has reviewed the ACE program and concluded the Postal Service is meeting ACE program objectives to reduce costs, replace obsolete technology, and accelerate application change and development. The OIG has reviewed and recommended improvements in ACE security and plans additional security assessments later this year.



The OIG is conducting a review of MERLIN operations at three BMEUs to assess MERLIN utilization and performance.

GOAL 3: ENHANCE PERFORMANCE-BASED CULTURE

The Postal Service has long realized that its organizational success depends on the efforts of postal employees. Since at least 1998, its plans for success have included the establishment of a performance-based culture to “Improve employee and organizational effectiveness by having the right people in the right place with the right tools at the right time”

As one of the largest civilian employers in the nation, the Postal Service faces a number of challenges in maintaining and motivating a quality workforce. The Postal Service realizes that in order to achieve the goals laid out in its *Transformation Plan*, it must enhance its performance-based culture. The Postal Service’s overall goal in this area is to maintain an accountable, motivated and diverse workforce empowered to maximize performance in a safe and secure work environment. The Postal Service has strategies to improve the performance-based culture, the size and quality of its workforce, safety measures and employee attitudes.

RETENTION, RECRUITMENT AND DEVELOPMENT

The Postal Service is the second-largest civilian employer in the nation, and *Fortune* magazine recently ranked the Postal Service as the fourth-largest employer in the world. *Fortune* also ranked the Postal Service as one of the top ten best places to work in America. More recently, a survey conducted by an independent think tank that studies information issues in business and government found that the Postal Service was one of the public’s most trusted government agencies.

In its *Five-Year Strategic Plan FY 2004-2008*, the Postal Service reported that it does not have a retention problem and that employees who are eligible to

retire usually stay well beyond retirement eligibility. The Plan also states, however, that the Postal Service has recruitment strategies and new programs to enhance its ability to retain, recruit and develop employees. For example, for three of its management programs, the Postal Service will recruit individuals with advanced degrees. Successful completion of the programs will result in a pool of skilled candidates capable of filling critical vacancies within the organization.

Proper succession planning is also critical to retention and development. The Postal Career Executive Service (PCES) was established in 1979 and consists of two levels of leadership. Level 1 executives are appointed by senior-level officers and include district and bulk mail center managers. Level 2 senior-level officers are appointed by the postmaster general and include functional vice presidents in Headquarters, area vice presidents and the deputy postmaster general.

The Postal Service initiated its corporate succession planning process in 1994 to identify a diverse pool of potential successors for PCES positions and to promote their development for leadership roles in the organization. The planning process was also to provide a mechanism for building diversity into the leadership of the organization. The process includes many features identified as best practices for successful organizations.

It should be noted, however, that the President’s Commission recommended the Postal Service restructure its management to eliminate redundant positions and geographical divisions and to standardize and clarify job functions. It also recommended the Postal Service conduct a review of the entire management structure, size and cost to determine whether each component is necessary and consistent with the best practices of the private sector.

PAY-FOR-PERFORMANCE

The Postal Service is on track toward realizing its strategic goal of creating a performance-based culture, particularly for non-bargaining unit employees. It has implemented a pay-for-performance system for 800 executives, to improve operations and achieve goals in FY 2003. In FY 2004, it will evaluate the non-bargaining employees using this system. This system is expected to create managerial accountability for reducing the number of grievances, arbitrations and equal employment opportunity complaints and to improve safety.

According to the Postal Service's November 2003 *Transformation Plan Progress Report*, the new pay system is based solely on performance evaluations. There are no automatic or across-the-board pay increases for executives or non-bargaining employees. All pay actions should be made within a salary structure that is market-based, following an independent and comprehensive market analysis of postal positions.

WORKPLACE ENVIRONMENT

Relationships between postal management, employees and unions have improved over the recent past. This was evident when the Postal Service and its four major unions reached negotiated agreements through collective bargaining, thereby avoiding arbitration for the first time since 1987.

In FY 2003, the Postal Service made managers accountable for workplace environment issues through the pay-for-performance system. Area and district managers are scored on their achievements to help improve workplace relationships and to participate in improvements. This includes their ability to resolve grievances and equal employment opportunity complaints.

Postal Service statistics indicate that the number of new grievances filed and the number of backlogged grievances have declined. For example, the Postal Service and its unions have reduced the total number of grievances from 236,899 filed in FY 2002 to 198,525 filed in FY 2003. In addition, it has reduced the number of grievances in the backlog from



The Postal Service has long realized that its organizational success depends on the efforts of postal employees.

110,695 to 42,545 for the same period. The OIG believes this is further evidence of improved relations. Specifically, the National Association of Letter Carriers (NALC) and the Postal Service reduced backlogged grievances by 95 percent, from 18,634 to 931, between FY 2000 and FY 2003. The American Postal Workers Union (APWU) also filed significantly fewer grievances in FY 2003 (99,255) than it did in FY 2002 (138,104). The OIG is conducting additional work to determine the root causes of the grievances and the initiatives in place to further reduce them.

The Postal Service also improved communications between management and its unions by working together to produce manuals that provide a joint understanding of the interpretation and administration of provisions of the national agreements. The Postal Service believes this communication effort has proven invaluable in reducing tension between labor and management on the workroom floor, as it eliminates disagreements over the meaning of the provisions of the national agreements. The Postal Service believes its ability to produce such agreements is a “direct manifestation of the improving and maturing relationships” with postal labor organizations at the national level and the desire of all parties to achieve “harmonious relations” at all organizational levels.

Also indicative of a maturing relationship is an agreement with the NALC, signed in April 2003, to establish a joint task force to explore alternative delivery models that will successfully position the Postal Service as the premier provider of delivery services to every home and business in the nation. In FY 2003, the task force considered the impact of business and technological changes on delivery services and letter carriers and explored opportunities for change that will provide possibilities for greater revenue generation. The OIG’s September 2003 report to postal management regarding relationships with the unions recommended that a

statement of common business interests, similar to that negotiated with the NALC, be negotiated with the National Postal Mail Handlers Union (NPMHU) and the National Rural Letter Carriers Association (NRLCA). Postal Service management agreed that this would add value to their mutual interests and that they would discuss it with the respective unions.

The Postal Service requires that each district maintain both a Threat Assessment Team and a Crisis Management Team to provide violence awareness and sexual and workplace harassment training, according to policy. In addition, the Workplace Environment Improvement Advisory Committee established new, objective criteria to identify troubled worksites and track the progress of actions for remediation.

Although management and unions continue to improve their working relationships, some nagging issues remain. For example, the reduction in the total number of grievances filed in FY 2003 and the total number of grievances in the backlog should have a positive impact on the costs associated with grievances and arbitrations. However, the Postal Service does not maintain data on all such costs, as the Postal Service contends it would be cost prohibitive to track supervisor/manager work-hours. As a result, identifying areas for potential costs savings could be difficult.

Even though all costs related to labor-management issues cannot be determined, the Postal Service and the OIG have estimated that about \$300 million per year is spent on these issues. For that reason, the OIG recommended, in September 2003, that the Postal Service maintain and identify costs. The Postal Service agreed to modify its Grievance and Arbitration Tracking System to capture more cost data. The OIG will follow-up on the Postal Service’s efforts in this area, as part of its work to determine the root causes of grievances.

The OIG continues to receive allegations from postal employees and Congress about the existence of hostile work

environments. The OIG has conducted inquiries into these allegations because of the potential for violence in the workplace. For example, from January 2003 through February 2004, the OIG wrote approximately 20 responses to senators and congressional representatives related to allegations of hostile work environments. Constituents who were either former or current Postal Service employees made the allegations. The OIG substantiated that eight of the 20 allegations had merit and, in some cases, the OIG recommended that climate assessments be undertaken. Postal Service management then worked with the employees, union representatives and the OIG to ensure the issues were resolved.

The OIG also partnered with the Workplace Environment Improvement office to provide Hotline information on a monthly basis to help managers identify locations that may need assistance in improving their workplace environment. According to the Postal Service, from FY 2002 to the end of FY 2003, the number of troubled worksites has been reduced from 39 to 14. Efforts to reduce the number of troubled worksites will continue into FY 2004.

One recent investigation involving workplace environment concluded that the allegations against a Texas district manager for reprisal actions were unfounded; however, it was determined that the postmaster who made the initial allegations had himself engaged in improper management conduct.

EMERGENCY PREPAREDNESS

The Postal Service has developed initiatives to ensure its readiness in the event of another emergency, such as the anthrax attacks of October 2001. The OIG found that the Postal Service is doing a good job of implementing its Biohazard Detection Systems, Ventilation and Filtration Systems and Irradiation of the Mail initiatives. The OIG is continuing to monitor these initiatives and is reviewing the Postal Service's Emergency

Preparedness Plan, Threat Assessment and Consequences Management Assessment.

The Postal Service has also recently established the Office of Emergency Preparedness (OEP). One of the OEP's responsibilities is to continue efforts to respond to Homeland Security presidential directives. The OEP is also in the process of implementing an Integrated Emergency Management Plan (IEMP). The goal is to have one plan that will address responses to all incidents/hazards. IEMP training is currently focused at the district and installation level—specifically, those sites receiving the Biohazard Detection System. The IEMP will be integrated into the Postal Emergency Management System (PEMS), which enables real time data entry, analysis and response to emergency incidences both natural and man-made. The OIG is preparing to audit the IEMP process, including the PEMS.

The Postal Service realizes that emergency preparedness is constantly changing as new threats appear. With that in mind, it is continuing to evaluate new technologies for detection of other biohazards and toxins. These technologies could expand the Postal Service's detection capabilities and reduce risk.

WORKFORCE PROFILE

In its report to Congress, the President's Commission stated that the size of the Postal Service's workforce determines the costs of the workforce. The Commission also stated the success of the Postal Service's transformation will hinge on its ability to successfully deploy and motivate a talented, capable, and nimble workforce, of a size appropriate to the future postal needs of the nation. Essential to this process is the ability to determine the right size of the postal workforce and ensure appropriate flexibilities in its deployment.

In its recommendations, the Commission stated that 47 percent of the current

career employees would be eligible for retirement by 2010, and the Postal Service should take advantage of this unique “attrition opportunity” to right-size and realign its workforce with minimal displacement.

The Postal Service has made a good start in reducing its workforce through attrition. One result has been the reduction of 62,000 employees, since the beginning of FY 2002. In addition, the Postal Service’s complement planning efforts have improved with the establishment of field complement coordinators. The workforce reduction should continue as the Postal Service takes advantage of limited early retirement offers and less need for temporary, part-time workers, as career employees use technology to perform their work more efficiently.

Also, the Postal Service has, or plans to deploy, complement planning tools that it believes will give managers the ability to plan, adjust and track complement, as well as project complement needs. These tools should also determine the right people and skills necessary to adjust to current mail volumes and the changing environment.

The Postal Service is still constrained, however, by labor agreements that can create inflexible work arrangements. The President’s Commission recognized that inflexible work arrangements “clutter the path” to a fundamental overhaul of the Postal Service. The Commission is on target in that the Postal Service needs the ability to deploy workers, in the most efficient manner possible, and needs to create a culture of excellence to ensure a successful transformation. Additionally, the Commission correctly notes that in future collective bargaining agreements it is critical for postal management to include the necessary flexibility to manage the size and deployment of the Postal Service workforce.

DIVERSITY DEVELOPMENT

Overall, the Postal Service’s workforce profile generally matches the civilian labor

force. For the fourth straight year, *Fortune* magazine recognized the Postal Service as a leader in diversity, naming it one of the “50 Best Companies for Minorities.”

The Postal Service’s Diversity Development Office was established to build a motivated, productive and inclusive workforce. This office focuses on diversity in workforce management, promotions, developmental activities and succession planning.

Realizing the challenges the Postal Service faces, as identified in the *April 2002 Transformation Plan*, the Postal Service’s Diversity Development Office has four key initiatives to help it achieve its mission and be responsive to the diverse needs of its customers and employees:

- Ensure representation of all groups at all levels.
- Achieve a harassment-and discrimination-free environment.
- Enhance workforce management.
- Strengthen customer and community relations.

In September 2002, the OIG reported that the Postal Service had established a corporate succession planning process for filling vacant PCES positions, and that the process included many features the OIG identified as best practices for successful organizations. The OIG also found the Postal Service had implemented diversity programs into the corporate succession planning process, resulting in a slight increase of some FY 2001 diversity statistics and little to no change in others. In addition, the OIG found that Postal Service women and minority representation, at the PCES level, could be improved when compared to the civilian labor workforce.

VOICE OF THE EMPLOYEE

The Postal Service has stated the two critical factors that enable Postal Service employees to achieve organizational goals are a safe and fair workplace. The two measurements used to determine its accomplishments in this area are the

Voice of the Employee (VOE) Survey, and the Occupational Safety and Health Administration (OSHA) Illness and Injury rates.

The VOE survey is intended to build upon the insights and suggestions of the people closest to the work—the employees. The survey captures overall employee attitudes based on employee responses to questions related to six key workplace issues—performance recognition, accountability, exclusion, sexual harassment, being treated with dignity and respect, and workplace communication. Employee participation in the survey is voluntary and anonymous, and an independent contractor handles the entire survey process.

In FY 2003, the VOE survey scores were included as part of the Postal Service's pay-for-performance system. The scores were used to determine area vice president and district manager achievements that help improve workplace relationships. Areas and districts are required to improve their VOE scores from year to year.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION SAFETY REPORTING

The key measure used to determine the safety and security of employees, customers, and Postal Service facilities is the OSHA Injury and Illness rates. The Postal Service became subject to the reporting requirements of OSHA, as a result of the Postal Employee Safety Enhancement Act, in 1988.

OSHA defines an injury or illness as an abnormal condition or disorder including, but not limited to, cuts, fractures, sprains or amputations. Illnesses include both acute and chronic illnesses such as, but not limited to, skin diseases, respiratory disorders or poisoning. The Postal Service measures the OSHA Injury and Illness rates annually to ensure that employees and customers are provided a safe and secure environment.

GOAL 4: GROW REVENUE

To increase revenue, the Postal Service must enhance core services and provide greater value to its customers. To do this, the Postal Service must develop and implement new features and other relevant product enhancements to its core mail and mail-related services; and must seek new revenue sources from innovative applications of new technology or by leveraging its sizeable infrastructure.

Working within the current structure, the Postal Service's basic approach to revenue generation begins with continued service improvement while providing rate stability and the lowest prices possible. At the same time, the Postal Service will increase the value of the mail by enhancing its products and services.

Most of this strategic goal falls to the marketing function within the Postal Service. Over the past several years, this area has undergone many changes as it responded to the Postal Service's need to grow revenue. While some of its initiatives have been successful, many have not. For example, many of the eBusiness initiatives have ended and international mail volume has been declining. Over the coming year, the OIG's new marketing team will focus on helping the Postal Service successfully grow revenue. The team will review new product development, innovative pricing options, sales force operations and effectiveness, advertising programs and efforts to enhance the usefulness, accessibility and awareness of core products.

As part of the strategic alliance, the OIG and the Postal Inspection Service will work together to assist the Postal Service in growing and protecting revenue, in order to cover its costs and adhere to its mandate of providing universal service.

DEVELOP INNOVATIVE PRICING

The Postal Service views pricing flexibility as a critical tool for survival in a competitive market and a key to future

modernization. Pricing innovation is key to its efforts to maintain stable and affordable rates. One pricing change underway is the Negotiated Service Agreement (NSA) with a financial institution.

An NSA is a contractual agreement between the Postal Service and a customer that provides pricing incentives, in exchange for a shift in behavior by the customer that benefits the Postal Service. In many cases the changes in behavior will create a substantial increase in First-Class or Standard Mail volume.

The President's Commission cited NSAs as one of the most promising new areas of exploration for the Postal Service. These agreements could benefit the Postal Service by fostering overall cost efficiency and revenue growth. As such, the Commission believes NSAs are entirely appropriate, given the Postal Service's mandate to operate like a business.

The Postal Service is evaluating pricing improvements to better meet customer needs. Pricing initiatives like NSAs, as well as other innovative pricing methods, will allow the Postal Service to move gradually away from cost-based pricing to value-based pricing.

The OIG is reviewing the NSA with a financial institution to outline the process involved in developing, approving, and implementing the NSA.

The OIG is also reviewing the Postal Service's International Customized Mail Agreements to determine whether these agreements are profitable and adequately managed. These agreements are contracts between the Postal Service and a mailer that agrees to meet a prescribed annual minimum revenue or volume requirement, in return for reduced rates.

PROVIDE CONVENIENT ACCESS TO PRODUCTS AND SERVICES AND IMPROVE EASE OF USE

Making Postal Service products that are convenient, accessible, and easy-to-use maintains customer loyalty and directly impacts revenue. The Postal Service partners with commercial businesses to make its products and services more convenient to customers. This promotes accessibility and improves ease of use.

Over the next several years, the Postal Service plans to improve its retail operations by developing lower-cost alternatives that provide similar or easier access to its household segment. For example, Automated Postal Centers (APCs) are designed to provide easy, self-service access to postal products while reducing the amount of retail labor. Almost any product or service that can be purchased at the retail counter will be available by using the APC, including mailing packages.

A review of the existing prototype APC noted that it met the Postal Service's objectives to provide customers with

convenient access; reduce customer waiting time in line; reduce the cost of selling postal products and provide easier customer access to premium products. Feedback from the market testing, performed by three different contractors, indicated positive response from postal customers.

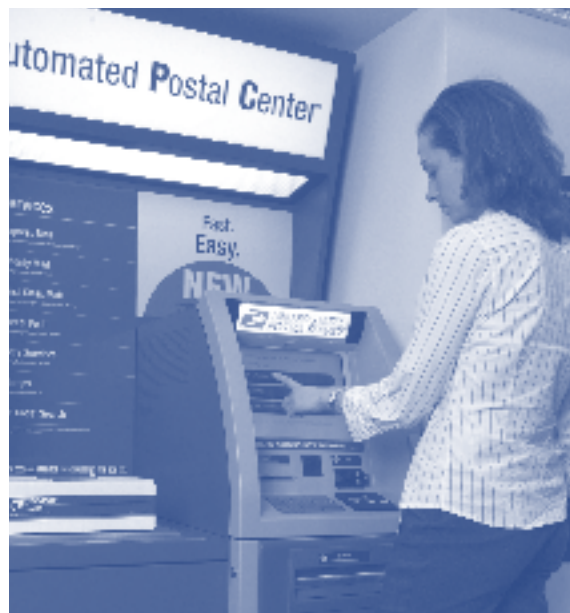
The Postal Service also leverages technology by offering easy access to postal information and products through its award-winning website, www.usps.com. Customers can use this website to track mail, look up ZIP Codes and purchase stamps 24 hours-a-day, 7 days-a-week.

ENHANCE PRODUCT AWARENESS

As the Postal Service strives to grow revenue, it cannot assume that customers are aware of all of its products and services. Therefore, new advertising and promotional material have been developed to help customers take full advantage of postal products and services. The Postal Service has

redesigned portions of the *Domestic Mail Manual* to make it easier for households and small businesses to understand the postal rules and mailing requirements of the eBusiness Service used by these groups. The Business Service Network provides business mailers a local point of contact for resolving local concerns.

The Postal Service also sponsors many customer forums to foster open communication. These forums include Postal Customer Councils, at the local level, for local issues; The Mailers' Technical Advisory Committee that studies issues at the national level with major mailers; and the National Postal Forum, a



Automated Postal Centers (APCs) are designed to provide easy, self-service access to postal products while reducing the amount of retail labor.

mailing community conference that offers working sessions on postal issues and vendor exhibits on new products, technology and systems.

The OIG has reviewed promotional programs such as the sponsorship program. As the Postal Service develops new advertising and awareness programs, the OIG will evaluate these programs to ensure that reasonable measures are in place to measure effectiveness and that the program is achieving its intended goal.

In addition to ensuring customers are aware of products and services, the Postal Service needs to ensure that employees are well-versed and consistent in applying postal rules.

Mailers have raised concerns regarding inconsistency of the acceptance procedures of their mail at Bulk Mail Entry Units.

One of the major concerns is the blurring of the line between First-Class and Standard Mail. Technology has made it affordable for advertisements to be personalized, thus approaching the limits of distinguishing advertising mail from First-Class Mail. As a result, some Postal Service employees will accept the mail as Standard Mail and some will reject mail because the mail appears to meet the requirements for First-Class Mail. The Mailers' Technical Advisory Committee has formed a new work group to examine the Postal Service's goal of providing consistent interpretation and application of mailing standards and business mail acceptance procedures.

The OIG will review the acceptance process and the appeal procedure, to ensure consistency in accepting mail and the effectiveness of the appeal process.

and relevant information to its customer base, the Postal Service is targeting customers based on their distinct needs, updating and standardizing sales material, developing customer-focused sales tools and redesigning all national advertising programs.

The Postal Service is developing business partnerships with other organizations in order to sell postal products and services internationally. It is also training its postal sales force to work with the sales staffs from foreign postal administrations to sell postal products and services.

The Postal Service is implementing Sales Support Solution, a new sales information system. The new system will greatly enhance sales effectiveness in evaluating additional revenue opportunities and identifying levels of service provided to the customer.

According to the November 2003 *Transformation Plan Progress Report*, the Postal Service improved its marketing effectiveness by targeting its marketing programs against key mailing segments. Postal Service sales initiatives now focus on the highest growth opportunities, while the Business Service Network provides high levels of customer service.

Alignment of sales and service activities will lead to higher sales productivity, an improved ability to meet customer needs and the development of better ways to help postal customers use the mail as a tool to meet their business objectives.

The OIG will review the strategy and planning of the new sales force structure to assure it is properly aligned and adequately staffed with well-trained and experienced sales personnel, to market and sell its products and services profitably.

BUILDING A MORE EFFECTIVE SALES TEAM

The Postal Service will work to maximize sales of its products and maintain superior service by effectively using its greatest asset—its people. To provide more timely

DEVELOP VALUE ENHANCEMENTS BY APPLYING TECHNOLOGY TO CORE PRODUCTS AND SERVICES

Information is a valuable commodity in the business world. The right information can mean the difference between being profitable or showing a loss. According to the November 2003 *Transformation Plan Progress Report*, the Postal Service is competing in an environment where information about the mail is valued as much as the mail itself.

As a result, the Postal Service has embarked on Intelligent Mail initiatives that will provide customers with a wealth of information on individual mail pieces. By using unique identifier codes, information about individual mail pieces can be tracked and provided to users to improve business decision-making.

CONFIRM is an example of a postal product that uses unique identifier codes. Mailers who subscribe to CONFIRM can receive information electronically to track their outgoing mailings or incoming reply mail to enhance customer service. An FY 2002 review of CONFIRM disclosed that 91 percent of users found the service useful for their business.

The OIG will continue to monitor new systems from development to final deployment to ensure that the Postal Service is receiving a reasonable return on investment and that the system is providing the benefit intended.

MAINTAIN TRUST

The Postal Service's *Five-Year Strategic Plan FY 2004-2008* states:

"The value of mail is increased by the trust that most Americans have in the Postal Service. The Postal Service is improving long-standing policies that will preserve the privacy and security of the information customers and others provide and that the Postal Service uses in the course of its operations."

The OIG contributes to building and maintaining the public's trust in the Postal Service. Through independent audits and investigations of fraud, waste and misconduct within postal operations, the OIG assures the public that the Postal Service is operated in an efficient and effective manner. The OIG, through its financial audits, provides assurance that the financial statements presented to the public fairly represent the financial position of the Postal Service. By providing oversight of the Postal Inspection Service, the OIG helps ensure that integrity and confidence in the Postal Inspection Service are preserved.

To maintain the integrity of the mail and ensure the confidence and trust that government agencies, businesses and customers place in the Postal Service, the Postal Inspection Service conducts investigations to reduce and deter criminal attacks on the mail, employees, customers and property. Through its security and law enforcement functions, the Postal Inspection Service also works with other law enforcement agencies to reduce the use of the mail for such crimes as consumer or business fraud and identity theft.

During this reporting period, efforts to protect postal products, services, assets and people have resulted in: the removal of a Postal Service electronic technician, in South Dakota, for downloading and using unauthorized password decrypting software on a Postal Service server; payment of \$3,000 in restitution by a Maryland postal employee who used an IMPAC card for personal gain; and the incarceration of a California woman for perjury associated with her filing a fraudulent \$1 million automobile accident lawsuit against the Postal Service.

GOAL 5: PURSUE LEGISLATIVE CHANGE

It has been more than a generation since Congress passed major postal reform legislation, the Postal Reorganization Act of 1970, which created the present-day Postal Service. The reforms were intended to de-politicize the Post Office Department, inject greater professionalism into postal operations and give the Postal Service a mandate to operate like a business.

Since then, there has been a revolution in how the public exchanges information. The movement of communication from hard copy to electronic form, dubbed “electronic diversion,” has led to a decline in First-Class Mail revenues. This, coupled with the growth in new deliveries, is a serious threat to the Postal Service’s financial stability. A growing number of members of Congress and the mailing community have stated that the postal business model is broken and argue that the handwriting is on the wall—if Congress does not act soon, the Postal Service is headed for economic disaster.

Believing that “the day of reckoning” is upon us, in recent years several members of Congress have drafted and introduced postal reform bills. The legislation advanced approaches to modernizing the Postal Service to meet the needs of a changing society. The efforts of these concerned members were not widely supported by their colleagues, and the legislation eventually died.

In December 2002, the President established the Commission on the Postal Service. From January 2003 through July 2003, the Commission solicited comments from postal stakeholders. The Commission received many comments and suggestions including maintaining but also redefining universal service, improving productivity, more pricing flexibility, modifying the collective bargaining process, ensuring the financial transparency of the Postal Service, and providing management with greater flexibility. Notable exceptions were four

postal unions’ disagreement with the Commission’s collective bargaining process recommendations. The Commission’s report, issued on July 31, 2003, emphasized the need for postal reform on a much larger scale.

Acknowledging the President’s call to make postal reform a top priority for the 108th Congress, the House Committee on Government Reform and the Senate Committee on Governmental Affairs each held a series of hearings. At these hearings, the committees explored the Commission’s recommendations and their own proposals. Members of Congress heard testimony from individuals representing customers, postal employees, postal management, competitors, the GAO, the administration, the Postal Rate Commission and postal-reliant businesses. While comprehensive postal reform remains crucial, an emergent theme was the necessity to deal with two critical issues: the funding requirement for the Civil Service Retirement System escrow account and the military retirement benefits of postal employees.

CIVIL SERVICE RETIREMENT SYSTEM (CSRS) ESCROW ACCOUNT

When Congress became aware that the Postal Service was on course to overfund its CSRS pension costs, Congress passed Public Law 108-18, which reformed the way the Postal Service funded its CSRS pension obligations. Prior to passage of the Law, it was estimated that the Postal Service would overpay the fund by \$105 billion over the life of CSRS primarily due to higher than expected interest earnings. However, this Law charged/transferred \$27 billion to the Postal Service to cover military service benefit costs, not included in prior legislation, which reduced the

overpayment to \$78 billion over the life of CSRS.

Public Law 108-18 also provided that the “cost savings”—the difference between what would have been paid, if the law had not been enacted and the contributions made under the new legislation—be used to maintain current postage rates through FY 2005 and reduce outstanding debt in FY 2003 and 2004.

After FY 2005, the Postal Service is required to place the amount of “cost savings” into a separate escrow account that it cannot use—even for maintaining current postage rates or minimizing increases in rates—until otherwise provided by law. The Postal Service has proposed using these savings to fund retiree health benefits or to stabilize postage rates.

The Postal Service should be allowed to use savings created by the reduction in contributions to the CSRS fund to run its operations, as it does with Postal Service revenue. The monies generated from Postal Service revenues should not be subject to outside control, since these revenues are essentially “other people’s money,” not tax dollars, and should be subject to normal usage for operations and capital investment. Under its mandate to provide universal mail service, the Postal Service should be allowed to operate in a business-like manner and be able to decide whether and how these funds should be spent.

MILITARY RETIREMENT

The legislative fix also required a change in funding pension benefits by making the Postal Service responsible for funding the value of CSRS benefits attributable to military service of its employees. This legislation effectively transferred \$27 billion in military service pension costs from the Department of Treasury (taxpayers) to the Postal Service (ratepayers).

The OIG believes that taxpayers should pay the costs for military service benefits—not Postal Service customers—and the liability, therefore, should be transferred back to Treasury. It is not appropriate for Postal Service customers to pay, through postage, for these costs when military service protects all Americans. As such, all taxpayers have a responsibility to bear the costs of a common defense through tax dollars. The use of stamps to pay defense costs is, in essence, a “hidden tax” on Postal Service customers. The Postal Service would also be the only federal agency, that is required to assume the burden of paying this cost.

BASIC POSTAL REFORM LEGISLATION

When Congress addresses postal reform legislation, the reforms described below could be undertaken, in addition to the funding issues discussed above, provided they are not enacted in free-standing legislation.

Workers’ Compensation Reform. The Postal Service has a significant workers’ compensation liability. In both FY 2002 and FY 2003, the Postal Service incurred approximately \$1.5 billion in workers’ compensation expenses. Given the Postal Service’s current \$7.2 billion liability for workers’ compensation, there is an urgent need to reconsider the Postal Service’s obligations under the Federal Employees Compensation Act (FECA).

The President’s Commission recommended that the Postal Service be relieved from FECA so that totally disabled employees could be transitioned to a regular retirement program which has been found to be less costly to the Postal Service. Specifically, the Postal Service should be allowed to transition individuals receiving workers’ compensation to the Postal Service’s retirement plan, at such time as the employee would have become eligible for retirement notwithstanding the injury giving rise to



It has been more than a generation since Congress passed major postal reform legislation.

the workers' compensation benefits. The Postal Service must be empowered to deal with its workers' compensation costs, in a manner that preserves reasonable benefits for injured workers, while not saddling it with unreasonable costs. Reducing these costs can have a major impact on improving the overall cost of postal operations.

Seeking to identify root causes for accelerating costs, while the number of new injury claims decreases, an Injury Compensation Working Group was created with a staff representing the Health Care Fraud Group, Computer Assisted Assessment Team (CAATs), Audit, Postal Inspection Service, Health and Resource Management and our stakeholders to work collaboratively to identify, address and control increasing costs associated with the workers' compensation program.

Initiatives have been implemented to address concerns of provider and claimant fraud, systemic issues related to the OWCP fee schedule and bill payment system known as Affiliated Computer Services, and enhancing the Postal Service's operational efficiency,

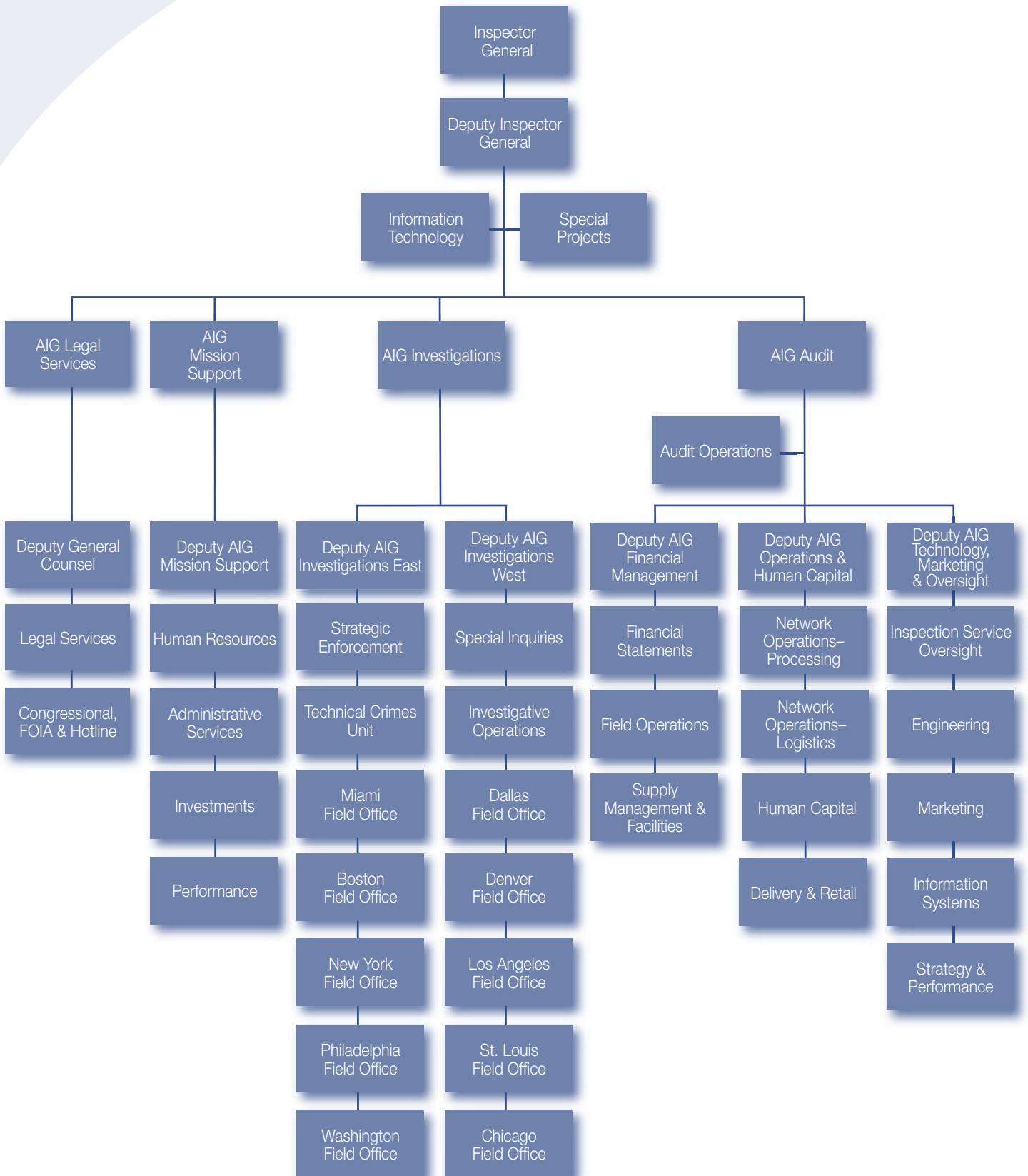
all of which present consequences for protecting postal revenue. A consolidation of findings will be prepared to support legislative change and operational effectiveness.

New Rate-Setting Procedures. The President's Commission recommended replacing the existing rate-setting process with an incentive-based system featuring upper and lower price limits in which the Postal Service would be free to set rates based on business decisions. The Postmaster General and the Chairman of the Board of Governors testified that a well-constructed price cap would include an index for fuel and network expansion, the actual growth in statutory benefits and employment costs. It is essential that the Postal Service has the flexibility to set rates that meet the needs of its customers and hold up to the challenge of its competitors. Rate-setting procedures should be streamlined and considerably shortened, to occur in far less time than the current average time-frame.

Design Smaller, Stronger Postal Network. The President's Commission recommended creating a Postal Network Optimization Commission (P-NOC), similar to the Defense Base Closure and Realignment Commission, which would make recommendations regarding the consolidation and rationalization of the Postal Service mail processing and distribution infrastructure. Recommendations of the P-NOC, once submitted to Congress by the President, would become final, unless Congress disapproves them in a reasonable period of time.

In addition, repealing existing statutes limiting the Postal Service's ability to close low-activity post offices, as the President's Commission recommended, would give the Postal Service needed flexibility to manage its facilities like private sector businesses. The Postal Service must balance its mandate of providing universal mail service with carefully managing its costs.

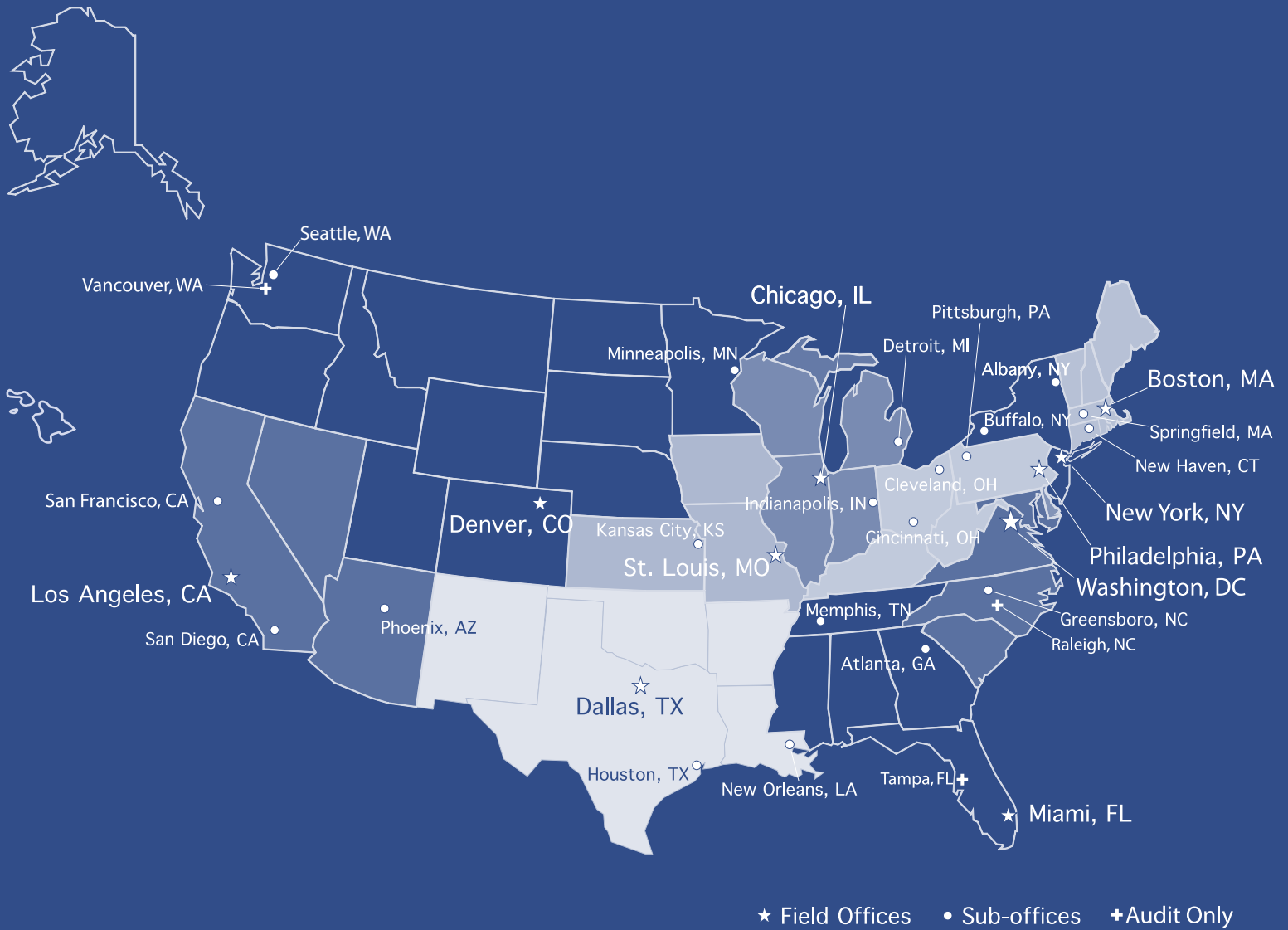
USPS OFFICE OF INSPECTOR GENERAL ORGANIZATION CHART



USPS OFFICE OF INSPECTOR GENERAL

OFFICE LOCATIONS

The OIG currently has more than 700 employees located in 10 field offices as well as other locations nationwide.



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, misconducts and deficiencies, along with recommendations and corrective actions,

related to the administration of U.S. Postal Service programs and operations during the reporting period.

Over the last six-month time period, the Postal Service agreed to recommendations or proposed alternative corrective actions that, if implemented, could result in over \$277 million in savings.

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

APPENDIX A OVERVIEW

For the period of October 1, 2003, through March 31, 2004

OFFICE OF INSPECTOR GENERAL

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.

QUANTIFIABLE POTENTIAL MONETARY BENEFITS

For the period of October 1, 2003, through March 31, 2004

Principal Area	Number of Reports Issued	Questioned Costs	Unsupported Costs	Recommend Funds Put To Better Use	Unrecoverable Costs	Revenue Impact
Manage Costs	189	\$197,232,283	\$513,055	\$78,706,060	\$1,256,827	\$264,374
Enhance Performance-based Culture	9	\$0	\$0	\$0	\$0	\$0
Pursue Legislative Change	1	\$0	\$0	\$0	\$0	\$0
TOTAL	199	\$197,232,283	\$513,055	\$78,706,060	\$1,256,827	\$264,374

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Report Title	Questioned Costs	Unsupported Costs	Recommend Funds Put To Better Use	Unrecoverable Costs	Revenue Impact
MANAGE COSTS					
Supply Management and Facilities					
Audit of Amended Cost Data Relating to a Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprise Incorporated CA-CAR-04-003; 01/07/2004	\$5,394,970	—	—	—	—
Audit of Billed Costs Submitted by Shaw Environmental and Infrastructure, Inc. Under Contract Number GS-10F-0048J, Delivery Order 483083-02-N-0099 CA-CAR-04-004; 01/13/2004	\$15,086,078	—	—	—	—
Audit of Claimed Operating and Tax Costs Submitted by Jones Lang LaSalle Americas, Incorporated for the Postal Service's Lease of the Redwood City Postal Facility CA-CAR-04-005; 01/28/2004	\$7,337	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Automation and Information Systems, Under Solicitation Number 3AAERD-03-A-1467 CA-CAR-04-009; 02/27/2004	\$6,000,332	—	—	—	—
Audit of Firm Fixed Price Proposals submitted by Siemens Dematic Material Handling Automation Division for the Automatic Tray Handling System Under Solicitation Number 3AAERD-03A-1778 CA-CAR-04-006; 02/17/2004	\$11,997,263	\$500,000	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Siemens Dematic Postal Automation L.P. as a Modification to Contract Number 512593-00-Z-2804 CA-CAR-04-011; 03/16/2004	\$137,349	—	—	—	—
Audit of Proposal Submitted by Siemens Dematic Postal Automation L.P. for the Multi-Line Replacement Program IR-CAR-04-001; 10/16/2003	\$136,507,655	—	—	—	—

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 with the amounts shown as Questioned Costs.

FUNDS PUT TO BETTER USE

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

UNRECOVERABLE COSTS

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

REVENUE IMPACT

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.

Report Title	Questioned Costs	Unsupported Costs	Recommend Funds Put To Better Use	Unrecoverable Costs	Revenue Impact
Audit of Proposal Submitted by Siemens Dematic Postal Automation L.P. for the Ventilation and Filtration System CA-CAR-04-001; 10/31/2003	\$18,675,493	—	—	—	—
Audit of Termination for Convenience Proposal Submitted by Corporate Air Under Contract Number AMOT 2203-02 and AMOT 2003-03 CA-CAR-04-010; 03/16/2004	\$277,085	—	—	—	—
Financial Statements					
Fiscal Year 2003 Postal Service Financial Statements Audit - Eagan Information Technology and Accounting Service Center FT-AR-04-010; 02/26/2004	\$180,209	—	—	—	—
Fiscal Year 2003 Postal Service Financial Statements Audit - San Mateo Information Technology and Accounting Service Center FT-AR-04-008; 02/24/2004	\$558,074	—	—	—	—
Terminated Contract Stations FT-MA-04-002; 02/11/2004	\$67,341	—	—	—	—
Fiscal Year 2003 Financial Installation Audits					
Concord Main Post Office FF-AR-04-008; 10/31/2003	\$13,055	\$13,055	—	—	\$8,400
Dallas Main Post Office FF-AR-04-012; 11/26/2003	—	—	\$2,148	—	—
Fiscal Year 2004 Financial Installation Audits					
Aurora Self-Service Postal Center FF-AR-04-039; 02/04/2004	—	—	—	\$8,389	—
Cards n' Such Contract Postal Unit FF-AR-04-070; 02/24/2004	—	—	—	—	\$458
City of Industry Business Mail Entry Unit FF-AR-04-082; 03/03/2004	—	—	—	—	\$8,387
Colorado Springs Business Mail Entry Unit FF-AR-04-058; 02/19/2004	—	—	—	—	\$2,365
East Lansing Business Mail Entry Unit FF-AR-04-061; 02/19/2004	—	—	—	—	\$3,762
Eatonton Business Mail Entry Unit FF-AR-04-021; 01/08/2004	—	—	—	—	\$376
Fern Hill Contract Postal Unit FF-AR-04-104; 03/30/2004	—	—	—	—	\$1,876
Hampton Village Contract Postal Unit FF-AR-04-089; 03/09/2004	—	—	—	—	\$755
Martinsville Business Mail Entry Unit FF-AR-04-105; 03/30/2004	—	—	—	—	\$555
Plaquemine Post Office FF-AR-04-107; 03/31/2004	—	—	—	—	\$46,166
South Bend Business Mail Entry Unit FF-AR-04-030; 01/27/2004	—	—	—	—	\$1,150
Wacker Drive Station FF-AR-04-018; 01/05/2004	—	—	—	—	\$4,513
Fiscal Year 2003 Financial Related Audits					
Stamp Accountability and Controls Related to Minnesota Diversified Industries, Inc. FF-AR-04-015; 12/26/2003	—	—	—	\$370,976	—
Fiscal Year 2004 Financial Related Audits					
Potential Improper and Erroneous Payments FT-AR-04-001; 12/01/2003	\$2,014,030	—	\$119,103	—	—

Network Operations - Logistics

Highway Network Scheduling - Great Lakes Area

NL-AR-04-003; 03/29/2004	—	—	\$5,352,877	—	—
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Vehicle Maintenance Facilities - Chicago District - Accidental Vehicle Damage Cost and Vehicle Safety, Security and Appearance

NL-AR-04-002; 12/05/2003	—	—	\$1,200,212	\$877,462	—
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Network Operations - Processing

Efficiency of Work Performed by Clerks in the Columbia, Maryland, Business Mail Entry Unit

NO-AR-04-002; 12/26/2003	—	—	\$ 1,388,363	—	—
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Efficiency of Work Performed by Clerks in the Southern Maryland Business Mail Entry Unit

NO-AR-04-001; 12/24/2003	—	—	\$8,398,222	—	—
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Efficiency of the Oakland International Service Facility and the Regatta Facility

NO-AR-04-007; 03/31/2004	—	—	\$17,013,959	—	—
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Efficiency of the San Francisco International Service Center and the General Services Administration Facility

NO-AR-04-006; 03/31/2004	—	—	\$44,261,283	—	—
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Efficiency of Work Performed by Clerks in the Springfield, Virginia Business Mail Entry Unit

NO-AR-04-004; 02/09/2004	—	—	\$969,893	—	—
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Express Mail Processing in the Los Angeles District

NO-MA-04-001; 01/13/2004	—	—	—	—	\$185,611
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Military Mail Issues During Operation Iraqi Freedom

NO-AR-04-003; 12/30/2003	\$316,012	—	—	—	—
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REPORT LISTING

The following list of reports is grouped first by Postal Service strategic management goals, second by category of review and year, if applicable, and then alphabetically by title.

For the period of October 1, 2003, through March 31, 2004.

MANAGE COSTS

SUPPLY MANAGEMENT AND FACILITIES

Audit of Amended Cost Data Relating to a Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprise Incorporated; CA-CAR-04-003; 01/07/2004	Audit of Firm Fixed Price Proposal Submitted by Siemens Dematic Material Handling Automation Division for the Automatic Tray Handling System Under Solicitation Number; 3AAERD-03A-1778 CA-CAR-04-006; 02/17/2004	Audit of Proposal Submitted by Siemens Dematic Postal Automation L.P. for the Ventilation and Filtration System; CA-CAR-04-001; 10/31/2003
Audit of Billed Costs Submitted by Shaw Environmental and Infrastructure, Inc.; Under Contract Number GS-10F-0048J, Delivery Order 483083-02-N-0099 CA-CAR-04-004; 01/13/2004	Audit of Firm-Fixed Price Proposal Submitted by Siemens Dematic Postal Automation L.P. as a Modification to Contract Number 512593-00-Z-2804; CA-CAR-04-011; 03/16/2004	Audit of Termination for Convenience Proposal Submitted by Corporate Air Under Contract Numbers AMOT2203-02 and AMOT2003-03 CA-CAR-04-010, 03/16/2004
Audit of Claimed Operating and Tax Costs Submitted by Jones Lang LaSalle Americas, Incorporated for the Postal Service's Lease of the Redwood City Postal Facility; CA-CAR-04-005; 01/28/2004	Audit of Fiscal Years 2004 through 2008 Forward Pricing Rate Proposal Submitted by Siemens Dematic Postal Automation L.P. CA-CAR-04-002; 11/19/2003	Audit of Termination for Convenience Settlement Proposal Submitted by Specialized Technology Resources for the Stamp Adhesive Research and Development Contract; CA-CAR-04-007; 02/20/2004
Audit of Firm Fixed Price Proposal Submitted by New York City Industries for the Blind Inc. CA-CAR-04-008; 02/26/2004	Audit of Proposed Rates Submitted by Lockwood Greene as part of IDIQ Proposal; CA-CAR-04-012; 03/31/2004	Contract Management for the Curseen-Morris Facility Cleanup and Modification; CA-MA-04-003; 03/31/2004
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Automation and Information Systems; Under Solicitation Number 3AAERD-03-A-1467 CA-CAR-04-009; 02/27/2004	Audit of Proposal Submitted by Siemens Dematic Postal Automation L.P. for the Multi-Line Replacement Program; IR-CAR-04-001; 10/16/2003	Contracting Authority CA-MA-04-001; 11/19/2003
		Realty Asset Management Program CA-MA-04-002; 01/09/2004
		Use of Reverse Auctions – Headquarters CA-AR-04-001; 02/26/2004

FINANCIAL STATEMENTS

Agreed-upon Procedures Report for Federal Agencies' Centralized Trial Balance System Verification, FT-AR-04-006; 01/29/2004	Fiscal Year 2003 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center FT-AR-04-010; 02/26/2004	Internal Controls Over the Recording and Reporting of Inbound Mail Volumes from Canada; FT-AR-04-002; 12/02/2003
Agreed-upon Procedures Report for Federal Intragovernmental Transactions; FT-AR-04-009; 02/23/2004	Fiscal Year 2003 Financial Statements Audit – St. Louis Information Technology and Accounting Service Center; FT-AR-04-007; 02/11/2004	Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2003 FT-AR-04-004; 01/15/2004
Collection of Advances to United States International Air Carriers; FT-MA-04-001; 01/29/2004	Fiscal Year 2003 Postal Service Financial Statements Audit - San Mateo Information Technology and Accounting Service Center; FT-AR-04-008; 02/24/2004	Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2003; FT-AR-04-003; 01/15/2004
Fiscal Year 2003 Postal Service Financial Statements Audit – Washington, D.C., Headquarters; FT-AR-04-005; 01/16/2004		Terminated Contract Stations; FT-MA-04-002; 02/11/2004

FISCAL YEAR 2003 FINANCIAL INSTALLATION AUDITS

Burnsville Byerly's Foods Contract Postal Unit FF-AR-04-001; 10/21/2003	Hopkins Post Office FF-AR-04-007; 10/21/2003	Roseville Post Office FF-AR-04-006; 10/21/2003
Chicago Business Mail Entry Unit FF-AR-04-011; 10/31/2003	James C. Brown Jr. Facility Post Office; FF-AR-04-004; 10/15/2003	St. Louis Main Office Finance Unit FF-AR-04-010; 10/31/2003
Concord Main Post Office FF-AR-04-008; 10/31/2003	Longworth Post Office Window Operations; FF-AR-04-063; 02/23/2004	San Antonio General Mail Facility Window Unit; FF-AR-04-009; 10/24/2003
Dallas Main Post Office FF-AR-04-012; 11/26/2003	Minneapolis Main Post Office FF-AR-04-005; 10/24/2003	San Bernardino Processing and Distribution Center Window Service Unit; FF-AR-04-002; 10/14/2003
Hopkins Byerly's Foods Contract Postal Unit FF-AR-04-003; 10/21/2003		

FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDITS

Alameda Main Post Office FF-AR-04-029; 02/02/2004	Hampton Village Contract Postal Unit FF-AR-04-089; 03/09/2004	Plaza Station Self-Service Postal Center FF-AR-04-036; 02/03/2004
American Fork Business Mail Entry Unit FF-AR-04-040; 02/05/2004	Hiram Post Office FF-AR-04-016; 12/26/2003	Powell Business Mail Entry Unit FF-AR-04-078; 03/02/2004
Aurora Self-Service Postal Center FF-AR-04-039; 02/04/2004	Hollow Rock Post Office FF-AR-04-027; 01/16/2004	Reno Main Office – Self Service Postal Center FF-AR-04-094; 03/16/2004
Bensenville Business Mail Entry Unit FF-AR-04-067; 02/23/2004	Itasca Business Mail Entry Unit FF-AR-04-093; 03/15/2004	Revere Main Post Office FF-AR-04-110; 03/31/2004
Boiling Springs Post Office FF-AR-04-023; 01/14/2004	Jackson Westland Station FF-AR-04-054; 02/17/2004	Richmond Main Post Office FF-AR-04-097; 03/16/2004
Breckenridge Post Office FF-AR-04-014; 12/26/2003	Jefferson City Business Mail Entry Unit FF-AR-04-051; 02/27/2004	Richwood Post Office FF-AR-04-074; 02/25/2004
Cards n' Such Contract Postal Unit FF-AR-04-070; 02/24/2004	Kennett Square Post Office FF-AR-04-086; 03/04/2004	Ridgway Post Office FF-AR-04-017; 12/30/2003
Centerpointe Mall Branch FF-AR-04-048; 02/10/2004	Kilmer Lobby Branch FF-AR-04-024; 01/14/2004	Roanoke Business Mail Entry Unit FF-AR-04-062; 02/23/2004
Central Plaza Contract Postal Unit FF-AR-04-076; 02/27/2004	Lewisville Business Mail Entry Unit FF-AR-04-056; 02/17/2004	San Francisco Plant and Distribution Center - Self-Service Postal Center FF-AR-04-053; 02/17/2004
City of Industry Business Mail Entry Unit FF-AR-04-082; 03/03/2004	Liberty Business Mail Entry Unit FF-AR-04-055; 02/19/2004	San Leandro Business Mail Entry Unit FF-AR-04-087; 03/08/2004
Cocoa Post Office FF-AR-04-019; 01/06/2004	Manasota Business Mail Entry Unit FF-AR-04-045; 02/09/2004	Santa Ana Business Mail Entry Unit FF-AR-04-028; 01/27/2004
Colorado Springs Business Mail Entry Unit FF-AR-04-058; 02/19/2004	Martinsville Business Mail Entry Unit FF-AR-04-105; 03/30/2004	Scooba Post Office FF-AR-04-033; 01/28/2004
Columbus Business Mail Entry Unit FF-AR-04-022; 01/12/2004	McChord Air Force Base Post Office FF-AR-04-064; 02/23/2004	Sidney Business Mail Entry Unit FF-AR-04-096; 03/16/2004
Deltona Boulevard Station FF-AR-04-013; 12/23/2003	Meijer Contract Postal Unit FF-AR-04-085; 03/03/2004	Somerset Business Mail Entry Unit FF-AR-04-031; 01/27/2004
East Hanover Business Mail Entry Unit FF-AR-04-043; 02/04/2004	Mesa Business Mail Entry Unit FF-AR-04-025; 01/15/2004	South Bend Business Mail Entry Unit FF-AR-04-030; 01/27/2004
Hayward Business Mail Entry Unit FF-AR-04-046; 02/10/2004	Mesquite Post Office FF-AR-04-042; 02/05/2004	South Georgia Stamp Distribution FF-AR-04-112; 03/31/2004
Highland Contract Postal Unit FF-AR-04-072; 02/25/2004	Mineola Business Mail Entry Unit FF-AR-04-098; 03/16/2004	Southaven Main Post Office FF-AR-04-032; 01/27/2004
East Lansing Business Mail Entry Unit FF-AR-04-061; 02/19/2004	Montgomeryville Business Mail Entry Unit FF-AR-04-080; 03/03/2004	Stockholm Main Office FF-AR-04-099; 03/18/2004
Eatonon Business Mail Entry Unit FF-AR-04-021; 01/08/2004	Mountain Lakes Business Mail Entry Unit FF-AR-04-059; 02/19/2004	Sunrise Contract Station #6 Contract Postal Unit FF-AR-04-084; 03/03/2004
Fairview Post Office FF-AR-04-020; 01/05/2004	Muncie Downtown Station FF-AR-04-077; 03/02/2004	Tampa Stamp Distribution Office FF-AR-04-092; 03/11/2004
Fern Hill Contract Postal Unit FF-AR-04-104; 03/30/2004	Naples Business Mail Entry Unit FF-AR-04-034; 01/28/2004	Tempe Business Mail Entry Unit FF-AR-04-073; 02/25/2004
Fort Wayne Stamp Distribution Office FF-AR-04-068; 02/23/2004	New Brunswick Business Mail Entry Unit FF-AR-04-103; 03/24/2004	Thurmont Business Mail Entry Unit FF-AR-04-041; 02/05/2004
Fredericksburg Business Mail Entry Unit FF-AR-04-111; 03/31/2004	Omaha Business Mail Entry Unit FF-AR-04-071; 02/24/2004	Trenton Business Mail Entry Unit FF-AR-04-057; 02/19/2004
Ft. Lauderdale Self Service Postal Center FF-AR-04-091; 03/11/2004	Orange Business Mail Entry Unit FF-AR-04-083; 03/03/2004	Union Post Office FF-AR-04-044; 02/09/2004
Ft. Myers Self-Service Postal Center FF-AR-04-090; 03/10/2004	Paramus Main Office FF-AR-04-052; 02/17/2004	Universal City Post Office FF-AR-04-108; 03/31/2004
Glendale Business Mail Entry Unit FF-AR-04-037; 02/04/2004	Peachtree Corners Station FF-AR-04-026; 01/15/2004	Wacker Drive Station FF-AR-04-018; 01/05/2004
Glenolden Post Office FF-AR-04-069; 02/23/2004	Pelham Business Mail Entry Unit FF-AR-04-081; 03/03/2004	Waldorf Business Mail Entry Unit FF-AR-04-065; 02/23/2004
Goodspring Post Office FF-AR-04-102; 03/25/2004	Phoenix Business Mail Entry Unit FF-AR-04-101; 03/25/2004	Westerville Business Mail Entry Unit FF-AR-04-060; 02/19/2004
Gordonsville Business Mail Entry Unit FF-AR-04-079; 03/02/2004	Plano Business Mail Entry Unit FF-AR-04-047; 02/11/2004	
Greenville, SC Business Mail Entry Unit FF-AR-04-075; 02/27/2004	Plaquemine Post Office FF-AR-04-107; 03/31/2004	
Greenville, NC Business Mail Entry Unit FF-AR-04-088; 03/08/2004	Platteville Business Mail Entry Unit FF-AR-04-035; 02/04/2004	

FISCAL YEAR 2003 FINANCIAL RELATED AUDITS

Cost and Revenue Analysis
FF-AR-04-038; 02/10/2004

Stamp Accountability and Controls Related to
Minnesota Diversified Industries, Inc.
FF-AR-04-015; 12/26/2003

FISCAL YEAR 2004 FINANCIAL RELATED AUDITS

Compliance With the Bank Secrecy Act
FF-AR-04-100; 03/30/2004

Cost and Revenue Analysis –
Central Illinois District
FF-AR-04-049; 02/10/2004

Cost and Revenue Analysis –
Hawkeye District
FF-AR-04-113; 03/31/2004

Cost and Revenue Analysis –
Oakland International Service Center
FF-AR-04-066; 02/25/2004
Cost and Revenue Analysis –
San Francisco International Service Center
FF-AR-04-050; 02/12/2004

Cost and Revenue Analysis
Santa Ana District
FF-AR-04-109; 03/30/2004

Cost and Revenue Analysis –
South Georgia District
FF-AR-04-095; 03/16/2004

Cost and Revenue Analysis –
Van Nuys District
FF-AR-04-106; 03/30/2004

Potential Improper and Erroneous Payments
FT-AR-04-001; 12/01/2003

Rate Case Development Process
FT-OT-04-001; 01/29/2004

FISCAL YEAR 2003 PROTECTIVE REVIEWS

Blackstone Main Office
PR-MA-04-013; 10/30/2003

Butler Main Office
PR-MA-04-008; 10/16/2003

Carrollwood Station
PR-MA-04-006; 10/08/2003

Centennial Branch Post Office
PR-MA-04-004; 10/22/2003

Cleveland, Tennessee Post Office
PR-MA-04-002; 10/07/2003

Coraopolis Post Office
PR-MA-04-003; 10/06/2003

Englewood Mail Processing Center
PR-MA-04-011; 10/22/2003

Johnstown Main Post Office
PR-MA-04-009; 10/17/2003

Joliet Post Office
PR-MA-04-005; 10/08/2003

O'Fallon Post Office
PR-MA-04-007; 10/10/2003

Richmond Northside Post Office
PR-MA-04-010; 10/17/2003

San Carlos Main Office
PR-MA-04-001; 10/03/2003

Uxbridge Main Office
PR-MA-04-012; 10/23/2003

FISCAL YEAR 2004 PROTECTIVE REVIEWS

Bethalto Post Office
PR-MA-04-024; 01/12/2004

Chesapeake Beach Main Office
PR-MA-04-027; 03/18/2004

Cresaptown Branch
PR-MA-04-015; 11/12/2003

Edgewater Post Office
PR-MA-04-017; 11/25/2003

Forney Main Post Office
PR-MA-04-022; 12/31/2003

Greenwood Village Post Office
PR-MA-04-016; 11/19/2003

Hillsborough, North Carolina,
Main Post Office
PR-MA-04-025; 02/12/2004

Leonardtown Post Office
PR-MA-04-026; 03/05/2004

Manassas Downtown Station
PR-MA-04-023; 12/31/2003

Martinsville Post Office
PR-MA-04-014; 11/12/2003

Mendota Main Post Office
PR-MA-04-019; 12/12/2003

North Chicago Main Post Office
PR-MA-04-021; 12/22/2003

Oak Hill Post Office
PR-MA-04-020; 12/18/2003

Windsor Maine Post Office
PR-MA-04-018; 12/01/2003

ENGINEERING

Labor Scheduler Program Phase 1;
DA-MA-04-002; 02/06/2004

Self Service Platform;
DA-MA-04-001; 12/18/2003

INFORMATION SYSTEMS

Advanced Computing Environment –
Vulnerability Assessment
IS-AR-04-002; 01/06/2004

Controls Over Wireless Communications
Within the Postal Service
IS-AR-04-003; 01/13/2004

Fiscal Year 2003 Information System Controls,
Eagan, San Mateo and St. Louis Information
Technology and Accounting Service Centers
IS-AR-04-001; 12/02/2003

Information Systems Disaster Recovery Process
IS-AR-04-004; 03/10/2004

Online Payroll Application Access Controls
IS-AR-04-005; 03/31/2004

Security Vulnerability Assessment at the Host
Computing Services,
San Mateo, California
IS-CS-04-002; 03/22/2004

NETWORK OPERATIONS - LOGISTICS

Highway Network Scheduling - Great Lakes Area
NL-AR-04-003; 03/29/2004

Vehicle Maintenance Facilities –
Chicago District – Accidental Vehicle
Damage Cost and Vehicle Safety,
Security and Appearance;
NL-AR-04-002; 12/05/2003

Vehicle Maintenance Facilities –
Fraudulent Damage Claim Practices
in the Greater Indiana District;
NL-AR-04-001; 12/05/2003

NETWORK OPERATIONS - PROCESSING

Efficiency of Work Performed by
Clerks in the Columbia, Maryland,
Business Mail Entry Unit;
NO-AR-04-002; 12/26/2003

Efficiency of Work Performed by
Clerks in the Southern Maryland
Business Mail Entry Unit;
NO-AR-04-001; 12/24/2003

Efficiency of Work Performed by
Clerks in the Springfield, Virginia
Business Mail Entry Unit;
NO-AR-04-004; 02/09/2004

Efficiency of the Oakland International
Service Facility and the Regatta Facility
NO-AR-04-007; 03/31/2004

Efficiency of the San Francisco International
Service Center and the General Services
Administration Facility;
NO-AR-04-006; 03/31/2004

Express Mail Processing in the
Los Angeles District;
NO-MA-04-001; 01/13/2004

Military Mail Issues During Operation
Iraqi Freedom;
NO-AR-04-003; 12/30/2003

Network Integration and Alignment Models –
Independent Verification and Validation;
NO-AR-04-005; 02/24/2004

ENHANCE PERFORMANCE-BASED CULTURE**HUMAN CAPITAL**

Compendium of Prior Audits Addressing
the Postal Service's Injury Compensation Program
HM-OT-04-002; 12/10/2003

Postal Service's Death Benefit Payments
to Decedent's Survivor(s) – Phase II;
HM-MA-04-001; 01/30/2004

Pacific Area's Equal Employment Opportunity
Monetary Settlement Process;
HM-AR-04-002; 12/24/2003

Postal Service's December 2000 Equal
Employment Opportunity Settlement Policy;
HM-AR-04-003; 12/30/2003

Postal Service's Equal Employment
Opportunity Organizational Structure;
HM-AR-04-004; 01/08/2004

Postal Service's Injury Compensation
Program – Past and Present;
HM-OT-04-001; 12/10/2003

Postal Service's Rehabilitation Program
for the Long Beach, Los Angeles, and
San Diego Performance Clusters;
HM-AR-04-005; 02/04/2004

NETWORK OPERATIONS - LOGISTICS

Conditions at Patterson Station in the Baltimore District;
NL-MA-04-002; 02/23/2004

Vehicle Storage – Robert F. Kennedy Stadium,
Washington D.C.;
NL-MA-04-001; 01/13/2004

PURSUE LEGISLATIVE CHANGE

Comparison of Retirement Benefits to Workers'
Compensation Benefits for Employees on the
Periodic Roll
HM-AR-04-001; 12/12/2003

APPENDIX B

FINDINGS OF QUESTIONED COSTS

For the period of October 1, 2003, through March 31, 2004

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

OFFICE OF INSPECTOR GENERAL AND 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	20	\$88,533,202	\$12,320,162
Reports requiring management decision that were issued during the reporting period	15	\$197,232,283	\$513,055
TOTAL	35	\$285,765,485	\$12,833,217
Reports for which a management decision was made during the report period (i + ii)	13	\$191,593,566	\$2,349,831
(i) Value of recommendations agreed to by management		\$67,993,561	\$1,760,557
(ii) Value of recommendations that management did not agree		\$123,600,005	\$589,274
Reports for which no management decision was made by the end of the reporting period	22	\$94,171,919	\$10,483,386
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	5	\$62,535,148	\$8,414,595
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	8	\$14,994,231	\$2,055,736

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

Subject	Case Number	Report Date	Total Questioned Costs	Unsupported Costs Included In Questioned Costs
Audit of Equitable Adjustment Claim Submitted by STV, Incorporated	IR-CAR-03-011	9/30/2003	\$98,569	\$0
Audit of Equitable Adjustment Proposal Submitted by Bell and Howell Mail and Messaging Technologies	CA-CAR-03-014	5/6/2003	\$703,466	\$0
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Security Systems, LLC, Automation and Information Systems, Under Solicitation Number 512593-02-A-0353	CA-CAR-03-015	5/6/2003	\$60,825,861	\$8,414,595
Audit of Termination Settlement Proposal Submitted by Lockheed Martin Distribution Technologies	IR-CAR-03-010	9/26/2003	\$95,663	\$0
Supplemental Audit of Incurred Costs for Fiscal Year 1998 Submitted by New Breed Corporation	IR-CAR-03-003	7/15/2003	\$811,589	\$0
TOTAL			\$62,535,148	\$8,414,595

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

Subject	Case Number	Report Date	Total Questioned Costs	Unsupported Costs Included In Questioned Costs
Contract Audit - Bell and Howell Mail and Messaging Technologies	CA-CAR-03-002	10/16/2002	\$343,759	\$0
Contract Audit - D. L. Kaufman, Incorporated	CA-CAR-03-011	2/11/2003	\$4,028,935	\$0
Contract Audit - M.E.S. Incorporated	CA-CAR-02-045	6/28/2002	\$1,053,263	\$134,340
Contract Audit - M.E.S. Incorporated	CA-CAR-02-051	9/13/2002	\$620,681	\$187,271
Southwest Area Expenditures for Extra Highway Trips Using Leased Equipment	TR-AR-00-005	2/29/2000	\$848,000	\$0
Terminated Station Contract	FT-MA-02-004	8/2/2002	\$58,248	\$58,248
United States Postal Service Warranty Repair of Tractors	CA-AR-00-001	5/17/2000	\$977,598	\$0
OFFICE OF INSPECTOR GENERAL TOTAL			\$7,930,484	\$379,859
Contract Audit; 181-1294644-AC(1)		11/17/1999	\$7,063,747	\$1,675,877
POSTAL INSPECTION SERVICE TOTAL			\$7,063,747	\$1,675,877
COMBINED TOTAL			\$14,994,231	\$2,055,736

APPENDIX C

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period of October 1, 2003, through March 31, 2004

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 can be put to better use by management.

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*	11	\$159,689,010
Reports requiring management decision that were issued during the reporting period	9	\$78,706,060
TOTAL	20	\$238,395,070
Reports for which a management decision was made during the report period (i + ii)	9	\$54,797,936
(i) Value of recommendations agreed to by management		\$16,574,186
(ii) Value of recommendations that management did not agree		\$38,223,750
Reports for which no management decision was made by the end of the reporting period*	11	\$183,597,134
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	1	\$10,577,367
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	5	\$105,072,333

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

Subject	Case Number	Report Date	Recommend Funds Put to Better Use
Highway Network Scheduling - Eastern Area	TD-AR-03-015	9/30/2003	\$10,577,367
TOTAL			\$10,577,367

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

Subject	Case Number	Report Date	Recommend Funds Put to Better Use
Bulk Fuel Purchase Plan	TR-AR-01-004	7/27/2001	\$15,918,035
Highway Network Scheduling - New York Metro Area	TD-AR-03-008	3/28/2003	\$287,981
New York Metro Area Operational Use of Trailers	TD-MA-03-001	1/29/2003	\$2,495,344
New York Metro Area Trailer Acquisition - Lease versus Buy	TD-AR-03-009	3/31/2003	\$4,021,234
Trailer Lease Justification	TD-AR-02-002	3/29/2002	\$82,349,739
TOTAL			\$105,072,333

*Included herein 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

Through March 31, 2004

As required by the IG Act, the following pages include a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period, an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each report.

OFFICE OF INSPECTOR GENERAL

Issue Date	Number Of Recommendations	Report Title	Report Number
9/29/1999	3	Emergency and Extra Trip Expenditures on Highway Routes	TR-AR-99-003
2/29/2000	2	Southwest Area Expenditures for Extra Highway Trips Using Leased Equipment	TR-AR-00-005
9/29/2000	2	Review of the United States Postal Inspection Service Budget Process	OV-AR-00-005
4/18/2001	1	Network Security at the San Mateo Computer Operations Center	IS-AR-01-001
4/30/2001	1	Inspection Service Support to Postal Service Threat Assessment Teams	OV-AR-01-002
7/27/2001	5	Bulk Fuel Purchase Plan	TR-AR-01-004
9/28/2001	1	Postal Inspection Service Fraud Against Government Program	OV-AR-01-004
11/8/2001	1	Fiscal Year 2001 Information System Controls, Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers	IS-AR-02-001
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
3/29/2002	1	Public-Key Infrastructure Initiatives by the Postal Service	EM-AR-02-009
3/29/2002	2	Trailer Lease Justification	TD-AR-02-002
5/8/2002	2	Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayment and Refundable Disbursements	LH-AR-02-003
7/9/2002	6	Review of eBusiness Agreements	EM-AR-02-012
7/10/2002	2	New York Metro Area Trailer Acquisition Requirements	TD-MA-02-003
7/30/2002	3	Postal Inspection Service Health Examination Program	OV-AR-02-003(R)
9/3/2002	2	Postal Service's Corporate Succession Planning Process	LH-AR-02-004
9/24/2002	6	Biohazard Detection System	DA-MA-02-001
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	Use of Noncompetitive Contracting Process for Tabbing Systems Purchases	CA-AR-02-005

Issue Date	Number Of Recommendations	Report Title	Report Number
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
10/28/2002	2	New York Metro Area Trailer Acquisition - Safety and Length	TD-AR-03-001
1/29/2003	2	New York Metro Area Operational Use of Trailers	TD-MA-03-001
1/30/2003	1	Fiscal Year 2002 Postal Service Financial Statements Audit - St. Louis Information Technology and Accounting Service Center	FT-AR-03-008
1/30/2003	1	Sexual Harassment Prevention Measures in the Northern Virginia and Richmond Districts – Capital Metro Operations	LH-AR-03-003
2/25/2003	1	Postal Automated Redirection System, Phase 1	DA-AR-03-002
2/25/2003	2	Sexual Harassment Prevention Measures in the Albany and Southeast New England Districts - Northeast Area	LH-AR-03-004
3/5/2003	1	Sexual Harassment Prevention Measures in the Central Florida and South Georgia Districts - Southeast Area	LH-AR-03-005
3/5/2003	2	Sexual Harassment Prevention Measures in the Greensboro and Harrisburg Districts – Eastern Area	LH-AR-03-006
3/5/2003	1	Sexual Harassment Prevention Measures in the Dakotas and Portland Districts - Western Area	LH-AR-03-007
3/12/2003	2	Address Change Service	TD-AR-03-004
3/18/2003	3	Sexual Harassment Prevention Measures in the Oakland and Santa Ana Districts - Pacific Area	LH-AR-03-008
3/19/2003	3	Vehicle Maintenance Facilities - Vehicle Inventory Control Weaknesses in the Chicago District	TD-AR-03-005
3/25/2003	3	Sexual Harassment Prevention Measures in the Arkansas and Rio Grande Districts - Southwest Area	LH-AR-03-009
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
3/31/2003	3	Retail Data Mart System - Security Issues	OE-AR-03-002
3/31/2003	2	Highway Network Scheduling - New York Metro Area	TD-AR-03-008
3/31/2003	2	New York Metro Area Trailer Acquisition - Lease Versus Buy	TD-AR-03-009
6/13/2003	1	Postal Inspection Service Tracking of Investigative Workhours and Activity	SA-AR-03-003
6/30/2003	4	Review of Facility Conditions at the Groton, Connecticut, Main Post Office	LH-AR-03-010
7/31/2003	2	Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District	AO-AR-03-001
8/21/2003	2	Propriety of Postal Service Utility Payments	FT-AR-03-011
9/8/2003	2	Capping Report on the Postal Service's Sexual Harassment Prevention Measures in 18 District Offices	LH-AR-03-011

9/8/2003	1	Voyager Card - Control Weaknesses - National Analysis	TD-AR-03-012
9/10/2003	1	Retail Data Mart System - Data Integrity and Expected Benefits	OE-AR-03-006
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
9/26/2003	2	Postal Inspection Service Controls Over Firearms – Reconciliation of Sturm, Ruger and Company, Inc. Firearms	SA-AR-03-006
9/29/2003	1	Enhanced Carrier Route Standard Mail Worksharing Discounts	AC-AR-03-006
9/30/2003	1	Inventory Management - Maintenance Stockrooms	AC-AR-03-007
9/30/2003	8	General Controls at the Engineering Research and Development Center	IS-AR-03-008
9/30/2003	4	Postal Service and Union Labor Relations	LH-AR-03-012
9/30/2003	2	Highway Network Scheduling - Eastern Area	TD-AR-03-015
12/1/2003	1	Potential Improper and Erroneous Payments	FT-AR-04-001
12/2/2003	4	Fiscal Year 2003 Information System Controls, Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers	IS-AR-04-001
12/5/2003	1	Vehicle Maintenance Facilities - Fraudulent Damage Claim Practices in the Greater Indiana District	NL-AR-04-001
12/5/2003	3	Vehicle Maintenance Facilities – Chicago District – Accidental Vehicle Damage Cost and Vehicle Safety, Security, and Appearance	NL-AR-04-002
12/26/2003	1	Stamp Accountability and Controls Related to Minnesota Diversified Industries, Inc.	FF-AR-04-015
1/6/2004	1	Advanced Computing Environment – Vulnerability Assessment	IS-AR-04-002
1/13/2004	2	Controls Over Wireless Communications Within the Postal Service	IS-AR-04-003
2/23/2004	1	Conditions at Patterson Station in the Baltimore District	NL-MA-04-002
2/24/2004	3	Fiscal Year 2003 Postal Service Financial Statements Audit - San Mateo Information Technology and Accounting Service Center	FT-AR-04-008
2/24/2004	1	Network Integration and Alignment Models - Independent Verification and Validation	NO-AR-04-005
2/26/2004	1	Use of Reverse Auctions - Headquarters	CA-AR-04-001
3/10/2004	3	Information Systems Disaster Recovery Process	IS-AR-04-004
3/29/2004	3	Highway Network Scheduling - Great Lakes Area	NL-AR-04-003
3/30/2004	4	Compliance with the Bank Secrecy Act	FF-AR-04-100
3/31/2004	2	Efficiency of the San Francisco International Service Center and the General Services Administration Facility	NO-AR-04-006
3/31/2004	2	Efficiency of the Oakland International Service Facility and the Regatta Facility	NO-AR-04-007

APPENDIX E

SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period October 1, 2003, through March 31, 2004

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

OFFICE OF INSPECTOR GENERAL

Postal Inspection Service Tracking of Investigative Workhours and Activity (SA-AR-03-003, 6/13/2003)

Recommendation 1: We recommend the Chief Postal Inspector develop and implement a documented process to track total investigative workhours for jacketed cases using existing Inspection Service Data Base Information System capabilities, which allows the Postal Inspection Service the ability to determine total workhours expended for individual area cases that resulted in jacketed cases.

Agency Response: Postal Inspection Service was concerned that any estimates of attributed workhours expended in the preliminary stages of an investigation to a specific jacketed case would degrade the integrity of their internal reporting systems. The recommendation is in step 2 of the audit resolution process.

APPENDIX F

INVESTIGATIVE STATISTICS¹

For the period of October 1, 2003, through March 31, 2004

To the fullest extent possible, Office of Inspector General (OIG) investigative cases will be worked with the Postal Inspection Service. During this period, a number of cases were investigated jointly and plans call for working the majority of cases together in the future. The OIG expresses its appreciation at the willingness of the Postal Inspection Service to jointly work the strategic alliance with our Office of Investigations.

OFFICE OF INSPECTOR GENERAL

Statistics

Arrests	46
Information/Indictments	48 ²
Convictions/Pretrial Diversions ³	26
Administrative Actions	
Postal Service Employees	13
Fines, Restitution, and Recoveries	\$17,324,732
Amount to Postal Service ⁴	\$4,155,269

¹ Statistics include joint investigations with other federal law enforcement agencies.

² Includes 4 that occurred prior to the period but were not previously reported.

³ Convictions reported in this frame may be related to arrests made in prior reporting periods.

⁴ Amount included in Fines, Restitution and Recoveries.

APPENDIX G

SUMMARY OF POSTAL SERVICE INVESTIGATIVE ACTIVITIES UNDER 39 USC 3013

For the period of October 1, 2003, through March 31, 2004

The Postal Reorganization Act requires the Postmaster General to furnish information on the investigative activities of the Postal 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.

POSTAL INSPECTION SERVICE

The Postal Service reports to the Office of Inspector General information related to investigative activities designed to protect the public against unscrupulous mailers perpetrating fraudulent schemes. 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	6	5	—	5
Boiler rooms/Telemarketing	—	—	—	1
Rebate fraud	1	1	—	1
False billings	3	2	2	3
Fraud – Internet Schemes	1	1	1	1
Lotteries (Foreign and Domestic)	8	—	—	—
Work at home	8	7	4	7
TOTAL	27	16	7	18

Other Administrative Actions

Administrative Action Requests	30
Temporary Restraining Orders Requested	3
Temporary Restraining Orders Issued	3
Civil Injunctions (1345) Requested	1
Civil Injunctions (1345) Issued	1
Withholding Mail Orders Issued	21
Voluntary Discontinuances	48

Postal Service Administrative Subpoena Authority

The Postal Service reports to the Office of Inspector General information on the number of cases in which the Postal Service issued administrative subpoenas in connection with deceptive mailing. The following section identifies the number and nature of cases in which the Postal Service exercised this authority to request relevant business and associated records.

Case No.	Date Issued	Scheme
USPS 04-001	10/22/2003	Failure to Render
USPS 04-002	12/12/2003	Failure to Render
USPS 04-003	12/12/2003	Failure to Render
USPS 04-004	12/16/2003	Deceptive Sweepstakes

Financial Reporting On Investigative Activities

The Postal Service reports to the Office of Inspector General information related to the amount of financial expenditures and obligations incurred pursuing the investigative activities of the Postal Service. Information related to these activities is summarized below.

Type	Semiannual Report
Personnel	169,542,466
Nonpersonnel	40,454,009
TOTAL	209,996,475
Capital Obligations	9,912,689

Other Investigative Activities

The Postal Service also reports to the Office of Inspector General additional information related to significant investigative activities and other investigative matters. This section outlines a number of significant investigative activities the Postal Service has initiated and is pursuing, to include the Internet Crimes Complaint Center and the Deceptive Mail Enforcement Team. Office of Inspector General criminal statistical information is summarized in Appendix F.

International Affairs Group

The Postal Inspection Service is an active participant in international investigations and security initiatives. The International Affairs Group targets initiatives to improve the safety, security and reliability of international mail for the United States. The group develops strategies and initiatives to improve quality of service and security of international mail for the 190 member countries of the Universal Postal Union. The Postal Security Action Group of the Universal Postal Union, which is chaired by the Chief Postal Inspector, identifies and resolves problems and issues affecting the safety, security and integrity of international mail.

Deceptive Mail Prevention

The Deceptive Mail Prevention and Enforcement Act, which became effective April 12, 2000, subjects violators to civil penalties in addition to Cease and Desist Orders and False Representation Orders. To support this new law, the Postal Inspection Service created the Deceptive Mail Enforcement Team to identify violators and ensure swift, appropriate, investigative attention. This fiscal year to date, 27 questionable promotions have been investigated by postal inspectors.

Internet Crimes Complaint Center (Ic3)

The Internet is teeming with schemes, and swindlers have learned how easy it is to exploit innocent victims. Fraud on the Internet often results in mail fraud, as cyber scammers use the mail to receive payments or ship items. As a result of the growing trend among fraudsters to use the Internet, the Postal Inspection Service participates in a multi-federal project known as the Internet Crimes Complaint Center, which was established by the Federal Bureau of Investigation and National White Collar Crime Center. The project is aimed at stemming Internet fraud by gathering, analyzing and referring Internet complaints. The Internet Crimes Complaint Center offers a central repository for complaints related to Internet fraud.

APPENDIX H

CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period October 1, 2003, through March 31, 2004

This appendix lists the 43 Congressional and Governors inquires 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-wide audits.

CONGRESSIONAL

IMPROVE SERVICE

Requestor	Allegations/Concern	Response Date
Senator, North Carolina	Allegation of mail tampering.	23-Oct-2003
Representative, California	Allegation of difficulties with highway contract.	04-Nov-2003
Representative, California	Request to review appeal concerning difficulties with highway contract.	03-Dec-2003
State Representative, New York	Allegations of inefficiency and mismanagement at a post office.	22-Jan-2004
Representative, New York	Allegations of deficiencies in the handling and delivery of mail and repercussions as a result of voicing allegations.	12-Jan-2004
Representative, Connecticut	Concerns regarding an investigation.	06-Feb-2004

MANAGE COSTS

Requestor	Allegations/Concern	Response Date
Representative, Missouri	Request to review the justification of bonuses for employees.	9-Mar-2004

ENHANCE PERFORMANCE-BASED CULTURE

Requestor	Allegations/Concern	Response Date
Senator, Connecticut	Allegations of hostile work environment after filing a whistle-blower complaint.	02-Oct-2003
Senator, California	Allegations of hostile work environment and improprieties of a postmaster.	17-Oct-2003
Senator, California	Allegations of hostile work environment.	06-Nov-2003

ENHANCE PERFORMANCE-BASED CULTURE

Requestor	Allegations/Concern	Response Date
Representative, Michigan	Allegations of waste of funds and adverse personnel actions as a result of an EEOC decision.	21-Oct-2003
Representative, Oregon	Allegations of a hostile work environment and managerial harassment.	08-Oct-2003
Senator, Louisiana	Allegations of hostile work environment.	06-Nov-2003
Representative, California	Allegations of managerial harassment.	23-Oct-2003
Representative, Louisiana	Allegations of hostile work environment.	06-Nov-2003
Representative, Virginia	Allegations of hostile work environment.	06-Nov-2003
Representative, Virginia	Allegations of hostile work environment.	30-Oct-2003
Representative, Massachusetts	Allegations of discrimination, retaliation, and managerial harassment.	17-Oct-2003
Representative, Virginia	Allegations of hostile work environment.	23-Oct-2003
Senator, Utah	Allegations of difficulties to find permanent limited duty assignment.	30-Oct-2003
Senator, Virginia	Allegations of mail delay.	23-Oct-2003
Senator, California	Allegations of electronic fraud at a post office.	06-Nov-2003
Representative, California	Allegations of discrimination and hostile work environment.	04-Feb-2004
Senator, Illinois	Allegations of discrimination and improper promotions.	27-Oct-2003
Senator, Oklahoma	Allegations of discrimination at a post office.	19-Nov-2003
Senator, Iowa	Allegations of a hostile work environment.	05-Dec-2003
Representative, Ohio	Allegations of retaliation from filing sexual harassment charges.	11-Dec-2003
Representative, Utah	Allegations of fraud, waste, and misconduct by a Postal Service manager.	04-Feb-2004
Representative, Texas	Allegations of inappropriate use of contract labor.	30-Dec-2003
Representative, Oregon	Allegations of a hostile work environment.	30-Jan-2004
Representative, Virginia	Allegations of harassment and retaliation.	26-Feb-2004

GROW REVENUE

Requestor	Allegations/Concern	Response Date
Senator, Texas	Request to review procurement practices of the USPS for mailing supplies.	11-Dec-2003
Senator, Indiana	Allegations of improper contract award.	19-Mar-2004
Representative, California	Allegations of managerial favoritism and improper funds management.	13-Nov-2003

PURSUE LEGISLATIVE CHANGE

Requestor	Allegations/Concern	Response Date
Representative, California	Request to perform an analysis of the Postal Service's current service levels and performance efficiency.	04-Mar-2004

OVERSIGHT OF INSPECTION SERVICE

Requestor	Allegations/Concern	Response Date
Senator, California	Allegations of improper investigation.	17-Mar-2004

OTHER SIGNIFICANT ISSUES

Requestor	Allegations/Concern	Response Date
Senator, California	Allegation that a USPS-OIG agent caused undue stress on an individual.	22-Oct-2003
Senator, Louisiana	Allegations reimbursement for travel expenses not received.	23-Oct-2003
Senator, Massachusetts	Review the termination of a contract with USPS-OIG.	06-Nov-2003
Representative, Massachusetts	Review the termination of a contract with USPS-OIG.	10-Nov-2003
Senator, Virginia	Allegations disability accommodations not made for a USPS-OIG employee.	13-Nov-2003

GOVERNORS

Requestor	Allegations/Concern	Response Date
Governor	Allegations of delays in processing Workman's Compensation claim.	06-Jan-2004
Governor	Review of Anthrax issues.	30-Jan-2004

SUPPLEMENTAL INFORMATION

AUDIT SYNOPSES

MANAGE COSTS

Efficiency of the San Francisco International Service Center and General Services Administration Facility (GSA), and the Oakland International Service Facility and Regatta Facility, NO-AR-04-006, NO-AR-04-007

The Postal Service could avoid \$61.2 million in costs over 10 years, by reducing 145,000 work-hours at the San Francisco International Service Center (ISC) and the Oakland International Service Facility (ISF) and transferring mail processing, including military surface mail, to the San Francisco ISC and the Oakland ISF and closing the GSA and Regatta facilities.

Express Mail Processing in the Los Angeles District, NO-MA-04-001

The Postal Service did not collect postage due from some Express Mail packages originating in the Los Angeles District. Additionally, some Express Mail packages had missing acceptance data. As a result, the Postal Service may have lost a projected \$185,600 in revenues, from February 2002 through January 2003. In addition, the missing acceptance data makes it difficult to respond to customer inquiries about the status of Express Mail packages. Postal Service management generally agreed with OIG recommendations and has recovered \$157,427 in revenue from previously unpaid Express Mail packages.

Highway Network Scheduling — Great Lakes Area, NL-AR-04-003

The Postal Service could save about \$5.4 million over the term of existing Great Lakes Area highway contracts by canceling or not renewing 72 unnecessary trips.

Labor Scheduler Program Phase 1, DA-MA-04-002

The Labor Scheduler was effectively developed and deployed to the pilot sites, however; we recommended a review of the Phase 1 model results to capture realistic savings before the execution of the Decision Analysis Report (DAR) for Phase 2 national deployment. Management agreed the Phase 2 DAR should be based on an accurate analysis of the Phase 1 model results.

Network Integration & Alignment Models, NO-AR-04-005

The Postal Service had conducted limited verification and validation on Network Integration and Alignment models, but they were not independently or fully documented. The Postal Service had used employees involved in the development process to perform the verification and validation.

Online Payroll Application Access Controls DDE/DR-Interim Report, IS-AR-04-005

Eagan ASC management did not always properly administer access to the Distributed Data Entry (DDE) applications. Specifically, many Eagan ASC employees had access privileges that allowed them to view their coworkers' payroll data.

Review of Military Mail During Operation Iraqi Freedom, NO-AR-04-003

The Postal Service did not delay military mail from the Persian Gulf region, and, in fact, did a commendable job performing its responsibilities regarding military mail. However, the Postal Service incurred over \$300,000 in additional labor costs to reprocess mail that the military had returned from the Persian Gulf as undeliverable. Postal management alerted the Department of Defense Military Postal Service of the issues identified in the report and was assured the necessary corrective measures will be taken to preclude a recurrence of a similar episode.

Review of Vehicle Maintenance Facilities at Chicago District, NL-AR-04-002 and Greater Indiana District, NL-AR-04-001

The Chicago District incurred unnecessary repair costs because personnel accidentally damaged vehicles, or officials did not always try to get restitution from private parties. The district could save up to \$1.2 million, over the next two years, if accidental damage is prevented or damage claims are properly pursued. In the Greater Indiana District, vehicle maintenance managers submitted improper damage claims to insurance companies. Inadequate controls were in place to detect the improperly submitted claims.

Reviews of Work at Southern Maryland, Columbia, Md., and Springfield, Va., Business Mail Entry Units, NO-AR-04-001, NO-AR-04-002, NO-AR-04-004

The Southern Maryland, Columbia, Md., and Springfield, Va., business mail entry units used excessive hours to accept mailings. Management agreed to reduce work-hours by 20,240 hours at the Southern Maryland unit, 3,960 hours at Columbia, and 2,775 hours at Springfield. These reductions could produce cost avoidances of almost \$10.8 million over 10 years.

Self Service Platform, DA-MA-04-001

The Self Service Platform will offer customers a broader range of Postal Service products, services and information through a state-of-the-art vending platform with convenient and reliable access 24 hours-a-day, 7 days-a-week. However, the Postal Service could improve system operations and increase customer satisfaction by developing specific instructions for lobby mailbox collection, identifying Express Mail acceptance times and providing multi-language options for diverse customer populations.

Contract Reviews

The Defense Contract Audit Agency (DCAA) performed 13 contract-related audits, during the period, at the request of the Postal Service and the OIG. The audits evaluated costs associated with automated mail processing equipment, emergency response services for anthrax contamination, architectural and engineering services and mailbags. DCAA also audited terminated contract costs; verified billed costs; and determined whether forward pricing rates were reasonable and operating and tax costs

were allowable. The Defense Contract Audit Agency (DCAA) audited verified billed costs; and determined whether forward pricing rates were reasonable and operating and tax costs were allowable. The OIG considered most of the proposals acceptable for negotiating fair and reasonable rates and \$194 million was identified as potential contract costs savings.

Contracting Authority, CA-MA-04-001

The Postal Service generally had adequate controls over contracting authority for the commitment of funds for the 70 contracts reviewed. However, three of the 16 contracting officers reviewed did not always meet requirements for qualifications and continuing professional education.

Curseen-Morris Facility Cleanup and Modification, CA-MA-04-003

The Postal Service adequately managed contracts for the unprecedented cleanup and modification of the Curseen-Morris Processing and Distribution Center. In addition, the Postal Service implemented adequate internal controls to control costs and properly used and controlled appropriated funds.

Fiscal Year 2003 Postal Service Financial Statement Audits — Washington, D.C., Headquarters, FT-AR-04-005; St. Louis IT/ASC, FT-AR-04-007; San Mateo IT/ATC, FT-AR-04-008; and Eagan, FT-AR-04-010

Fiscal Year 2003 Information System Controls, Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers, IS-AR-04-001

In support of the independent public accounting firm's opinion on the Postal Service's financial statements, we examined the financial activities and accounting records at the Information Technology and Accounting Service Centers in St. Louis, Mo.; San Mateo, Calif.; and Eagan, Minn. The OIG also audited the computer systems that generated the financial data. Management's policies and accounting procedures conformed with generally accepted accounting principles and provided for an adequate internal control structure. The OIG did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements.

Postal Service Board of Governors' Travel and Miscellaneous Expenses and Officers' Travel and Representation Expenses for Fiscal Year 2003, FT-AR-04-004, FT-AR-04-003

For the fiscal year ending September 30, 2003, the Board of Governors' expenses of \$260,000 and the officers' expenses of \$1 million were properly supported and complied with the Board of Governors' guidelines and Postal Service policies and procedures.

Potential Improper and Erroneous Payments, FT-AR-04-001

The Postal Service generally made proper payments. However, because personnel did not always follow policies and procedures, the Postal Service awarded several million in improper contracts and made \$119,103 in duplicate payments.

Realty Asset Management Program, CA-MA-04-002

The Postal Service could improve its process for identifying and reporting excess facilities and vacant space. Postal Service area officials did not review their property inventory annually because

they were unaware of the requirement. As a result, the Postal Service may not have been maximizing its return on these assets. Management generally agreed with our findings and agreed to emphasize the importance of identifying excess space. They stated the new National Prioritization Process and Network Integration Alignment effort will help clarify where excess space exists and where new space is needed. Management also enhanced the reporting process to include negative replies and will provide a standardized method for annual reporting and submission of excess space as it occurs.

Terminated Contract Stations, FT-MA-04-002

Of the 362 contract stations reviewed, four stations were identified that no longer provided service for the Postal Service, but were still active in the Accounts Payable Accounting and Reporting System II. As a result, contractors received payments totaling \$67,341 for services not performed. Postal management took corrective action to terminate future payments for those contracts and stopped payment on non-cashed checks issued to the identified contractors.

Use of Reverse Auctions, CA-AR-04-001

The Postal Service's use of reverse auction events conducted by one contractor met user requirements, successfully maintained supplier relations and identified cost savings. However, the criteria for calculating supply chain management savings were not complete and had not been published as a formal policy. Also, subsequent to completion of the reverse auction pilot program, Postal Service officials awarded a noncompetitive contract without performing a cost or price analysis or providing documentation of price reasonableness.

Financial Field Reviews

As part of the overall audit of the Postal Service financial statements, we audited the financial operations of 103 installations, including 45 business mail entry units, 40 Post Offices, 9 contract postal units, 6 self-service postal centers and 3 stamp distribution offices. Generally, financial transactions were reasonably and fairly represented in the accounting records, internal controls were in place and effective. However, at 91 installations, there were minor internal control and compliance issues, including problems with accountability, cash, stamps and Post Office boxes.

For the FY 2004 Cost and Revenue Analysis, the OIG observed statistical tests conducted at eight Postal Service installations. Data collectors generally followed Postal Service policies and procedures when conducting statistical tests except for minor errors found at five of the eight installations.

As part of a series of protective reviews, the OIG reviewed 25 Post Offices and one mail processing center. The OIG conducted the reviews to provide management with timely information on sensitive, high-risk activities at these Postal Service facilities. The OIG reviewed a number of issues, including the adequacy of controls over accountability for assets, capital properties, vehicles, customer service, the workplace environment, training and development, and facility safety and security. The OIG also reviewed the adequacy of controls over mail operations.

Collection of Advances to United States International Air Carriers, FT-MA-04-001

The Postal Service did not always collect advances to domestic air carriers for services to foreign countries for transporting international mail. Although the \$5 million cap for this fund was not exceeded, \$2.6

million in advances, or over 50 percent of the revolving fund balance, was outstanding over three years.

Federal Agencies' Centralized Trial Balance System Verification; Federal Intragovernmental Transactions, FT-AR-04-006, FT-AR-04-009

At the request of the Department of the Treasury, the OIG performed agreed-upon procedures, as stated in guidance for the Federal Agencies' Centralized Trial Balance System Verification System. We provided our report to Treasury and GAO to help them prepare and audit the consolidated financial statements of the U.S. Government for the year ending September 30, 2003. Postal Service management is responsible for the proper accounting, presentation and reporting of its consolidated financial statements and reporting of information to Treasury.

International Air Carriers, FT-MA-04-001

The Postal Service did not always collect advances to domestic air carriers for services to foreign countries for transporting international mail. Although the \$5 million cap for this fund was not exceeded, \$2.6 million in advances, or over 50 percent of the revolving fund balance, was outstanding over three years.

Rate Case Development Process, FT-OT-04-001

The OIG issued an informational report describing the Postal Service's internal rate case development process.

Stamp Accountability and Controls Related to Minnesota Diversified Industries, Inc., FF-AR-04-015

Postal Service records showed \$8.7 million more than the stamp stock actually on hand with the contractor and in the contractor's inventory system. Also, the Postal Service did not establish effective internal controls over stamp destruction at the contractor's facility, resulting in \$370,976 in destruction costs. However, the Postal Service disagreed with the destruction cost calculation.

ENHANCE PERFORMANCE-BASED CULTURE

Compendium of Prior Audits Addressing the Postal Service's Injury Compensation Program, HM-OT-04-002

The Compendium of Prior Audits Addressing the Postal Service's Injury Compensation Program provided a history of the program, a summary of prior OIG audit reports and the management challenges those audits addressed.

Conditions at Patterson Station in the Baltimore District, NL-MA-04-002

Patterson Station employees were exposed to hazardous conditions and we recommended that management identify all the individuals who may have been affected to ensure that they are notified about potential exposure. Also, the Baltimore District unnecessarily spent \$100,000 to lease the Patterson Station (for very limited delivery operations) and could save \$25,000 by terminating the Patterson Station lease. District management took immediate action and relocated Patterson delivery operations to another location two miles away. Postal management stated that equipment was removed and it began negotiating lease termination.

Pacific Area's Equal Employment Opportunity Monetary Settlement Process, HM-AR-04-002

The Pacific Area complied with its Equal Employment Opportunity (EEO) policy requiring the human resource manager to approve all settlements over \$10,000, regardless of the position of the individual being charged. Also, the Pacific Area generally complied with Postal Service EEO policy requiring officers and executives to obtain higher-level approval to settle complaints against themselves for \$25,000 or more.

Postal Service's Death Benefit Payments to Decedent's Survivor(s) - Phase II, HM-MA-04-001

The Postal Service Injury Compensation Control Office did not effectively monitor or review death benefit claim files, and the files did not always contain current documentation. As a result, the Postal Service paid an estimated \$3.4 million in questionable compensation to survivors for benefits that they might not have been entitled to receive.

Review of Postal Service's December 2000 EEO Settlement Policy, HM-AR-04-003

Postal Service policy requiring officers and executives to obtain higher level approval in order to settle EEO complaints for \$25,000 or more against themselves appeared inconsistent with EEO policies and procedures. Postal management subsequently communicated with EEO counsel to address this perceived inconsistency, and EEO counsel advised the Postal Service that it would not suggest any changes to the Postal Service's alternative dispute resolution policy.

Postal Service's Equal Employment Opportunity Organizational Structure, HM-AR-04-004

The Postal Service's EEO structure at headquarters was consistent with Equal Employment Opportunity Commission (EEOC) guidance; however, at the area level, its EEO structure was not. Area officials executing and advising on personnel actions were also responsible for managing, advising or overseeing the EEO complaint processes.

Postal Service's Rehabilitation Program for the Long Beach, Los Angeles, and San Diego Performance Clusters, HM-AR-04-005

The Postal Service's Rehabilitation Program is adequately placing employees with work-related injuries in the Long Beach, Los Angeles, and San Diego Performance Clusters in modified work assignments. However, the injury compensation control office staff did not closely monitor the medical and work status of rehabilitation employees, which could result in some rehabilitation employees working beyond their recommended medical restrictions, risking additional injury, or not working to their full capacity, thus reducing their units' productivity.

Vehicle Storage — Robert F. Kennedy Stadium, Washington, D.C., NL-MA-04-001

Approximately 200 Postal Service vehicles were stored at an unsecured Robert F. Kennedy Stadium parking lot in Washington, D.C. Our inspection of the parking lot, and the vehicles stored there, identified safety, security and environmental issues.

SUPPLEMENTAL INFORMATION

INVESTIGATIVE SYNOPSES

MANAGE COSTS

Facilities

Construction manager pled guilty to accepting a gratuity while overseeing a construction and pavement contract worth \$3.4 million

The Postal Service is continually searching for ways to reduce costs associated with building and maintaining facilities. The Postal Inspection Service and the OIG conduct investigations that target contractors who have attempted to defraud the Postal Service by submitting false invoices, performing poor work, or using substandard construction materials.

For example, at a New Jersey facility, the Postal Service contracted with a construction and paving company for over \$3.4 million in paving work. The OIG investigated allegations that an executive of the company provided a gratuity to a construction manager, under contract to the Postal Service, to oversee the project. The OIG investigation revealed that the executive provided free paving services at the construction manager's residence. The investigation further revealed that the construction manager approved inflated charges on a contract modification. Both parties have pled guilty to charges relating to gratuities. The company pled guilty to charges relating to submitting false statements. Sentencing is scheduled in May 2004, and debarment proceedings against the company are pending.

Telecommunications company paid \$1 million to settle allegations of false claims related to overcharges and work never performed

The Postal Service hired a large telecommunication company to install wire at numerous postal facilities nationwide. In conjunction with the wire installation, the company also performed asbestos abatement work at approximately 265 facilities. The Postal Service paid the company nearly \$1.3 million for the abatement services.

The OIG identified substandard work and questionable labor hours relating to the asbestos abatement. To protect the interests of the Postal Service, the OIG asked its environmental staff to conduct inspections of the 265 facilities. The inspections confirmed allegations of questionable charges and substandard work at 70 percent of the facilities. The U.S. Attorney's Office pursued the contractor for False Claims Act violations related to billing the Postal Service for work that was either over-billed, never performed or substandard. Consequently, the company agreed to pay \$1 million to settle the allegations.

Interest and Other Expenses

Appeal denied for California woman convicted of filing false \$1 million tort claim against the Postal Service

A northern California woman, who previously lost her \$1 million lawsuit against the Postal Service,

has begun serving a criminal sentence. The woman filed the suit for an automobile accident with a San Francisco letter carrier, in which she sustained \$63.55 worth of property damage.

The OIG investigation led to the woman being criminally convicted on perjury charges related to omissions about a prior injury. She appealed her criminal conviction to the 9th Circuit Court of Appeals, where her conviction was sustained, and then to the Supreme Court of the United States, where her petition was denied. This year, she began serving her criminal sentence, which includes a six-month prison term, three years of probation post-imprisonment and a fine of \$10,000.

Over \$400,000 recovered in lost revenue from third-party-mailer postage due scheme

For approximately five months, a Missouri Post Office was accruing large postage due charges from a third-party mailer due to Standard Mail being returned to the sender. As of January 2004, over \$400,000 in postage due charges had accumulated at the Post Office on approximately 106,000 pieces of Standard Mail.

The OIG was contacted by a postal supervisor and initiated an investigation into the postage due charges. The OIG assisted the Postal Service in collecting the lost revenue. To date, the company has paid over \$400,000 for the postage due charges. Additional monies are expected to be paid.

Postal employee agreed to pay \$3,000 after embezzling funds through the unauthorized use of a purchase card

The OIG worked with the Postal Inspection Service on a case involving a postal clerk in Maryland who was suspected of using a government IMPAC (purchasing) card for personal gain.

The investigation uncovered evidence that included the clerk's confession that he embezzled Postal Service funds and property. The clerk would use his IMPAC card to buy authorized items at local area stores, but later return some of the items to the merchants for store credit or cash refunds. An administrative settlement was reached, in which the employee agreed to repay the Postal Service \$3,000, retire from the Postal Service and remain in a leave without pay status, until the retirement is in effect.

Twenty members of a credit card theft ring arrested for fraudulent use of Postal Service credit cards

In the Southeast Area, individuals were creating counterfeit Voyager cards (credit cards used by postal employees to pay for gas and maintenance services for government vehicles) and commercial gas credit cards. These credit cards, along with others that were stolen, were being fraudulently used to purchase large quantities of fuel in the Miami area. Approximately \$400,000 in fraudulent postal fuel charges have been reported. Allegedly, the group then resells the fuel to legitimate gas stations for profit. The OIG has made 20 arrests in this case, to date.

Two individuals convicted on charges relating to the filing of a false tort claim seeking \$100,000 in damages for an ankle injury at a postal facility

The OIG investigated allegations that an individual filed a false tort claim against the Postal Service for a broken ankle sustained at a Nebraska Post Office. The individual sought damages in the amount of \$100,000. The OIG investigation substantiated that the claim was false. The individual filing the claim was convicted by trial and is awaiting sentencing. A witness who made false statements to federal investigators concerning her knowledge of the injury pled guilty to one count of making a false statement and was put on probation for three years.

Vehicles

Company charged with theft for over-billing \$861,000 in vehicle repair charges

The Postal Service uses a combination of in-house repair facilities and contracted vehicle repair shops to maintain its fleet of delivery vehicles. A contracted repair shop in California billed over \$1 million to Postal Service Voyager cards while only performing \$160,000 in authorized work. The owner of the repair shop has been charged in the Superior Court of California with 10 counts relating to theft.

Transportation

Transportation company repays approximately \$500,000 in overpayments

With the rising cost of fuel, Postal Service transportation costs are an increasing area of concern. The OIG and the Postal Inspection Service worked together in the St. Louis area on a “qui tam” suit filed by a former general manager of a transportation company.

The suit charged that the Postal Service had overpaid the company and that company management was aware of the overpayments and concealed the fraud. Total recoveries to the Postal Service, including those secured by the Postal Inspection Service, are over \$500,000.

Supplies and Services

Postal Service subcontractor sentenced for mail fraud and false statements involving a \$1.6 million contract, in connection with the 2001 anthrax decontamination at a New York postal facility

A Postal Service subcontractor was hired to clean and decontaminate a New York Processing & Distribution Center, after anthrax was discovered at the location. The subcontractor produced Hazardous Waste Operations training certifications that falsely represented the subcontractor’s employees as having the required training in order to clean and decontaminate the facility. Since the employees did not have the required training, the resulting claims of \$1.6 million that were submitted were in violation of the contract. The subcontractor pled guilty to making a false statement and was sentenced to 30 months in prison and ordered to make restitution to the Postal Service in the amount of \$1,385,971.

Workers’ Compensation

California physician pled guilty to filing a false statement for services not rendered

The OIG worked with the Department of Labor and the California Department of Insurance on a case involving a San Diego physician who committed workers’ compensation related fraud. The investigation revealed that the physician was submitting fraudulent workers’ compensation claims for services he had not provided. The physician pled guilty to one count of filing a false statement and one count of presenting a false statement. A San Diego Superior Court judge has suspended the physician’s medical license pending the outcome of the judicial proceedings. Sentencing is pending.

IMPROVE SERVICE

Extortion scheme uncovered by tracking an unauthorized access to a Postal Service public web service

A 21-year-old individual from Minnesota allegedly obtained unauthorized access to a Postal Service public web service and to computer systems belonging to at least two financial institutions. The Royal Canadian Mounted Police provided the OIG with information that allowed positive identification of the individual.

After obtaining a warrant, based on an OIG affidavit, the local sheriff’s office seized the computer. The images were turned over to the OIG’s Technical Crimes Unit for analysis. The analysis disclosed e-mails sent to companies asking for money in return for information on how he broke into their systems.

In addition, the OIG identified over 150,000 legitimate credit card numbers and hundreds of other sensitive files illegally obtained during the intrusion of a financial institution in the Midwest. The subject was indicted and has surrendered to federal officials.

Unauthorized password decrypting software detected on Postal Service server

A Postal Service electronic technician at a Postal Service Processing and Distribution Center (P&DC) admitted to using unauthorized software on computers and running password decrypting software on the server at the P&DC.

Computer forensic examination of the server and two computer systems verified that unauthorized software had been downloaded and used. The employee was put on emergency off-duty status and has subsequently been removed from the Postal Service.

FREEDOM OF INFORMATION ACT REQUESTS

For the period of October 1, 2003, through March 31, 2004

OIG Actions	Number of Requests
Carryover from prior period	5
Received during the period	62
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TOTAL ON HAND DURING THE PERIOD	67
Processed during the period	
Released	22
Withheld	10
Referred to Postal Service or other agency	23
Otherwise closed*	4
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TOTAL PROCESSED DURING THE PERIOD	59
BALANCE AT END OF PERIOD (PENDING)	8

OIG Actions	Number of Requests
Total appealed	3
Total upheld	3
Appeals pending	0

GLOSSARY

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

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.

Boiler rooms/telemarketing - An office or suite of offices with banks of telephones and telephone solicitors who use high-pressure techniques to persuade consumers to respond to bogus offers.

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.

Contest/sweepstakes - Schemes in which the respondent is required to pay a fee to obtain prizes of money, gifts or other items of value. "Prizes" are either never shipped or are inferior to what was promised.

Employment - Soliciting money for information or assistance in obtaining nonexistent or misrepresented jobs.

Express Mail - 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.

External First-Class Measurement - A system whereby a contractor performs independent service performance tests on certain types of First-Class Mail (that is, letters, flats, postcards) deposited in collection boxes and business mail chutes. It provides national, area, performance cluster, and city estimates, which are compared with Postal Service goals. The results are released to the public quarterly by the consumer advocate.

False billings - Mailing solicitations in the guise of billings.

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 (1 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 nexus to the mail.

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

Merchandise failure to pay - Mail order merchandise that is acquired without providing payment.

Merchandise misrepresentation - Mail order merchandise or services are materially misrepresented in advertising.

Miscellaneous - Any other scheme not described in a specific category.

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.

Rate setting - The process by which postage rates and fees are changed under the joint responsibility of the Postal Service and the Postal Rate Commission (PRC). Postal Service managers recommend proposed rates for all mail classes to the Board of Governors; with the approval of the Board, the proposed rates are sent to the PRC, which holds public hearings and recommends rates. If the Board finds these rates unsatisfactory, it may modify them by unanimous vote.

Retail facility - A postal unit (a Post Office and its subordinate units as well as military Post Offices) that sells 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 non-personnel units.

Revenue forgone appropriations - Congressionally authorized reimbursements to the Postal Service for revenue that was not received because of phased or lower rates mandated by Congress for certain mail categories such as free matter for the blind.

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

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

Voice of the Employee (VOE) - An assessment of Postal Service employee issues that will strengthen the company, shape the business future and improve employees' role in its success.

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

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