



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

OCTOBER 1, 2004 – MARCH 31, 2005

MISSION STATEMENT

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

- *Prevent and detect fraud, waste and abuse;*
- *Promote economy, efficiency and effectiveness;*
- *Promote program integrity; and*
- *Keep the Governors, Congress and Postal Service management informed of problems, deficiencies and corresponding corrective actions.*

A MESSAGE FROM THE INSPECTOR GENERAL

With the Postal Service facing major financial and operational challenges and opportunities, we are striving to provide high-impact, high-quality, timely audits and investigations to help the Postal Service meet those challenges. Building on last year's initiatives, our office is reaching full performance. We've become a leaner, better aligned organization and improved the efficiency of our operations. While maintaining our independence, we partner with the Postal Service to identify high-risk areas to focus our audits and investigations.

We continue to improve our productivity, as evidenced by our performance measurement system. Improvements over the same period in Fiscal Year (FY) 2004 include the following:

- Investigations yielded a 143 percent increase in the number of arrests and indictments.
- The Office of Audit had a 35 percent increase in the number of audits with nationwide impact.

For FY 2005, we are focusing on directorate excellence, expert planning and smart workplace. The "Directorate Excellence" initiative ensures greater definition of roles and responsibilities at middle management levels. "Expert Planning" analyzes planning activities and identifies strengths and areas for improvement. "Smart Workplace" provides guidelines and project management tools that help improve productivity and accountability and achieve optimal operational efficiency.

We are also focusing on customer satisfaction, both internally and externally.

Internally, we created a formal pay for performance process, centered training around skills requirements and postal knowledge, and located resources and personnel close to postal facilities across the country. We also developed transaction-based processes that provide employee feedback on services provided by mission support staff.

Externally, our managers hold strategically-focused meetings with stakeholders to facilitate mutual understanding of our mission and to help plan and develop audit and investigative initiatives. During this semiannual period, we sponsored the first Inspector General Summit that also provided valuable insights and initiatives that were factored into our audit and strategic planning processes. Many audience participants commented that the summit could serve as a model for the Inspector General community to gain stakeholder input into significant internal planning processes.

Following the Postmaster General's September 2004 announcement of the transfer of certain investigative responsibilities from the U.S. Postal Inspection Service to the Office of Inspector General (OIG), in February 2005, the Deputy Postmaster General shifted resources between both organizations. These changes are designed to enhance the value of each organization to the Postal Service and its customers. In August, final decisions about the

investigative jurisdictions of both organizations will be made.

In this reporting period, the OIG issued 169 audit reports, management advisories and other products. These efforts, some of which were accomplished by the OIG and postal management jointly, resulted in \$133,550,374 in questioned costs, unrecoverable costs, funds put to better use, and revenue impact. Also in this time period, the OIG had 49 significant recommendations, of which 45 were accepted by the Postal Service.

In addition, the OIG closed 1,269 cases resulting in 306 referrals to management for administrative action, 194 arrests and indictments, and over \$12.3 million in fines, restitutions, and recoveries.

This semiannual report reports on the state of the Postal Service through the eyes of the OIG by focusing on the five Transformation Plan strategies — Improving Service, Managing Costs, Developing People, Growing Revenue, and Pursuing Reform — and how our work adds value.

In conclusion, the Office of Inspector General continues its efforts to maintain America's confidence in its mail service while improving the bottom line.



SUMMARY OF PERFORMANCE

October 1, 2004 – March 31, 2005

AUDIT

Reports issued.....	169
Significant recommendations issued	49
Total reports with financial impact.....	49
Funds put to better use	\$114,646,808
Questioned costs ¹	\$17,090,638
Unrecoverable costs.....	\$1,549,233
Revenue impact	\$263,695
TOTAL.....	\$133,550,374

INVESTIGATIONS²

Investigations completed	1,269
Arrests	92
Indictments/informations	102
Convictions/pretrial diversions	23
Administrative actions	306
Total fines, restitutions and recoveries	\$12,251,411
Amount to Postal Service (included in total figure above)	\$3,521,640

HOTLINE CONTACTS

Facsimile – FAX.....	318
E-mail.....	4,827
Standard Mail.....	709
Voice mail messages	1,428
Telephone calls	13,157
TOTAL CONTACTS	20,439

¹ Includes unsupported costs of \$22,837.

² Statistics include joint investigations with the U.S. Postal Inspection Service and other federal law enforcement agencies.

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OVERVIEW

For this reporting period, the Semiannual Report to Congress revisits the Postal Service's progress on its five strategic goals — *Improving Service, Managing Costs, Developing People, Growing Revenue, and Pursuing Reform*. Internally, it is called the 'Delivering Results' STAR. This semiannual report provides an overview of the Postal Service's programs and operations.

'DELIVERING RESULTS' STAR REPORT

Over the past year, the Postal Service made significant progress towards meeting some of its major strategies for Improving Service, Managing Costs, Developing People, Growing Revenue and Pursuing Reform. The Postal Service should continue to explore all opportunities to make progress towards these strategies to ensure efficient operations and maintain reasonable prices for its customers.

Following is a summary of the strategies in this report.

- **Improving Service** — The Postal Service is striving to enhance its service through several customer service and delivery operations initiatives. New product and service initiatives continue to make it quicker, easier and more convenient for customers to do business with the Postal Service.
- **Managing Costs** — The Postal Service is expected to provide timely, reliable delivery of the mail. It is also expected to provide service as efficiently as possible, while charging reasonable prices. Productivity improvements over the last five years resulted in significant cost savings and are helping the Postal Service achieve this strategy.
- **Developing People** — The Postal Service's strategy is maintaining an accountable, motivated, and diverse workforce, empowered to maximize performance in a safe and secure work environment. It has set clear objectives for building an environment that is healthy, prosperous and inclusive.
- **Growing Revenue** — The Postal Service's strategy for growing revenue is to enhance its core services to provide greater value to its customers. The challenge the Postal Service faces is that the number of mail deliveries is rising and the average number of pieces, per delivery, is increasing.
- **Pursuing Reform** — The Postal Service's goal for pursuing legislative reform is to obtain greater flexibility to improve service. A growing number of members of Congress and the mailing community believe that the postal business model is broken and Congress must act quickly or the Postal Service will face economic disaster.

PRESERVING INTEGRITY AND SECURITY

Integrity is an essential element for safeguarding postal products, customers, services and assets, and, ultimately, for maintaining a stable and sound Postal Service. Breaches of integrity pose an inherent risk due to the size and diversity of the organization. This chapter explores OIG work in the area.

ORGANIZATIONAL CHART AND OFFICE LOCATIONS

These two pages show the OIG organizational chart and office locations as of March 31, 2005.

APPENDICES

The appendices align the OIG's body of work with the Postal Service's *Transformation Plan*. This semiannual report section fulfills the requirements of the Inspector General Act of 1978 to summarize OIG activities during the six-month period ending March 31, 2005.

SUPPLEMENTAL INFORMATION

This section includes brief synopses of each audit and selected investigations and Freedom of Information Act activities that were completed between October 1, 2004 and March 31, 2005. It also includes a glossary.

'DELIVERING RESULTS' STAR REPORT

The U.S. Postal Service has made notable progress in transforming itself to meet the challenges of the 21st century. Over the last three years, it has made significant improvements in operational efficiency which resulted in estimated savings of \$4.3 billion. At the same time, the Postal Service has provided record-breaking service to its customers and attained high employee satisfaction scores. The Postal Service has also enhanced its core products and services to mitigate declining revenues from the loss of First-Class Mail volume.

While these accomplishments are noteworthy, they do not guarantee the long-term viability of the Postal Service. The Postal Service must continue to streamline its vast processing, distribution and transportation networks to ensure its resources are allocated efficiently.

Expanding delivery networks challenge the Postal Service every day to allocate the workforce optimally. The Postal Service must also find ways to reduce the significant costs associated with workplace injuries and create safer work environments in an increasingly automated world. Marketing and product development have become critical to increasing revenues. Finally, effective in FY 2006, Congress must determine whether it will release billions of dollars of escrowed funds that were intended for Postal Service operations but were sequestered under Public Law 108-18, the Civil Service Retirement Fund Escrow account.

Each of these areas represent significant challenges to the health and long-term well-being of the Postal Service. The Office of Inspector General (OIG) has partnered with the Postal Service in tackling these challenges. This *Semi-annual Report to Congress* reports on

the progress the Postal Service has made towards meeting its major strategies for Improving Service, Managing Costs, Developing People, Growing Revenue, and Pursuing Reform.

STRATEGY: IMPROVING SERVICE

The Postal Service is striving to enhance customer satisfaction through several customer service and delivery operations initiatives designed to make it quicker, easier and more convenient for customers to do business with the Postal Service. For example, the Postal Service has introduced about 2,500 Automated Postal Center (APC) kiosks nationwide. These award-winning kiosks offer customers a wide range of postal retail services and, in many cases, 24-hour service.

Enhance Customer Service Operations

The Postal Service is financed through revenue generated by its products and services and is addressing the shifting demographics and changes in lifestyle and behavior of postal customers by utilizing new technology to improve access to products and services.

To encourage greater market growth, the Postal Service expanded access to its products and services with vending machines, APCs, Stamps Online, and Click-N-Ship. The OIG has conducted — and is presently conducting — audits to assess whether the Postal Service's alternate access to products and services will enhance customer service and increase revenue.

Customer Self-Service. Self-Service Vending Machines give customers a

convenient alternative for purchasing stamps and other basic Postal Service products during and after business hours. Nationwide, the Postal Service maintains approximately 30,000 vending machines (27,000 self-service postal centers and 3,000 other types of vending equipment) that generate more than \$1.9 billion in revenue. The OIG assessed the vending program and recommended that area and district officials improve the program's effectiveness and efficiency by relocating equipment that does not meet minimum revenue requirements, and possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment.

to handle undeliverable mail. Incorrect address information increases mail processing operating costs and adversely impacts customer service due to the diminished value of information for business mailers.

Improve Delivery Operations

The Postal Service requires a significant infrastructure investment to meet its universal service obligation to deliver millions of pieces of mail daily. Delivery extends to more than 142 million delivery points, involving approximately 290,000 city and rural letter carriers and more than 6,000 box delivery highway route contractors to deliver the mail.

The Postal Service estimates an increase of 1.8 million delivery points in FY 2005, mostly in rural areas. The Postal Service has, thus far, managed this continued delivery point growth and improved its delivery operations with these initiatives.

Improving Data for Decision-Making.

The Postal Service improved delivery by implementing both the Delivery Operation Information System (DOIS) and the Managed Service Points (MSP) tools. The importance of these systems is to provide delivery supervisors and managers with data (such as workload status reports and carrier performance information), to improve daily delivery operational performance, and to allow supervisors and managers to determine the number of workhours required to deliver the mail on daily carrier routes.

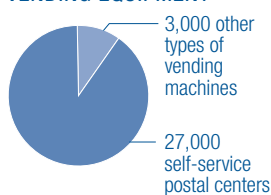
The development and training for the delivery route optimization tool, Carrier Optimal Routing (COR), was completed in April 2004. COR is a computer program that: (1) configures compact contiguous routes; (2) determines safe and efficient travel patterns; (3) determines relays based on actual volume; and (4) reduces park points, mileage, and workhours. However, as a result of an agreement

The OIG is currently assessing the Vending Equipment Sales and Service (VESS) System. VESS is an online database that offers real-time tracking of product sales, miscellaneous costs, and maintenance and service for the vending machines. Postal officials use VESS information to ensure that revenue goals are achieved and workhour costs remain within specified guidelines.

The OIG is also assessing the APC deployment strategy. The Postal Service deployed 2,500 APCs in FY 2004, in an effort to move simple transactions to Post Office lobbies and create a new low-cost alternative to the postal counter. The Postal Service invested more than \$95 million in the deployment. As of March 2005, these APCs have generated more than \$169 million in revenue for the Postal Service. The Postal Service has plans for a second phase of the APC program project during FY 2005.

Address Management. The OIG plans to further assist the Postal Service in improving customer satisfaction by reviewing the Address Management System, which enhances mail processing and delivery efficiency. The Postal Service spends more than \$1 billion annually

POSTAL SERVICE VENDING EQUIPMENT



\$1.9 billion in revenue

between the Postal Service and the National Association of Letter Carriers union, a nationwide moratorium was placed on route inspections from April through December 2004, and the Postal Service did not conduct route inspections or use COR during that period. The Postal Service started performing route inspections again in January 2005 and will begin to use COR to adjust routes where appropriate.

Sorting and Delivering. The Flats Sequencing System (FSS) and Delivery Point Packaging (DPP) are two delivery strategies that the Postal Service continues to research and develop. Currently, carriers sort flats manually in delivery cases, but the FSS automates that process and even puts the flats in delivery order. In July 2004, fabrication and in-plant testing of prototypes for the FSS began and will continue through September 2005. DPP sorts letters and flats into a single unit for delivery. Technology concepts and methodologies were analyzed in FY 2004, and will continue in FY 2005.

Rural delivery service is the nationwide network of mail routes serviced by rural letter carriers. These carriers primarily deliver and collect mail from roadside mailboxes owned and maintained by residents in communities without convenient postal facilities. In the past five years, rural deliveries have increased 18 percent. Management recognizes that more attention is needed to develop rural delivery policies and procedures and in October 2004, the Postal Service created the Rural Delivery Program Office to support rural operations. Reports about rural route workhour usage, which assist field managers in analyzing overall performance by office and route, are now accessible electronically and have proven to be a valuable tool for identifying problem areas. The Postal Service also reissued the guidebook titled *Managing*

Rural Delivery Operations to remind rural delivery managers to maintain proper timekeeping procedures and complete timecard audits as a way to target problem areas and identify areas for improvement.

Overseas Military Absentee Ballots.

During the 2000 national election, there were highly publicized reports of delays and uncounted military absentee ballots. As a result, during the 2004 national election, the Postal Service and the Department of Defense combined efforts to expedite the processing and delivery of absentee ballots to and from overseas military Post Offices.

At the request of the Postal Service, Vice President of Network Operations Management, the OIG assessed the Postal Service's processing of overseas military absentee ballots for the 2004 national election. The OIG conducted the audit in cooperation with the Postal Service's International Transportation and Network Support group and the Intelligent Mail Implementation group.

The OIG concluded that the Postal Service succeeded in expediting the processing and delivery of military absentee ballots and ensured that absentee ballots were postmarked. However, some challenges remain in controls over absentee ballots and compliance by local election officials with time frames for delivering ballots.



Rural carriers deliver and collect mail from roadside mailboxes owned and maintained by residents in communities without convenient postal facilities.

STRATEGY: MANAGING COSTS

The Postal Service is expected to provide efficient service while charging reasonable prices. It uses Total Factor Productivity (TFP) as an overall measure



of its efficiency, similar to the Multifactor Productivity measure used by the U.S. Department of Labor. Postal productivity has improved over the last five years, resulting in significant cost savings.

Because of these efficiencies and the cost reductions resulting from the Postal Civil Service Retirement System Funding Reform Act of 2003 (Public Law 108-18), postage rates were last increased in 2002 and will not be increased any earlier than 2006.

Unless high-contribution mail classes grow, postal rate increases in line with economy-wide inflation will have difficulty producing enough revenue to cover all postal expenses, including fast-growing health care costs.

The universal delivery network continues to expand at a rate of about 1.8 million new deliveries a year. The growth of the number of delivery addresses, coupled with increased costs for vehicle fuel and utilities for facilities, is increasing the cost of operations.

In 2004, the Postal Service introduced the Evolutionary Network Development (END) initiative. The goal of END is to create a flexible processing and transportation network that reduces Postal Service and customers' costs, increases operational effectiveness, and improves consistency of service.

Postal Service Financial Position

The Postal Service celebrated one of its most successful financial years in FY 2004, realizing more than \$3 billion in net income. Further, the Postal Service eliminated \$1.5 billion in costs during FY 2004, bringing the total reduced costs over the last three years to \$4.3 billion.

Revenues remained stable in FY 2004 at slightly under \$69 billion, but operating

expenses increased from \$63.9 billion in FY 2003 to \$65.9 billion in FY 2004.

However, the \$65.9 billion of actual expenses was less than the \$66.8 billion in planned expenses for FY 2004. The reduction in actual versus planned expenses was due to controlling costs.

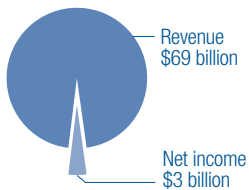
The Postal Service reduced its debt from \$11.3 billion in FY 2001 to \$1.8 billion in FY 2004, a reduction of \$9.5 billion. The Postal Service Civil Service Retirement System Funding Reform Act of 2003 significantly decreased the Postal Service's funding requirements for Civil Service Retirement System (CSRS) retiree benefits. The legislation required the Postal Service to use "cost savings," (the difference between what would have been paid without the law and the required contributions prescribed by the act), to maintain current postage rates through 2005 and to reduce outstanding debt in FYs 2003 and 2004.

Further, because of a complete overhaul of its debt portfolio in FY 2003, the Postal Service benefited from both lower interest rates on short-term debt and the flexibility to daily repay debt with available cash.

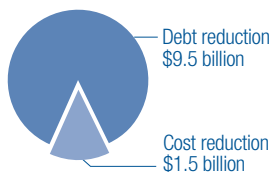
A major benefit of the lower debt was the reduction in interest expense to its lowest amount since 1972. The Postal Service expects to further reduce its outstanding debt to approximately \$800 million during FY 2005, and expects earnings on investments to exceed interest expense on its debt.

From FY 2003 to FY 2004, the Postal Service reduced the number of career employees from 729,035 to 707,485, and reduced workhours by 21 million. This trend began in FY 2000 and has allowed the Postal Service to offset salary increases due to raises in cost of living,

2004 FINANCIAL POSITION



Operating expenses \$65.9 billion



Total reduced costs \$4.3 billion over last three years

salary, and health benefits by keeping personnel costs relatively stable. The Postal Service has been able to accomplish this while dealing with an expanding delivery network. In addition, workers' compensation costs were reduced by more than \$230 million in FY 2004, due to a reduction in the number of medical claims and a decrease in the cost per claim. The Postal Service noted these lower costs were a result of its multi-year efforts to prevent on-the-job injuries.

The Postal Service has done a commendable job of managing costs. Nevertheless, without significant reform these cost-cutting measures alone will not give the Postal Service the resources necessary to meet its mission. There appears to be significant support for postal reform, but final details of what the legislation will include have not yet been determined. For example, Congress needs to decide whether the Postal Service should carry the burden of funding military service pension costs not levied against other federal government agencies and how certain CSRS "savings" should be used. These decisions will have a significant impact on how the Postal Service will manage future costs.

Internal Controls and Accuracy of Financial Reporting

As part of the overall audit of the Postal Service financial statements, using a stratified sampling plan, we selected and reviewed 77 Post Offices, Business Mail Entry Units (BMEUs) and Self-Service and Automated Postal Centers. The audits revealed that financial transactions were reasonably and fairly presented in the accounting records and, generally, internal controls were in place and effective. In addition, our audits at Postal Service headquarters and the Information Technology and Accounting Service Centers revealed

management's financial accounting policies and procedures conformed with accounting principles generally accepted in the United States and provided for an adequate internal control structure. Also, the OIG did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements.

City Letter Carrier Operations

Controlling delivery costs is necessary as the Postal Service continues to experience increases in delivery points (addresses) each year. There is an expectation that delivery point growth will continue to increase annually as the population grows. Higher revenue-contribution mail volume, such as First-Class Mail, has continued to decline as the public increases its use of alternative means of messaging, although overall revenue has increased slightly due to volume increases in other mail classes.

Delivery operations accounted for 45 percent of the Postal Service's total labor hours in the FY 2005 field operating budget. These are hours city and rural letter carriers spend casing mail in the office and delivering mail on routes.

In FY 2005, salaries and benefits for city carriers are budgeted at more than \$16 billion, with a budget performance goal of reducing city delivery workhours by 4.5 million. The Postal Service is making efforts to improve delivery efficiency with standardization of city delivery operations, in order to manage delivery workhours. In FY 2004, the Postal Service began implementing AM Standard Operating Procedures (AM SOP). These new



An OIG audit noted that management can improve operations by adequately reviewing the daily mail volumes when determining daily workhours for each carrier's route to maintain efficiency and cost.

morning management procedures assist managers and postmasters in making better business decisions for city delivery operations (e.g., more accurately estimating daily workhours needed).

The OIG assessed the management of city letter carrier operations in three delivery units in the Rio Grande District. The audit noted that management can improve operations by adequately reviewing the daily mail volumes when determining daily workhours for each carrier's route to maintain efficiency and cost. Additionally, delivery unit supervisors and managers did not adequately match workhours with workload (mail volume), resulting in 2,543 unjustified workhours during October 2003 through February 2004, valued at \$92,762 in unrecoverable costs. The OIG is expanding its assessment of city letter carrier management to the Pacific and Great Lakes Areas.

Letter Carrier Compensation Models

The Postal Service and its associated unions use collective bargaining and compensation models on reach agreement to city and rural letter carriers' compensation. Compensation for box delivery highway contract route (HCR), or contract carriers, is established via the contract the Postal Service enters into with private individuals or firms. The OIG will examine issues pertaining to these three letter carrier models to determine whether lower cost alternatives exist.

Workers' Compensation Costs

A significant continuing cost for the Postal Service is compensation for injured workers. Due to the size of their bargaining unit workforce, the Postal Service is the largest participant in the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) in 2004, representing about 30

percent of the total federal workforce that participated. The Postal Service was also the largest payor to OWCP, with approximately \$830 million in payments for the same year.

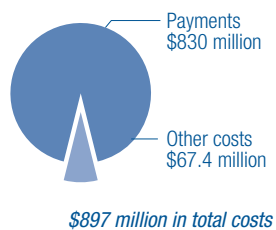
The OIG examined a contract between the Postal Service and a preferred provider organization supplying injury compensation medical bill review services. The review determined and verified the cost savings claimed and realized by the Postal Service. The Postal Service realized \$2.2 million in cost savings due to the contractor's billing reviews from March 2001 through July 2004. Although the cost savings was not the annual \$30 million the Postal Service anticipated, they are working with DOL and the contractor to improve the program.

The OIG also reviewed the OWCP federal medical fee schedule for its impact on the Postal Service's medical costs. Medical services covered by the fee schedule include payments for medical and other health services furnished by physicians, hospitals, and other health care providers for work-related injuries. OWCP regulations state that these costs shall not exceed a maximum allowable amount for such services, as determined by the Director, OWCP.

The OIG concluded that, overall, the medical fee schedule had a positive impact on the Postal Service's medical costs. The OWCP paid medical providers about \$528 million less than the amount providers billed for chargeback years (1997 to 2003). Further, although some medical charges did not have maximum allowable amounts established, the OWCP independently reviewed the charges, resulting in payments made at or below what the providers billed.

The OIG is also completing a review of the Postal Service's schedule award costs.

2004 COMPENSATION COSTS



The Federal Employees' Compensation Act (FECA) provides for the payment of workers' compensation benefits to civilian employees (including Postal Service employees) for specified periods for the permanent or temporary loss of use for certain members, organs, and functions of the body. Payment is made for a specified number of days or weeks based on the severity of the impairment. This compensation benefit is defined as a schedule award.

Evolutionary Network Development

Most mail is sorted either by using high-speed automated equipment or entered into the mailstream through mailer work-share programs, requiring less handling by the Postal Service. This has led to excess capacity in the network. Moreover, with flat or declining mail volume in some classes and market shifts, there is less need for dedicated, class-based networks that support class-defined mailstreams such as First-Class Mail, Parcels and standard packages, and Priority Mail.

Today's climate offers the Postal Service an opportunity to redesign and consolidate the processing and distribution network, further simplifying the transportation network by reducing the number of transportation routes.

At the 2004 National Postal Forum, Postmaster General and CEO John Potter announced the Evolutionary Network Development (END) initiative — the next step in the Postal Service's efforts to create a flexible logistics network to reduce costs, increase overall effectiveness, and improve consistency of service. The END initiative has the potential to impact \$26 billion in processing, distribution, labor, and transportation costs.

The *September 30, 2004, Semiannual Report to Congress* covered several

near-term challenges facing the Postal Service's END initiative. These included: (1) completing a blueprint to govern network changes; (2) developing a comprehensive and integrated plan; (3) identifying and obtaining resources needed to incrementally implement network optimization; and (4) developing a formal process to implement the initiative and evaluate results. The OIG will continue to work with the Postal Service on this critical project.



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

Verifying and Validating the END Models.

As part of the END initiative, the Postal Service assembled a team to conduct an independent verification and validation of the END models. At the request of the Postal Service, a member of the OIG served in an advisory, ex officio role for the team. The OIG's suggestions helped formulate the process for conducting this verification and validation effort and benchmarking research. The OIG issued a report in this reporting period explaining its role in assisting the Postal Service's independent verification and validation team.

Closing, Consolidating, and Realigning Facilities.

The Postal Service reported that, as part of the END initiative, it closed more than 50 facilities and annexes; closed 38 remote encoding centers; and consolidated some distribution operations. During this period, the Postal Service and the OIG worked together in the Northern Ohio District to:

- Improve the efficiency of operations at the Akron, Ohio, Processing and Distribution Center (P&DC) by reducing

235,000 workhours. This reduction could produce a cost avoidance of about \$74 million over 10 years.

- Improve network efficiency and potentially upgrade delivery service by recommending the Mansfield, Ohio, Main Post Office's outgoing mail operations be moved to the Akron P&DC, saving 28,000 workhours. The OIG also identified opportunities to improve operational efficiencies by reducing 24,000 mail processing workhours at this Post Office. These reductions could help avoid costs of \$17.2 million over 10 years.

The END initiative focus is on realigning various networks, developing and retrofitting processing equipment, and implementing the proposed bulk mail center (BMC) retrofit transition effort. The retrofit effort may redefine BMCs as regional distribution centers for all parcels and bundles, functioning as part of the Hub-and-Spoke Program (HASP) network.

The Postal Service and the OIG will continue to jointly identify opportunities to improve operations and reduce costs. The OIG plans to assess portions of the END initiative, covering systems under development and facilities issues. The OIG will continue to review the international service center and domestic mail processing networks for efficiency and consolidation opportunities.

Transportation and Logistics Costs

Transporting mail and equipment between processing plants and Post Offices is one of the Postal Service's core operations and is essential to its success. Last year, the Postal Service's vast transportation and logistics networks moved more than 206 billion pieces of mail — having a multitude of mail classes, shapes, and service standards.

The Postal Service also moved more than 200 million trays, 100 million sacks, and approximately 2.5 million rolling containers.

The Postal Service must control costs, and one of the greatest opportunities to reduce costs is optimizing its contract-intensive transportation and logistics networks. The Postal Service must ensure that its networks, which cost the Postal Service more than \$6 billion annually, are efficient, responsive, and leverage information to optimally align transportation resources.

Optimizing the Transportation

Network. The OIG examines the security, effectiveness and economy of its mail transportation via the air, highway, rail, maritime, and logistical support networks. Its most recent efforts addressed:

- *Underutilized or Redundant Highway Trips.* A major component of the Postal Service's infrastructure is the Bulk Mail Center (BMC) network. Bulk mail includes advertising mail, catalogs, and large quantities of identical merchandise shipped by major mailers such as publishers, catalog companies and on-line retailers. Bulk mail is processed by a system of 21 BMCs and other facilities nationwide. The Postal Service spends more than \$500 million annually on contracts to transport bulk mail over highway networks.

The OIG is evaluating scheduled BMC highway transportation routes for effectiveness and identifying opportunities for cost savings. To date, OIG and Postal Service officials have identified 183 BMC transportation trip eliminations, consolidations, or modifications, potentially resulting in savings of more than \$19 million over the life of the contracts. The Postal Service eliminated or modified most of the 183 trips without negatively affecting service

or operational flexibility because mail volume was low and mail could be consolidated on other trips.

- *Effectiveness of Air Network Operations.* Air networks are a vital part of the overall transportation network. The OIG recently assisted the Postal Service in addressing mail backlog at the Hartsfield-Jackson Atlanta International Airport, based on a postal employee's tip concerning significant mail backlog during the height of the December 2004 holiday season. OIG auditors rapidly responded and found an estimated 200,000 to 400,000 pounds of Express, Priority, and First-Class Mail staged (sitting) at one time on the airport tarmac awaiting transportation by a commercial airline — some mail sat for eight days.

The backlog, which occurred after a major snowstorm required rerouting the mail through Atlanta, was further compounded by a computer failure and the seasonal increase in passengers and luggage. The Postal Service incurred unanticipated costs to reroute the mail. In addition to the actions the Postal Service was already taking, the OIG recommended that the Postal Service, among other things, assess commercial air transportation contract penalties. Management agreed with our recommendations.

- *Mail Transport Equipment Service Center Network — Equipment Processing.* The OIG followed up on a 2001 mail transport equipment audit report to determine whether the Postal Service saved money by requiring facilities to reuse serviceable equipment rather than return it to service centers. The OIG concluded that the Postal Service took aggressive action to implement this recommendation and, as a result, saved more than

\$7.2 million. Because not all postal facilities complied with headquarters' policy to reuse serviceable equipment, they missed an opportunity to save an additional \$1.4 million. However, there is still an opportunity to save an additional \$628,000 over the next two years, if postal facilities implement the policy.

As the Postal Service transforms its infrastructure through END and other initiatives, it must ensure that the transportation network responds to changing transportation requirements and demands. To aid this effort, the Postal Service is implementing the Surface Visibility initiative. Currently, only rough estimates of surface transportation volume are available to postal managers to make decisions about transportation needs. The Postal Service envisions that Surface Visibility will produce accurate, complete, and reliable mail volume data enabling managers to make timely decisions about the surface transportation network. The OIG will work with the Postal Service to evaluate the success of this initiative.

As noted earlier, the transportation network is fluid and dynamic. For instance, the Postal Service recently announced that it would no longer use two air contract carriers for commercial air transportation because of service issues. Although the Postal Service subsequently allowed the carriers to resume transportation on a limited basis, the action required the Postal Service to evaluate all options and balance service and cost. The OIG will help the Postal Service ensure that



Air networks are a vital part of the overall transportation network.

network disruptions do not affect service and that viable and cost-efficient alternatives are examined and adopted.

Vehicle Maintenance Facilities

The Postal Service supports its delivery network with a vehicle fleet and vehicle management infrastructure that ensures operational readiness, safety, and reliability. The OIG has played — and continues to play — an extensive role in identifying opportunities for vehicle managers to improve management controls.



Vehicles are serviced and repaired in 322 Postal Service vehicle maintenance facilities (VMFs) and in commercial garages throughout the country.

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Economical maintenance of the vehicle fleet ensures parts and materials required for maintenance actions are readily available when needed.

The OIG assessed the controls used to manage vehicle parts inventories and maintain appropriate inventory stock levels in the Atlanta District and determined that the two VMFs did effectively manage controls over inventories and inventory stock levels. In addition, the OIG is assessing the management of vehicles used to support delivery operations in selected Postal Service areas.

Using Technology to Increase Efficiency

The Postal Service depends on automation technology to process and sort more than 650 million pieces of mail daily to more than 142 million addresses. Like many organizations, it is challenged to

smartly adapt new technology to maintain its competitive position in the market; however, the downstream cost control potential for automation investments is significant for operations.

Long-Term Vision. The Postal Service's long-term vision is to automate the sorting of more mail in delivery order for a given route (e.g., sort letters and flats [oversized letters] together, place them in a single bundle, and deliver them to an individual address). While flat-shaped mail represents nearly 30 percent of the Postal Service volume, most flats continue to require sorting by carriers. The Postal Service's flats strategy, which is modeled after technology investments for increasing efficiencies for letters, identifies the near- and long-term investments being pursued by the Postal Service and highlights the areas of likely customer impact.

Future plans also include mail coding and tracking through Intelligent Mail that captures and shares information about each mailpiece throughout the postal system. This will help the Postal Service compete in a marketplace where information about mail is becoming increasingly more important to its customers.

Competitors have built their businesses, in part, by recognizing the need to provide more real-time access to processing and delivery information. The Postal Service expects Intelligent Mail to stimulate revenue growth, reduce operating costs, and enhance mail security. An audit of the intelligent mail data acquisition system is under way for FY 2005. This system is a replacement initiative for mobile data collection devices that supported delivery operations. The OIG will continue to evaluate technology investments supporting intelligent mail coding and tracking.

Maximizing Innovation. The Postal Service has a long history of testing innovative methods in distribution,

delivery and transportation systems, and continues to invest research and development funds to enhance operational efficiencies. The OIG will continue to look at new technology and initiatives being developed to ensure efficiency enhancements are economical and attainable.

For FY 2005, the OIG is auditing large technology investments that support *Transformation Plan* efficiency goals, including automated package processing systems, flats identification code sorters, flats recognition improvement programs, and flats sequencing systems. The value of these investments in this period is anticipated to be more than \$1 billion.

Increasing Availability of Technology to Customers. The Postal Service is operating within a highly competitive marketplace and is using technology wherever possible to enhance the value of its products and services for customers. The Postal Service has outlined opportunities to enhance retail access and encourage the growth of postal products and services as part of its overarching strategy of fostering growth through customer value. Certain Postal Service initiatives support their commitment to expand customer access to postal services, enhance operational efficiency, and strategically apply technology to provide Postal Service customers with convenient alternatives by moving transactions away from the retail counter. During this reporting period, the OIG issued audit reports on those initiatives, which include: APC program management, vending machine services, and the online Click-N-Ship self-service mailing application.

Availability of Information. The Postal Service moves one step closer to bringing operational costs and revenue into balance each time cost savings and efficiency issues are identified and realized. The OIG's operational efficiency

reviews will aid Postal Service efforts to manage costs by allowing more efficient data center report distributions that could result in a \$3.2 million cost savings.

The OIG assists in validating this financial knowledge base by annually performing an information systems general controls review. The OIG's latest review concluded that controls over systems, data, and computer-related infrastructure at the Information Technology and Accounting Service Centers generally provided reasonable assurance that data were accurate, complete, and secure; data integrity was ensured; and business practices complied with Postal Service policies, procedures, and standards.

However, additional controls and actions were needed in the areas of online payroll application access; business unit continuity plan documentation and testing; career Postal Service employee security clearance updates; electronic data interchange policies, procedures, and password security; the Oracle public role; Windows 2000 server configuration settings; and Windows NT server status. The issues surrounding these findings have been corrected or targeted for priority resolution.

Supply Chain Management Business Practices

The Postal Service manages contracts with commitment values totaling more than \$25 billion annually. The Postal Service issued over 39,000 contract actions with commitment values exceeding \$6.8 billion during FY 2004 and has, over the years, implemented the supply chain management philosophy to maximize the effectiveness and efficiency of these expenditures.

The Postal Service's challenge in this area is controlling and reducing costs while maintaining efficient acquisition practices with effective controls to prevent fraud,



waste, and mismanagement. The Postal Service expanded the use of supply chain management business practices to meet the *Transformation Plan* goal of continuing to implement and institutionalize supply chain management. For example, it established several strategic partnerships and expanded the use of web-based ordering to help achieve its planned cost reductions. However, it must continue to enforce measures that reduce the risk of loss and ensure that it receives the best possible value from its purchases.

For example, the OIG identified opportunities to improve the program management of APC acquisition. Specifically, the Postal Service agreed with recommendations to develop and document future APC requirements; prepare schedules and cost estimates for planned upgrades not already on contract; complete site security reviews; and ensure contractor employees obtain appropriate security clearances. Additionally, the Postal Service agreed to coordinate the site selection process for future APCs with all affected stakeholders and to submit quarterly Decision Analysis Report (DAR) compliance reports that fully communicate missing APC functionality and operational concept changes. The OIG plans to expand program management reviews to include software acquisitions and will also determine whether the Postal Service is properly planning for, and using, contract types that can help reduce overall operating costs.

Additionally, due to congressional interest, the OIG is reviewing the efficiency of the Postal Service's use of a national office supply contract. The Postal Service

establishes national contracts for agency-wide use in order to reduce administrative effort, simplify the supply of common-use items, and obtain discounts for buying in volume. The Postal Service spent almost \$71 million on the purchase of office supplies, through a contract in fiscal year 2004, and estimated that it realized more than \$15.7 million in item price savings by using the contract during that period. The OIG is working with Postal Service management to determine the actual savings. The OIG also began reviewing whether the Postal Service is effectively and efficiently awarding and administering national contracts to reduce overall costs and meet contractor diversity goals.

The Postal Service revised its *Purchasing Manual* to reduce regulation of its purchasing policies and take advantage of the flexibility allowed under the Postal Reorganization Act. The Postal Service must ensure adequate oversight remains over the internal set of guidelines to reduce the risk of fraud, waste, and mismanagement in the acquisition process. The OIG will continue monitoring purchasing policies.

Management of Facility Costs

The Postal Service operates more than 34,000 geographically dispersed facilities. Specifically, it owns more than 8,800 facilities; leases more than 25,400 facilities (at a rental cost of approximately \$946 million per year); and occupies space in approximately 425 General Services Administration/federal facilities.

The Postal Service has identified opportunities to reduce costs or maximize the return on property, including standardization of building design, post-occupancy evaluations of recently built facilities, and proactive leasing programs. It has also developed a new prioritization system to



The OIG identified opportunities to improve program management of APC acquisition.

ensure funding is available to address the most critical needs. The Postal Service must have an adequate process to monitor and track projects eligible for rent reduction requests. With more than 25,400 leased facilities, this is a critical first step in reducing overall lease operating costs. Additionally, to enhance communication and to respond to repair and maintenance issues, the Postal Service is implementing a single-source provider program for facility maintenance and management needs.

The OIG began performing post-occupancy evaluations of recently-built facilities and found both favorable and unfavorable variances between projected and actual building maintenance, custodial work hours, and utility costs. The OIG plans to perform additional post-occupancy reviews to assist management in comprehensively evaluating the reasonableness of the DAR projections, considering various facility sizes, locations, and other relevant factors. The OIG also plans to review the Postal Service's processes for major construction and its implementation of a facility single-source provider program.

STRATEGY: DEVELOPING PEOPLE

The Postal Service has one of the largest, most diverse workforces in the nation and relies heavily on its people to accomplish its mission. The Postal Service's strategy is maintaining an accountable, motivated, and diverse workforce, empowered to maximize performance in a safe and secure work environment.

The Postal Service continues its strong commitment to diversity among its employees and suppliers. It has set clear objectives for building a healthy, pros-

perous, and inclusive environment. The organization protects its diversity in the work environment by conducting harassment and discrimination awareness and prevention programs.

Enhance Workplace Environment

To successfully carry out its long-standing mission of providing affordable, universal service, the Postal Service relies on its 807,000 career and non-career employees. Employees satisfaction with their work environment is imperative to maximizing performance in an increasingly competitive environment. Consequently, the Postal Service strives to maintain a workforce that is effective, diverse, highly motivated, and recognized for individual and group accomplishments.

Troubled Worksites. The Postal Service has taken a number of steps to improve the work environment for its employees. The Workplace Environment Improvement Advisory Committee, which includes representatives of employee unions, management associations, labor relations, and human resources, has identified "troubled worksites" based on established criteria. These worksites may be susceptible to threatening or other undesirable behavior as a result of individual or systemic problems. The number of troubled Postal Service worksites was reduced from 39 in 2002 to eight in 2004 as a result of proactive intervention and resolution of workplace issues.

The OIG conducted six audits during this reporting period due to complaints of hostile work environments at Postal Service worksites. The OIG found that hostile work environments did not exist at these sites; however, some employees experienced events that they perceived as hostile. The OIG also found



that Postal Service management quickly responded to employee complaints and took the steps necessary to improve the environment, including providing training and stand-up talks for employees and removing supervisors who acted inappropriately.

Diversity Issues. The Postal Service continues to lead private industry and federal government in diversity, equal employment opportunity, veteran's employment, affirmative action, and other programs directed at improving the workplace for everyone, including women and minorities. For example, for the fifth straight year, *Fortune* magazine named the Postal Service one of the nation's "50 Best Companies for Minorities." In 2004, Equal Opportunity Publications, Inc., ranked the Postal Service as one of the top 20 government agencies for individuals with disabilities, and *Careers and the Disabled* magazine gave the Postal Service its outstanding employer award.

The Postal Service's National Awards Program for Diversity Achievement, in existence since 1996, recognizes the outstanding individuals and teams that encourage and promote diversity within the organization. This year, the Altruism award has been added to provide an opportunity to honor and recognize diversity achievements of employees outside the work environment.

In addition to diversity and equal employment opportunity initiatives, the Postal Service enhanced a number of employment tools to streamline its employment

process. Specifically, the Talent Acquisition Processing System (TAPS) was implemented to help maintain the integrity of the Postal Service's testing process for hiring new employees. TAPS' objective is supporting the dissemination, collection, storage, and inventory of all test materials and test results.

Personnel Systems. During 2004, the Postal Service implemented a new web-based application to enhance employment opportunities throughout the Postal Service. eReassign allows career bargaining unit employees to request voluntary reassignments from one postal installation to another. According to the Postal Service, eReassign standardized the reassignment process, reduced processing cycle-time, and virtually eliminated manual processing.

The Postal Service improved accountability by including additional employees in the performance-based pay plan used to recognize individual and team efforts. In 2004, 78,000 non-bargaining unit employees joined approximately 800 executives in a new pay-for-performance program that is based on the National Performance Assessment (NPA) system.

The program sets performance goals for each individual based on that individual's position in the organization and the contribution of that position toward achieving corporate goals. A key component of the new program is an objective-setting process that approves individual objectives and allows employees to align individual contributions with both unit and corporate successes. The new program calculates end-of-year performance ratings based on individual achievements against targets, in addition to unit and corporate results. The new pay system is based solely on these performance ratings and there are no automatic or



Employees satisfaction with their work environment is imperative to maximizing performance in an increasingly competitive environment.

across-the-board pay increases for executives or non-bargaining unit employees.

STRATEGY: GROWING REVENUE

The challenge the Postal Service faces is that the number of mail deliveries is rising and the average number of pieces per delivery is increasing. The Postal Service's products are primarily mature services in dynamic, rapidly growing markets that are impacted by new communications technology and by changing business practices and consumer attitudes. The Postal Service's strategy for growing revenue is to enhance its core services to provide greater value to its customers. The focus is on the customer and delivering solutions.

The Postal Service relies on the sales of all its mail services to customers to generate the revenue necessary to support the expansion of the universal delivery network. The prices of its products are set to cover costs. Since 2000, the Postal Service has substantially reduced its debt levels. Future improvements in its financial position depend on the success of strategic marketing initiatives, the growth of the economy, competitor initiatives, and congressional action on pending legislation.

Revenue to operate the Postal Service is derived primarily from the sale of domestic and international mail services and is supplemented by special service fees; money order sales; rents from Post Office boxes; and sale of stamped envelopes, mail-related supplies, merchandise, and philatelic items.

Marketing Postal Products and Services

To achieve its strategic goal for growing revenue, the Postal Service has focused on four key marketing areas: Product Solutions, Value and Pricing, Channel and Servicing, and Promotion. Specifically, the Postal Service plans to aggressively manage core products and programs that offer the greatest revenue potential; use pricing flexibility as a strategic tool; manage the customer experience using customer knowledge to make it easier to access information and conduct transactions, pay for postal services, and champion and communicate the value of the Postal Service to the marketplace through integrated and aligned communications.

Product Solutions. Over the coming year, the OIG plans to help the Postal Service grow revenue by assessing its efforts to manage core products that offer the greatest revenue potential. The OIG will review and assess key programs in Package Services and revitalized initiatives in direct mail. The OIG also plans to review programs that affect First-Class Mail.

Value and Pricing. Pricing innovation is at the core of transformation efforts to maintain stable and affordable postal rates. Innovative pricing changes, such as negotiated service agreements (NSA), provide pricing incentives for customers in exchange for a shift in behavior by the customer that benefits the Postal Service. This sort of change has paved the way for other NSAs and other experimental rate case filings that address the expressed needs of mailers to maximize their investment in mail as a key business tool.

In 2003, the Postal Service entered into its first NSA with Capital One



Services. During this reporting period, the OIG audited Capital One's NSA. The audit identified control weaknesses related to mail volume and revenue and determined that the Postal Service did not have a dedicated team throughout the NSA process. The Postal Service agreed with the OIG's recommendations to strengthen controls over the NSA process, providing an increased opportunity to grow revenue. The Postal Service estimated that by the end of 2004, this NSA-produced cost savings and new contribution greatly exceeded rate case projections.

The Postal Service has improved its International Customized Mail (ICM) agreements to produce new contributions. ICM agreements are contracts between the Postal Service and mailers for a period of one or more years and represent individually negotiated discounts with mailers, within certain categories of outbound international mail, in exchange for meeting prescribed annual minimum revenue or volume commitments. This area is currently under review by the OIG, in an effort to identify potential areas for improvement.

Channel and Servicing. By examining shifting customer demographics, lifestyles and behaviors, and utilizing new technology, the Postal Service can improve its retail operations by developing lower-cost alternatives to provide similar or easier access. To manage this customer experience, the Postal Service's strategy in the coming year includes overseeing the management of payment options, building the business service network (BSN), and improving service and servicing options for the "Preferred" segment — the \$20 billion market segment of small to medium businesses.

The OIG plans to review this channel and servicing strategy that relies on

postage technology initiatives such as online postage meters and key programs including Customer Gateway and Customer Connect.

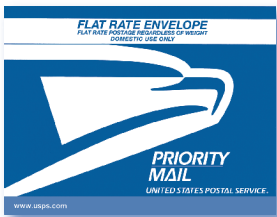
Promotion. The Postal Service has developed advertising and other promotional materials to direct customers to all retail points of access and its website to ensure customers are aware of all available services. The Postal Service provides other value-added services to business mailers such as the BSN, a nationwide network of representatives that provides business mailers with a local point of contact for resolving local concerns.

To that end, the Postal Service has devised an integrated and aligned promotion strategy to communicate the value of its services to the marketplace. The OIG plans to review key programs associated with product promotion and sales to include sponsorships and corporate advertising, as well as affiliations and alliances.

Collecting Package Surcharges

Each day, more than seven million customers visit Post Offices, branches, and contract postal units to buy stamps, mail packages, and collect mail from their Post Office boxes. This portfolio of mail products and services generates postal revenue.

In FY 2004, Priority Mail and Express Mail volumes declined but Package Services volume increased slightly because growth in Bound Printed Matter and Media Mail volume offset losses in Parcel Post volume. In this same period, the Postal Service received \$5.8 million in walk-in revenue for non-machineable surcharges and oversize rates for parcels that required extra handling due to size and weight.



The Postal Service plans to aggressively manage core products and programs that offer the greatest revenue potential.

Although parcel surcharge revenues have increased over the last three years, there is still an opportunity for more growth. The OIG is looking at whether the Postal Service is receiving the correct surcharge revenue for Priority Mail and Parcel Post Packages from retail sales in FY 2005.

Mail Acceptance

The Mail Evaluation, Readability and Lookup INstrument (MERLIN) was designed to improve the quality of letter and flat mail preparation, automate acceptance, make verification consistent, and ensure collection of appropriate revenue. The Postal Service has invested more than \$186 million in MERLIN and deployed 1,203 machines nationwide.

The MERLIN program had targets established for verifications of mailings under 10,000 pieces at 17 percent and mailings over 10,000 pieces at 100 percent. The 17 percent target was achieved and continuous improvement has been seen in performance against the 100 percent target. The OIG conducted six site reviews and concluded that while utilization had increased, MERLIN machines were not fully utilized.

The Postal Service is exploring a value-based verification process that may replace the current verification percentages established with MERLIN. The new criteria would base the schedule of verifications on the mailer's historical performance, the type of mailpiece, and size of the mailing being presented.

At the completion of the nationwide MERLIN site-specific reviews, the OIG will issue a summary report covering systemic issues, user satisfaction, and other global MERLIN issues.

STRATEGY: PURSUING REFORM

The 35-year-old legislative framework of the Postal Service established by the Postal Reorganization Act of 1970 needs to be reformed to increase the operational and market flexibility essential to respond to a dynamic, competitive market. The Postal Service's goal for pursuing reform is to obtain greater flexibility to improve service, manage costs, empower employees, and respond to customer needs.

Postal Reform

It has been more than a generation since Congress passed major postal reform legislation with the Postal Reorganization Act (Pub. Law 91-375, August 12, 1970, 84 Stat. 719), which created the present-day Postal Service. The reform was undertaken to depoliticize the former Post Office Department and to enable the new U.S. Postal Service to operate more 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, called "electronic diversion," has contributed to a recent decline in First-Class Mail revenues. When coupled with growth in new deliveries, this becomes a serious threat to the Postal Service's financial stability. A growing number of members of Congress and the mailing community believe that the current postal business model is broken and Congress must act quickly or the Postal Service will face a tougher economic future.



Each day, more than seven million customers visit Post Offices, branches, and contract postal units to buy stamps, mail packages, and collect mail from their Post Office boxes.

The House Committee on Government Reform and the Senate Committee on Homeland Security and Governmental Affairs each held a series of hearings to examine postal reform legislation during the last Congress. Customer representatives, postal employees, postal management, competitors, the Government Accountability Office (GAO), the Administration, the Postal Rate Commission, and postal-reliant businesses testified before Congress. Each committee eventually recommended passing postal reform legislation. However, neither the House nor the Senate brought up the postal reform bills for further consideration prior to adjournment. The reason, presumably, was anticipated opposition by the Administration to specific provisions found in each bill regarding the CSRS escrow account and the funding of the military service portion of Postal Service pensions.

Civil Service Retirement System Escrow Account. Congress passed Public Law 108-18 when it became aware that the Postal Service was on course to overfund its CSRS pension costs. Prior to passage of the law, it was estimated the Postal Service would overpay the fund by \$105 billion over the life of CSRS, primarily due to higher than expected interest earnings. With enactment of the law, the difference between what would have been paid if the law had not been enacted and the contributions made under the new legislation would be used to maintain current postage rates through FY 2005 and reduce outstanding debt in FYs 2003 and 2004.

After FY 2005, the Postal Service is required to place this difference in its costs into a separate escrow account that it cannot use (even for maintaining current postage rates or

minimizing increases in rates) until future legislation authorization. In a recommendation to Congress, the Postal Service has proposed using these savings to fund retiree health benefits.

The OIG believes these savings are, essentially, accumulated postal revenues and, therefore, ratepayers' money — not taxpayers' dollars — and should be available for operations and capital investment, like all other postal revenue. In fulfilling its congressional mandate to provide universal mail service and operate in a business-like manner, the OIG believes the Postal Service should 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 the 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 — not Postal Service customers — should pay the costs of military service benefits. It is not appropriate for Postal Service customers alone to pay these costs through postage when military service protects all Americans. 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. Finally, the OIG believes this practice is inconsistent with policies for charging federal government agencies, since the Postal Service would be the only federal agency required to pay this cost for its own employees retroactively.



Basic Postal Reform Legislation

These funding issues likely will be undertaken when Congress addresses postal reform legislation, provided they are not enacted in free-standing legislation. The following reforms may also be considered:

- **Workers' Compensation Reform.** The President's Commission recommended that the Postal Service be relieved from the Federal Employees Compensation Act (FECA) and able to transition totally disabled employees to regular retirement programs, which are less costly to the Postal Service. Specifically, the Postal Service should be allowed to transition individuals receiving workers' compensation benefits to its retirement plan when employees become eligible for retirement, even when the injuries give rise to the workers' compensation benefits.

The Postal Service has a significant workers' compensation liability. At the end of 2004, the Postal Service estimated its total liability for future workers' compensation costs at almost \$7.6 billion, an increase of \$343 million over 2003. There is an urgent need to reconsider the Postal Service's obligations under FECA given the Postal Service's current almost \$7.6 billion liability for workers' compensation.

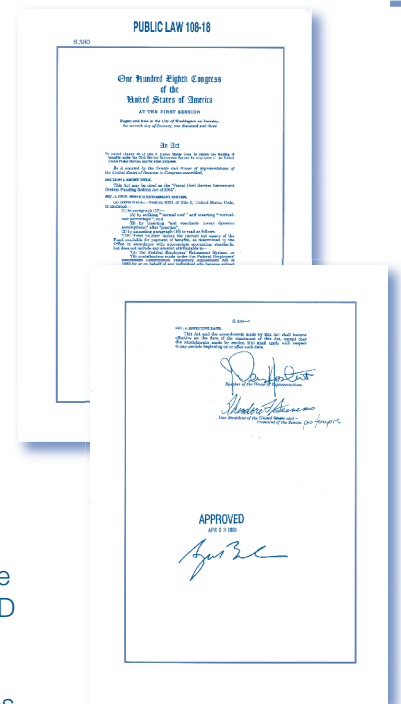
Congress should consider empowering the Postal Service to deal with its workers' compensation costs in a manner that preserves reasonable benefits for injured workers, while not saddling it with unreasonable costs. Reducing these costs would have a major impact on improving the overall cost of postal operations.

- **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 to allow the Postal Service 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 index would reflect fuel and network expansion, the actual growth in statutory benefits, and employment costs. The Postal Service believes it is essential that it has the flexibility to set rates that meet the needs of its customers and holds up to the challenge of its competitors. The goal is to streamline and simplify rate-setting procedures.

- **Design a 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, to make recommendations on consolidating and rationalizing the Postal Service mail processing and distribution infrastructure (the END initiative). The Presidential Commission's report indicates the P-NOC recommendations would become final once the President submitted them to Congress, unless Congress disapproved them within a reasonable period. The OIG plans to address END closure processes in a future review.

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.



PRESERVING INTEGRITY AND SECURITY

While the Postal Service's *Five-Year Strategic Plan* does not identify preserving integrity as a strategic goal, integrity is an essential element for safeguarding postal products, customers, services and assets, and, ultimately, for maintaining a stable and sound Postal Service. Breaches of integrity pose an inherent risk, due to the size and diversity of the organization.

INVESTIGATIVE ACTIVITIES

In addition to the many administrative and management safeguards already in place, the U.S. Postal Inspection Service (USPIS) and the OIG are important resources in preserving the integrity and security of the Postal Service. These two law enforcement agencies are responsible for investigating criminal, civil, and administrative matters related to the Postal Service.

The OIG's mandate is to investigate contract fraud and employee misconduct. Results of the OIG's investigative efforts are highlighted below.

Acquisitions and Contract Fraud.

The OIG Contract Fraud Investigations program provides oversight of the Postal Service's active contracts, which totaled more than \$25 billion in FY 2004.

OIG contract fraud investigations resulted in more than \$11 million in fines, restitutions, recoveries, and settlements in FY 2004. To assess the Postal Service's management of acquisitions and contracts, the OIG created initiatives focusing on each of the following five Postal Service portfolios:

- *Services Portfolio.* The Postal Service issued more than 8,000 contract actions for services with a commitment

value of approximately \$1.2 billion during FY 2004.

In a major case, the OIG determined that a purchasing specialist had been steering Postal Service contracts to various printing companies in a 12-year bribery scheme. On February 11, 2005, a U.S. District Court judge in Washington, D.C., ordered the former purchasing specialist to spend 46 months in jail and pay \$771,363 restitution to the Postal Service. The man pleaded guilty in October 2004 to receiving bribes and money laundering. This investigation also resulted in guilty pleas from a number of the printing vendors that were seeking, and obtaining, printing contracts with the Postal Service through the purchasing specialist. For some of these vendors, the payments went as far back as 1991.

- *Supplies Portfolio.* The Postal Service issued more than 4,000 contract actions for supplies with a commitment value of approximately \$1.6 billion during FY 2004. The OIG is undertaking supply contract initiatives and investigations involving delivery, information technology, office supplies, utilities, and trailers and vehicles.

As a result of an OIG investigation, an Alabama auto-distributor company agreed to supply 174 truck transmissions for the Postal Service Long-Life Vehicle, valued at \$256,650, for no charge. The 174 transmissions supplied by this contractor failed during the two-year warranty period. Documentation of the failures led to an intensive quality review and significant improvements in product quality and reliability have been made. The company did not initially

provide free replacements per its agreement with the Postal Service. In an administrative settlement, the company agreed to supply the transmissions, over the next year, to 15 vehicle maintenance facilities (VMFs) throughout the country. In addition, postal employees at the Philadelphia VMF identified seven more defective transmissions from a list compiled by special agents. The company replaced these transmissions, valued at \$12,075, free of charge.

- **Facilities Portfolio.** The Postal Service issued more than 17,000 facilities related contract actions with a commitment value of approximately \$650 million in FY 2004. OIG investigations focused on facilities planning, construction, repair, alteration, and leasing. In New York, the OIG investigated a subcontractor that submitted false payrolls under a \$7 million contract to repair Postal Service facilities. The president and vice president of the company were eventually arrested. One has since pleaded guilty, and criminal prosecution is pending for the other.

The OIG is also investigating fraudulent charges for Common Area Maintenance (CAM), in which Postal Service facilities share common areas with other tenants. The OIG found that the Postal Service was charged more for maintaining these areas than the lease agreements stipulated, resulting in recoveries for the Postal Service of approximately \$316,215.

- **Transportation Portfolio.** The Postal Service issued more than 8,000 transportation-related contract actions with a commitment value of approximately \$2 billion in FY 2004. OIG investigators are searching for potential fraud in transportation contracts for retail

and bulk fuels and for surface and air transportation assets. One example of OIG work in this area involves a Postal Service contracting officer who managed a hub-and-spoke contract in Texas. This individual received gratuities from a contractor potentially affecting more than \$11 million in ramp services contracts.

- **Mail Equipment Portfolio.** The Postal Service issued more than 1,400 mail equipment contract actions with a commitment value of approximately \$1.3 billion. The OIG monitors contractual activity involving mail sorting and processing equipment, address recognition technology, and bioprotection.

Since September 2004, the OIG has established a Supplier Monitoring Working Group, in which audit and investigations team members share resources and information on the Postal Service's top suppliers in the five portfolios discussed above. The OIG continues to work with the Postal Service's Supply Management team to suspend and debar suppliers when exclusion or suspension from government contracting is merited. During this reporting period, OIG investigators proposed debarring eight suppliers.

IMPAC and Voyager Fleet Cards. In addition to acquiring goods and services through contracts, the Postal Service uses International Merchant Purchase Authorization Cards (IMPAC) and Voyager Fleet Cards. The IMPAC Program processed transactions totaling more than \$400 million and earned the Postal Service more than \$2 million in refunds during 2004. The Voyager Fleet Card Program — which pays for the fuel, oil, repair, maintenance, and washing of more than 220,000 Postal Service vehicles — processed more than \$253 million in FY



2004, with documented savings and cost avoidance to the Postal Service of more than \$22 million.

The OIG developed a database to identify potentially fraudulent IMPAC and Voyager Fleet Card transactions. Investigators are also developing a knowledge base of known fraudulent transactions to maximize the tool's effectiveness in identifying future fraudulent transactions.

The OIG continues to investigate ring-type groups that are still finding ways to compromise Voyager cards to purchase fuel in the Northeast, Midwest, and on the West Coast.

Financial Investigations. Financial investigations cover a wide range of activity, including embezzlement, theft, misconduct, falsification of records, and conversion and misuse of Postal Service property. These are frequently internal investigations of employees and contractors. One case during the reporting period involved a Texas postmaster who embezzled more than \$69,000 and is now facing criminal indictment. In a joint case with the USPIS, the OIG investigated a relief postmaster, in the Chicago area, who confessed to embezzling more than \$100,000 in money orders.

The OIG's Financial Investigations group has started work on two new initiatives. The gift check initiative searches for managers who approve purchases by employees who cash the gift checks for themselves. The nonsufficient funds initiative identifies customers and, increasingly, employees who pass bad checks to the Postal Service — a \$29 million exposure in 2004.

Fraudulent Workers' Compensation.

The Postal Service is one of the largest participants in the federal Workers' Compensation Program and paid \$830 million in compensation from July 1, 2003 through June 30, 2004. Of this amount, \$309 million was for medical payments to providers and \$521 million was for compensation to claimants and beneficiaries. Administered by the DOL OWCP provides direct compensation to providers, claimants, and beneficiaries. The Postal Service later reimburses OWCP in a process known as Charge Back Billing. The OIG has initiated more

In another case, OIG investigators identified program-wide weaknesses in the Voyager Fleet Card Program receipt-reconciliation process. Since the case began in July 2003, offenders have used approximately 270 Voyager credit cards and/or card Personal Identification Numbers (PINs) to fraudulently purchase approximately \$400,000 in fuel in the Miami, Fla., area. Coordination between the OIG, Voyager card representatives, and Postal Service management enabled important changes to be made to the Voyager reconciliation process and program in the Southeast Area.

Investigators also found that local managers had not been verifying (reconciling) all fuel receipts. Now, as a result of an OIG investigation, when someone fuels a postal truck, he or she must take the receipt to a local manager, who reconciles it with the Voyager database. This verification process brought immediate large-scale improvements to Southeast Area VMFs, where approximately 70 percent of Voyager transactions were not being reconciled.

UNITED STATES POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL

FRAUD

If You Suspect Fraud, Waste or Misconduct in the Postal Service

CONTACT THE HOTLINE AT:
1-888-USPS-OIG

- ✓ Workers' Compensation Fraud
- ✓ Employee or Contractor Misconduct
- ✓ Embezzlement and Theft

OIG Field Office Contact Numbers

Washington HQ	(703) 248-2100
Atlanta	(404) 507-5301
Boston	(617) 603-6100
Chicago	(312) 601-3900
Dallas	(214) 775-9100
Denver	(303) 925-7400
Houston	(281) 504-4200
Los Angeles	(949) 296-8100
Miami	(786) 437-2920
New York	(201) 499-5120
Philadelphia	(610) 616-5040
San Francisco	(650) 412-3000
St. Louis	(314) 439-6000

1-888-USPS-OIG (1-888-877-7644)
www.usps.oig.gov
TTY (Hearing Impaired) 1-866-OIG-TEXT (1-866-644-3398)

The OIG launched several projects to detect fraud and identify the root causes of accelerating costs for workers' compensation.

than 700 claimant and provider fraud investigations since October 1, 2004. During this reporting period, healthcare fraud investigations resulted in more than \$11 million in cost avoidances and approximately 60 administrative personnel actions, including removals, letters of warning, and claims terminations.

In March 2005, the OIG and the Postal Service's Health and Resources Management (HRM) team established a process by which HRM will refer all allegations of workers' compensation fraud to the OIG. Previously, the OIG received only allegations of medical provider fraud for possible investigation, while the USPIS received allegations of claimant fraud. The OIG will issue a quarterly report to apprise HRM of the status of the workers' compensation referrals it has accepted for investigation — whether ongoing, resolved or closed. The OIG and the USPIS will coordinate their efforts in workers' compensation fraud in order to determine the appropriate investigative action on each OWCP case.

The OIG launched several projects to detect fraud and identify the root causes of accelerating costs for workers' compensation. One such project is the Injury Compensation Working Group, created in 2004. The group's members include representatives from the OIG, USPIS, Postal Service Health and Resource Management, and DOL. Through investigative initiatives, the group has identified pharmaceutical providers, podiatrists, clinical psychologists, and durable medical equipment providers who reported the greatest increases in medical billings. These providers were then referred to OIG field offices for further investigation.

Another OIG initiative involved the review of \$310 million in billings submitted by

pharmaceutical and durable medical equipment providers, in the Pacific Area, over a three-year period. By comparing this information to typical indicators of fraud, the OIG was able to identify \$2.9 million in questionable provider costs.

The Health Care Internal Data Analysis System (HIDAS), developed by the OIG, is an automated reporting system that identifies potential fraudulent billing schemes. Since its implementation in the Southwest Area in July 2004, HIDAS has searched records of more than \$173.5 million in billings to OWCP from January 1, 2000, to March 15, 2004. This search resulted in the discovery of more than \$541,000 in duplicate medical billings, \$192,000 of which has since been credited back to the Postal Service.

OVERSIGHT OF INVESTIGATIVE ACTIVITIES AND SECURITY

The OIG has a statutory requirement under the Inspector General Act of 1978, as amended, to provide oversight of the U.S. Postal Inspection Service (USPIS). This oversight is accomplished through program audits and reviews, including quality control reviews of the USPIS. Details of the program audits are included in the Security Section of this semiannual report.

The OIG and USPIS, two separate law enforcement agencies with their respective missions, have formed a partnership to work together in areas of shared responsibilities. The OIG and the USPIS will continue to conduct reviews to ensure effective investigative results and assist the Postal Service in addressing its management challenge of securing the nation's mail system.



Opportunities exist to improve the overall management of USPIIS vehicles and accountability over firearms.

Law Enforcement Vehicles. The USPIIS maintains a fleet of approximately 2,220 vehicles with an asset value of \$42 million. These vehicles are primarily used by inspectors and postal police officers for official business only and are considered for replacement at five years or 75,000 miles. The OIG determined that although USPIIS officials generally followed their own disposal criteria regarding vehicle age, the management of USPIIS vehicles could be improved by extending the mileage and overall service life of its vehicles.

Firearms. The USPIIS allows its postal inspectors and postal police officers to carry firearms. These firearms must be accounted for from acquisition through final disposition, to include transfer, retirement, destruction, and lost, stolen, or missing. The OIG determined that the USPIIS has made progress in effectively strengthening its controls over firearms. The USPIIS Task Force inventoried all USPIIS firearms and developed additional policy to ensure the future accuracy of the firearms inventory. However, based on the OIG's analysis of task force results, 47 additional firearms were not included in the task force's inventory. The OIG recommended that USPIIS management require responsible personnel to report the 47 firearms in the National Crime Information Center or consult with the Department of Justice (DOJ) to determine final resolution.

SECURITY

Since the terrorist attacks in September 2001, the federal government has worked on improving the safety and security of

our nation's infrastructure. One of the many concerns has been the potential vulnerability of the nation's mail system. Due to its sheer size and geographic dispersion, securing the mail is a daunting challenge. However, through innovation and focus on key vulnerabilities, the Postal Service has made significant strides towards protecting the integrity of the mailstream by making its systems safer and more secure.

Emergency Preparedness. In response to the Homeland Security Presidential Directive 5, the Postal Service is implementing an Integrated Emergency Management Plan. These directives require all federal departments and agencies, including the Postal Service and USPIIS, to adopt a comprehensive plan to deal with all incidents and hazards. The plan is designed to improve coordination of planning and response activities among functional areas, minimize duplication of planning efforts, and establish a standardized emergency management process. The USPIIS anticipates completing the plan by April 2005 and providing training to all divisions by September 2005. The OIG will assess the effectiveness of the plan and training upon completion.

Handling Suspicious Mail and Unknown Powders and Substances.

Since October 2001, the Postal Service and the USPIIS have responded to more than 20,000 suspicious mail incidents. In an effort to standardize communications and ensure consistent practices throughout the Postal Service, the Office of Emergency Preparedness has established a Suspicious Mail working group to review, consolidate, reconcile, and reissue national policies and procedures. The working group includes key officials within the Postal Service who

are responsible for ensuring a safe and secure environment for Postal Service employees and customers. The working group soon plans to issue a new memorandum of policy.

Detection of Threat to and Protection of Mail Systems. The Postal Service continues to rely on technology investments to enhance the security and safety of customers and employees. The Postal Service is currently implementing key initiatives to expand its ability to detect potential biohazards. The Postal Service anticipates these initiatives will result in savings in operating costs and reductions in the original number of planned Biohazard Detection System purchases.

Facility Security Reviews. The USPIS has implemented several initiatives to identify potential vulnerabilities of postal facilities through security reviews and observing mail processing conditions at facilities. These reviews are based on the use of a facility-risk rating model to assess the vulnerability of postal facilities to crime, with points assessed based on risk factors and countermeasures already in place. The model is a tool to help postal managers plan and fund projects and manage risk levels.

In addition, a uniformed security force will be maintained at high-risk facilities to protect employees, postal property, and the mail. The OIG, in coordination with the USPIS, plans to assess the facility security reviews to report on the effectiveness of facility security.

The Postal Service and the OIG will continue to review policies and procedures for effectively: (1) handling suspicious mail and unknown powders

and substances; (2) implementing new initiatives for detection of threats to and the protection of mail systems; and (3) developing, implementing, and coordinating emergency preparedness plans.

Securing the Postal Service's Network Infrastructure. The Postal Service's 2002 *Transformation Plan* called for enhancing security, upgrading the Postal Service infrastructure, and providing universal computing connectivity. In response to the Plan, the Postal Service modernized, secured, and simplified its infrastructure, during 2004, with the Advanced Computing Environment (ACE) program. In 2004, 147 national applications were converted to ACE and 12,000 servers were removed from the field.

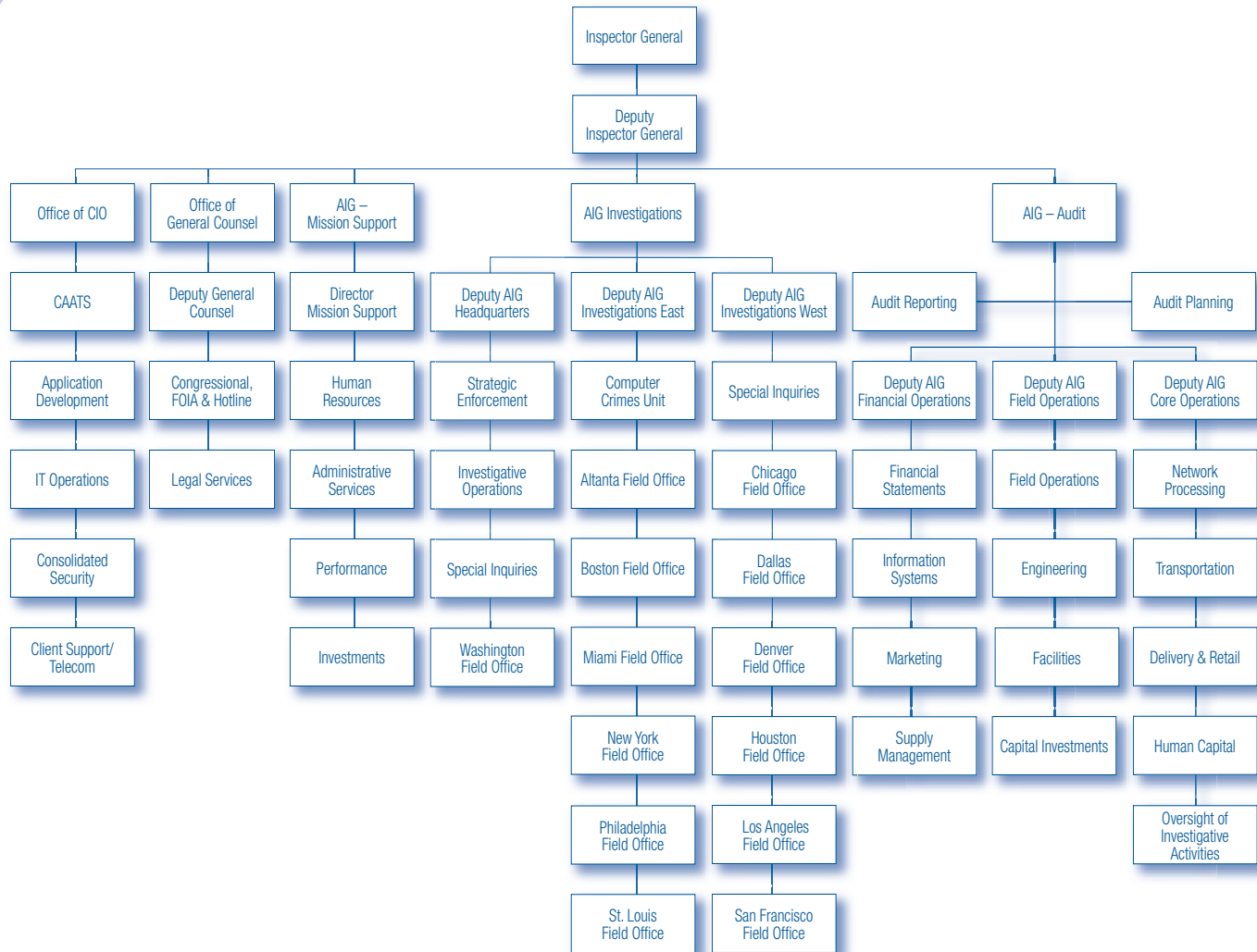
The ACE program should result in significant savings through its centralization and reduction of support functions for the 130,000 Postal Service computer users at 28,000 postal facilities nationwide. In addition, ACE makes the system less cumbersome and complex, more reliable, and easier to maintain and manage.

The Postal Service has rapidly upgraded its network infrastructure and communications capabilities and, during this process, the security and privacy of electronic information remain a high priority. The OIG performed audits of the Postal Service's program infrastructure and of network perimeter devices associated with business partner connectivity. The OIG's work has shown the security to be relatively good; however, improvements can be made. The Postal Service and the OIG will continue to provide periodic assessments of computing infrastructure security.



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

As of March 31, 2005

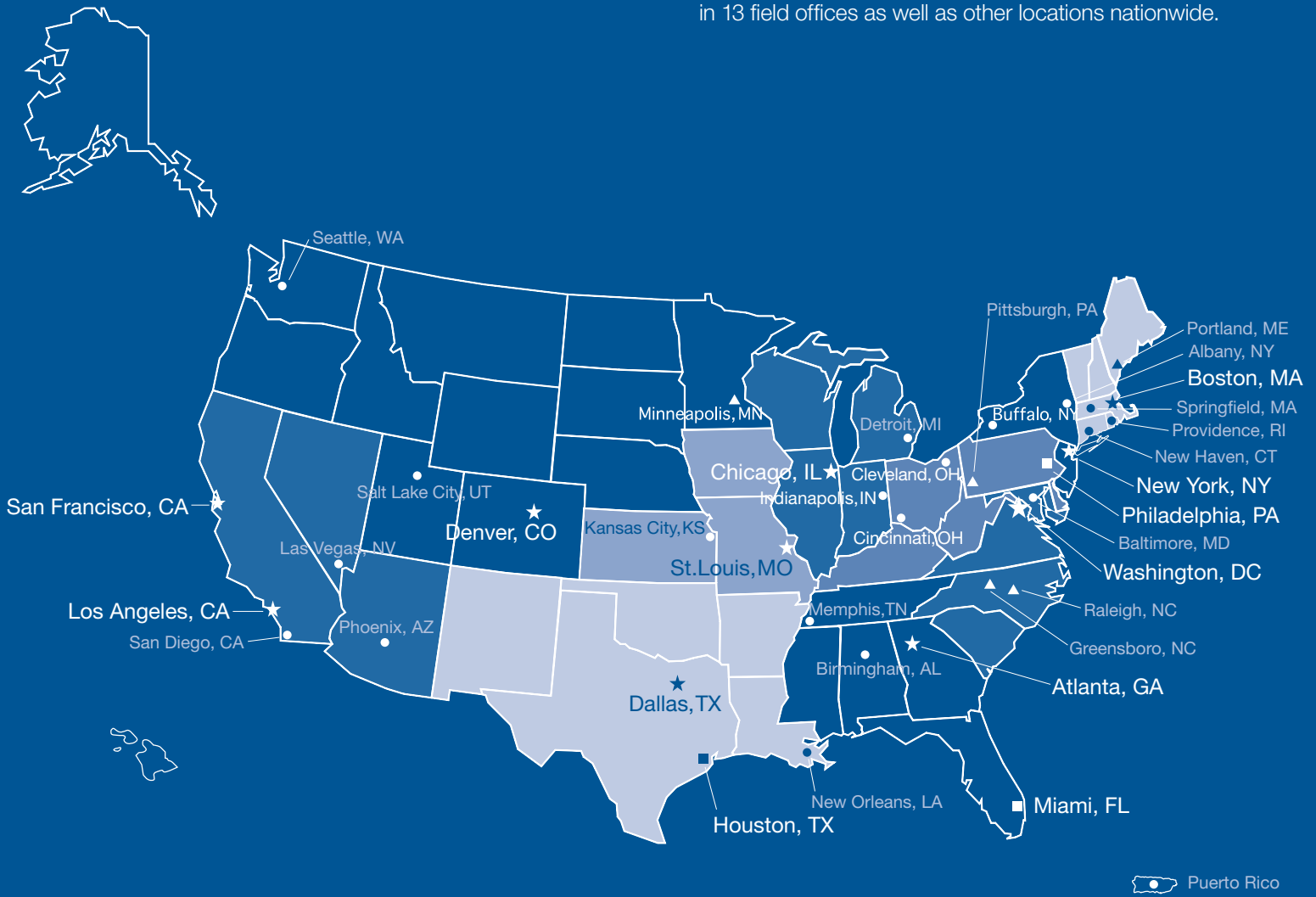


Abbreviations

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

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

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



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



APPENDICES

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

This report summarizes OIG activities and illustrates significant problems, abuses and deficiencies, along with recommendations

and corrective actions related to the administration of U.S. Postal Service programs and operations during the reporting period. During the last six months, the Postal Service agreed with OIG recommendations that identified potential monetary benefits of more than \$133.5 million.

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

APPENDIX A

REPORTS ISSUED TO POSTAL SERVICE MANAGEMENT

For the period October 1, 2004, through March 31, 2005

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

SUMMARY

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

Principal Area	Number of Reports Issued	Questioned Costs ¹	Unsupported Costs	Recommended Funds Put To Better Use	Potential Additional Revenue	Unrecoverable Costs
Improving Service	12	—	—	—	\$121,062	\$92,762
Managing Costs	140	\$17,090,638	\$22,837	\$114,646,808	\$98,470	\$1,456,471
Developing People	2	—	—	—	—	—
Growing Revenue	7	—	—	—	\$44,163	—
Pursuing Reform	—	—	—	—	—	—
Preserving Integrity	8	—	—	—	—	—
TOTAL	169	\$17,090,638	\$22,837	\$114,646,808	\$263,695	\$1,549,233

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

SARC Report Title	Total Questioned Costs	Unsupported Costs	Funds Put to Better Use	Potential Additional Revenue	Unrecoverable Costs
IMPROVING SERVICE					
DELIVERY AND RETAIL					
City Letter Carrier Operations – Rio Grande District DR-AR-05-009; 12/2/2004	—	—	—	—	\$92,762
NETWORK PROCESSING					
Processing of Overseas Military Absentee Ballots NO-AR-05-007; 3/30/2005	—	—	—	\$121,062	—
MANAGING COSTS					
FINANCIAL STATEMENTS					
Imprest Fund at the Former Columbia, Maryland, Facilities Service Office FT-MA-05-001; 1/6/2005	\$1,470	\$1,470	—	—	—
FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDITS					
Caribbean District FF-AR-05-013; 12/6/2004	\$21,367	\$21,367	—	—	—
Old San Juan Post Office FF-AR-05-012; 12/6/2004	—	—	—	\$5,768	—
Rahway Main Office FF-AR-05-006; 10/26/2004	—	—	—	\$3,050	—
San Juan and Old San Juan Self-Service Postal Units FF-AR-05-011; 12/6/2004	—	—	—	—	\$3,181
FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDITS					
Brookhaven Station, Atlanta, Georgia FF-AR-05-030; 12/29/2004	—	—	—	\$1,650	\$2,494
Chanhassen Business Mail Entry Unit – Chanhassen, Minnesota FF-AR-05-086; 3/16/2005	\$4,084	—	—	\$1,869	—
Claysburg Business Mail Entry Unit – Claysburg, Pennsylvania FF-AR-05-091; 3/23/2005	—	—	—	\$8,171	—
Dublin Business Mail Entry Unit – Dublin, Ohio FF-AR-05-090; 3/23/2005	—	—	—	\$2,013	—
Falls Church Automated Postal Center – Falls Church, Virginia FF-AR-05-037; 1/6/2005	—	—	—	—	\$2,664

DEFINITIONS

QUESTIONED COSTS

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

UNSUPPORTED COSTS

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

FUNDS PUT TO BETTER USE

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

POTENTIAL ADDITIONAL REVENUE

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

UNRECOVERABLE COSTS

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

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

SARC Report Title	Total Questioned Costs	Unsupported Costs	Funds Put to Better Use	Potential Additional Revenue	Unrecoverable Costs
General Mail Facility Finance Station – Denver, Colorado FF-AR-05-025; 12/27/2004	\$11,161	—	—	\$10,483	\$466
Lansdale Business Mail Entry Unit – Lansdale, Pennsylvania FF-AR-05-044; 1/18/2005	—	—	—	\$12,668	—
Leesburg Business Mail Entry Unit – Leesburg, Virginia FF-AR-05-096; 3/29/2005	—	—	—	\$16,939	—
Ludlam Branch Post Office, Miami, Florida FF-AR-05-098; 3/30/2005	—	—	—	\$300	—
Lynchburg Downtown Station, Lynchburg, Virginia FF-AR-05-060; 2/11/2005	—	—	—	\$10,146	—
Martinez Business Mail Entry Unit – Martinez, California FF-AR-05-101; 3/31/2005	—	—	—	\$4,425	—
Milpitas Business Mail Entry Unit – Milpitas, California FF-AR-05-078; 3/4/2005	—	—	—	\$1,056	—
Minneapolis Business Mail Entry Unit – Minneapolis, Minnesota FF-AR-05-045; 1/13/2005	\$33,211	—	—	\$1,210	—
North Lake Travis Branch – Lago Vista, Texas FF-AR-05-034; 12/29/2004	—	—	—	—	\$2,999
Oak Park Business Mail Entry Unit – Oak Park, Illinois FF-AR-05-048; 1/24/2005	—	—	—	\$12,768	—
Ocala Post Office, Ocala, Florida FF-AR-05-071; 2/25/2005	—	—	—	\$1,992	\$1,480
Palo Alto Business Mail Entry Unit – Palo Alto, California FF-AR-05-085; 3/16/2005	—	—	—	\$3,467	—
Piqua Business Mail Entry Unit – Piqua, Ohio FF-AR-05-053; 2/8/2005	—	—	—	\$495	—
Wheaton Branch, Silver Spring, Maryland FF-AR-05-040; 1/5/2005	—	—	—	—	\$5,912
INFORMATION SYSTEMS					
Reports Distribution IS-AR-05-001; 10/25/2004	—	—	\$3,220,411	—	—
NETWORK PROCESSING					
Efficiency Review of the Akron, Ohio, Processing and Distribution Center NO-AR-05-009; 3/30/2005	—	—	\$73,996,558	—	—

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

SARC Report Title	Total Questioned Costs	Unsupported Costs	Funds Put to Better Use	Potential Additional Revenue	Unrecoverable Costs
Efficiency Review of the Mansfield, Ohio, Main Post Office NO-AR-05-004; 12/8/2004	—	—	\$17,183,404	—	—
SUPPLY MANAGEMENT					
Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number TNET 93-01 CA-CAR-05-014; 2/24/2005	\$793,837	—	—	—	—
Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number TNET 93-01 CA-CAR-05-011; 1/20/2005	\$2,259,851	—	—	—	—
Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number TNET 93-01 CA-CAR-05-010; 1/20/2005	\$3,755,842	—	—	—	—
Audit of Firm Fixed Price Base Proposal Submitted by Lockheed Martin Systems Integration, Owego, Under Solicitation Number 3AAERD-04-Z-6397 CA-CAR-05-012; 2/3/2005	\$22,492	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by ABB Automation, Incorporated, Under Solicitation Number 3BMHRD-04-A-1116 CA-CAR-05-003; 10/25/2004	\$3,415,051	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Lockheed Martin Distribution Technologies – Owego, Under Solicitation Number 3BMHRD-03-B-4267 CA-CAR-05-007; 12/27/2004	\$357,806	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Lockheed Martin Systems Integration – Owego CA-CAR-05-006; 12/14/2004	\$1,868,004	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Lockheed Martin Systems Integration – Owego, Under Solicitation Number 3AAERD-04-Z-6397 CA-CAR-05-009; 1/14/2005	\$256,926	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation Electronic Systems Company CA-CAR-05-008; 1/10/2005	\$2,014,776	—	—	—	—



REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

SARC Report Title	Total Questioned Costs	Unsupported Costs	Funds Put to Better Use	Potential Additional Revenue	Unrecoverable Costs
Audit of Firm Fixed Price Proposal Submitted by Northrup Grumman Corporation Electronic Systems Company CA-CAR-05-015; 3/14/2005	\$977,203	—	—	—	—
Audit of Incurred Cost Price Adjustment Proposal and Reformation Proposal Submitted by Matheson Flight Extenders, Incorporated Under Contract Number SNET-01-WR CA-CAR-05-004; 12/1/2004	\$975,451	—	—	—	—
Audit of Parts of a Firm Fixed Price Proposal Submitted by Advanced Technology and Research Corporation, Under RFP Number 3BMHRD-04-A-1337 CA-CAR-05-002; 10/25/2004	\$250,617	—	—	—	—
Audit of Price Adjustment Proposal Submitted by Integrated Airline Services, Incorporated Under Contract Number SNET-01-SWR CA-CAR-05-005; 11/30/2004	\$71,489	—	—	—	—
Automated Postal Center Program Management CA-AR-05-001; 12/21/2004	—	—	—	—	\$68,742

TRANSPORTATION

Mail Transport Equipment Service Center Network – Equipment Processing NL-AR-05-006; 3/31/2005	—	—	\$7,845,043	—	\$1,368,533
Surface Networks – Intermodal Rail and Highway Transportation – Pacific Area NL-AR-05-004; 3/18/2005	—	—	\$1,046,240	—	—
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Eastern Area NL-AR-05-003; 3/17/2005	—	—	\$4,791,570	—	—
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southeast Area NL-AR-05-005; 3/18/2005	—	—	\$6,563,582	—	—

GROWING REVENUE

NETWORK PROCESSING

Mail Evaluation, Readability and Lookup INstrument Utilization at the Business Mail Entry Unit in Buffalo, New York NO-AR-05-005; 12/20/2004	—	—	—	\$29,017	—
Mail Evaluation, Readability and Lookup INstrument Utilization at the Business Mail Entry Unit In Nashville, Tennessee NO-AR-05-002; 11/24/2004	—	—	—	\$15,146	—

REPORT LISTING

The following complete listing of all OIG reports is grouped first by Postal Service 'Delivering Results' STAR, second by category of review and year, if applicable, and then alphabetically by title.

For the period of October 1, 2004, through March 31, 2005.

IMPROVING SERVICE

DELIVERY AND RETAIL

City Letter Carrier Operations – Rio Grande District DR-AR-05-009; 12/02/2004	Self-Service Vending Program – Fort Worth District DR-AR-05-003; 10/14/2004	Self-Service Vending Program – Pacific Area DR-AR-05-006; 10/27/2004
Self-Service Vending Program – Bay Valley District DR-AR-05-008; 11/01/2004	Self-Service Vending Program – Greensboro District DR-AR-05-005; 10/19/2004	Self-Service Vending Program – Santa Ana District DR-AR-05-007; 11/04/2004
Self-Service Vending Program – Boston District DR-AR-05-002; 10/14/2004	Self-Service Vending Program – Northeast Area DR-AR-05-011; 02/01/2005	Self-Service Vending Program – Southwest Area DR-AR-05-010; 12/10/2004
Self-Service Vending Program – Cincinnati District DR-AR-05-004; 10/14/2004	Self-Service Vending Program – Oklahoma District DR-AR-05-001; 10/14/2004	

NETWORK PROCESSING

Processing of Overseas Military Absentee Ballots
NO-AR-05-007; 03/30/2005

MANAGING COSTS

AUDIT OF STATISTICAL TESTS FOR FISCAL YEAR 2004 COST AND REVENUE ANALYSIS

Cost and Revenue Analysis (Capping Report)
FF-AR-05-076; 03/08/2005

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

Central New Jersey District FF-AR-05-046; 01/19/2005	Lakeland District FF-AR-05-054; 02/07/2005	Sacramento District FF-AR-05-056; 02/08/2005
Detroit District FF-AR-05-052; 02/04/2005	Mississippi District FF-AR-05-032; 12/29/2004	San Diego District FF-AR-05-057; 02/08/2005
Fort Worth District FF-AR-05-092; 03/24/2005	Northern, Ohio District FF-AR-05-024; 12/20/2004	San Francisco International Service Center FF-AR-05-061; 02/11/2005
Greater South Carolina District FF-AR-05-042; 01/12/2005	Portland District FF-AR-05-063; 02/14/2005	Southeast New England District FF-AR-05-070; 03/09/2005
Greensboro District FF-AR-05-051; 02/02/2005		

FINANCIAL STATEMENTS

Accountability at the San Francisco Vehicle Maintenance Facility FT-AR-05-008; 01/18/2005	Fiscal Year 2004 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center FT-AR-05-009; 03/15/2005	Opinion on the Postal Service's Special-Purpose Financial Statements FT-AR-05-002; 12/08/2004
Agreed-upon Procedures Report for Federal Intragovernmental Transactions FT-AR-05-001; 12/02/2004	Fiscal Year 2004 Postal Service Financial Statements Audit – Washington, D.C., Headquarters FT-AR-05-006; 01/10/2005	Postal Service Board of Governors' Travel and Miscellaneous Expenses for Fiscal Year 2004 FT-AR-05-004; 12/20/2004
Fiscal Year 2004 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center FT-AR-05-005; 01/10/2005	Imprest Fund at the Former Columbia, Maryland, Facilities Service Office FT-MA-05-001; 01/06/2005	Postal Service Officers' Travel and Representation Expenses for Fiscal Year 2004 FT-AR-05-003; 12/20/2004
Fiscal Year 2004 Postal Service Financial Statements Audit – San Mateo Information Technology and Accounting Service Center FT-AR-05-007; 01/12/2005		

FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDIT

Business Mail Entry Units (Capping Report) FF-AR-05-065; 02/24/2005	Cohasset Post Office FF-AR-05-015; 11/17/2004	Rancocas Post Office FF-AR-05-007; 10/28/2004
Contract Postal Units (Capping Report) FF-AR-05-100; 03/31/2005	Dallas Main Post Office FF-AR-05-014; 11/16/2004	San Juan and Old San Juan Self-Service Postal Units FF-AR-05-011; 12/06/2004
Post Offices, Branches, and Stations (Capping Report) FF-AR-05-097; 03/31/2005	Enfield Business Mail Entry Unit FF-AR-05-003; 10/07/2004	San Juan Main Office Window Service FF-AR-05-010; 12/06/2004
Stamp Distribution Offices (Capping Report) FF-AR-05-074; 03/31/2005	Maple Grove Business Mail Entry Unit FF-AR-05-001; 10/01/2004	Seymour Business Mail Entry Unit FF-AR-05-009; 11/04/2004
Self-Service Postal Centers (Capping Report) FF-AR-05-073; 03/02/2005	Ocean City Main Post Office FF-AR-05-008; 11/04/2004	Spearman Post Office FF-AR-05-002; 10/07/2004
Caguas Main and North Stations FF-AR-05-016; 12/07/2004	Old San Juan Post Office FF-AR-05-012; 12/06/2004	Westbrae Station FF-AR-05-005; 10/20/2004
Caribbean District FF-AR-05-013; 12/06/2004	Rahway Main Office FF-AR-05-006; 10/26/2004	Woodstock Business Mail Entry Unit FF-AR-05-004; 10/12/2004

FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDIT

Apalachicola Post Office – Apalachicola, Florida FF-AR-05-087; 03/17/2005	Claysburg Business Mail Entry Unit – Claysburg, Pennsylvania FF-AR-05-091; 03/23/2005	Greenville Business Mail Entry Unit – Greenville, Texas FF-AR-05-038; 01/05/2005
Barstow Post Office, Barstow, Maryland FF-AR-05-083; 03/11/2005	Clifton Business Mail Entry Unit – Clifton, New Jersey FF-AR-05-082; 03/08/2005	Harold Business Mail Entry Unit – Harold, Kentucky FF-AR-05-038; 03/31/2005
Bergenfield Main Office – Bergenfield, New Jersey FF-AR-05-023; 12/27/2004	Columbia Business Mail Entry Unit – Columbia, Tennessee FF-AR-05-080; 03/08/2005	Joppa Business Mail Entry Unit – Joppa, Maryland FF-AR-05-075; 03/02/2005
Berne Business Mail Entry Unit – Berne, Indiana FF-AR-05-089; 03/23/2005	Diamond Farms Automated Postal Center – Gaithersburg, Maryland FF-AR-05-067; 02/23/2005	Kaplan Post Office – Kaplan, Louisiana FF-AR-05-081; 03/08/2005
Bloomfield Hills Business Mail Entry Unit – Bloomfield Hills, Michigan FF-AR-05-039; 01/05/2005	Dublin Business Mail Entry Unit – Dublin, Ohio FF-AR-05-090; 03/23/2005	Knightsen Main Post Office – Knightsen, California FF-AR-05-094; 03/29/2005
Blue Island Illinois Business Mail Entry Unit – Blue Island, Illinois FF-AR-05-019; 12/10/2004	East Point Station – Atlanta, Georgia FF-AR-05-072; 02/25/2005	Land O'Lakes Postal Store – Land O'Lakes, Florida FF-AR-05-033; 12/29/2004
Bonham Main Post Office – Bonham, Texas FF-AR-05-059; 02/09/2005	Elmira Heights Branch – Elmira, New York FF-AR-05-020; 12/14/2004	Lansdale Business Mail Entry Unit – Lansdale, Pennsylvania FF-AR-05-044; 01/18/2005
Brookhaven Station, Atlanta, Georgia FF-AR-05-030; 12/29/2004	Falls Church Automated Postal Center – Falls Church, Virginia FF-AR-05-037; 01/06/2005	Lee's Summit Self-Service Postal Center – Lee's Summit, Missouri FF-AR-05-068; 02/22/2005
Cartersville Business Mail Entry Unit – Cartersville, Georgia FF-AR-05-041; 01/06/2005	Fort Myers Business Mail Entry Unit – Fort Myers, Florida FF-AR-05-064; 02/14/2005	Leesburg Business Mail Entry Unit – Leesburg, Virginia FF-AR-05-096; 03/29/2005
Chandler Post Office – Chandler, Texas FF-AR-05-026; 12/27/2004	General Mail Facility Finance Station – Denver, Colorado FF-AR-05-025; 12/27/2004	
Chanhassen Business Mail Entry Unit – Chanhassen, Minnesota FF-AR-05-086; 03/16/2005	Glen Cove Business Mail Entry Unit – Glen Cove, New York FF-AR-05-050; 01/28/2005	
Claremont Station Automated Postal Center – Everett, Washington FF-AR-05-055; 02/04/2005		

Linden Main Office – Linden, New Jersey
FF-AR-05-029; 12/27/2004

Long Island City Business Mail Entry Unit – Long Island City, New York
FF-AR-05-027; 12/28/2004

Ludlam Branch Post Office, Miami – Florida
FF-AR-05-098; 03/30/2005

Lynchburg Downtown Station – Lynchburg – Virginia
FF-AR-05-060; 02/11/2005

Mariner Station – Seal Beach, California
FF-AR-05-093; 03/28/2005

Martinez Business Mail Entry Unit – Martinez, California
FF-AR-05-101; 03/31/2005

McLaren Station – San Francisco, California
FF-AR-05-028; 12/28/2004

Milpitas Business Mail Entry Unit – Milpitas, California
FF-AR-05-078; 03/04/2005

Minneapolis Business Mail Entry Unit – Minneapolis, Minnesota
FF-AR-05-045; 01/13/2005

Mundelein Business Mail Entry Unit – Mundelein, Illinois
FF-AR-05-062; 02/11/2005

New Port Richey Carrier Annex – New Port Richey, Florida
FF-AR-05-035; 12/30/2004

North Lake Travis Branch – Lago Vista, Texas
FF-AR-05-034; 12/29/2004

North Port Arthur Station – Port Arthur, Texas
FF-AR-05-077; 03/04/2005

North Side Station – Dothan, Alabama
FF-AR-05-021; 12/17/2004

Oak Park Business Mail Entry Unit – Oak Park, Illinois
FF-AR-05-048; 01/24/2005

Ocala Post Office – Ocala, Florida
FF-AR-05-071; 02/25/2005

Ocean Springs Business Mail Entry Unit – Ocean Springs, Mississippi
FF-AR-05-095; 03/28/2005

Olympia Business Mail Entry Unit – Olympia, Washington
FF-AR-05-031; 12/29/2004

Palo Alto Business Mail Entry Unit – Palo Alto, California
FF-AR-05-085; 03/16/2005

Paris Business Mail Entry Unit – Paris, Texas
FF-AR-05-017; 12/08/2004

Pensacola Business Mail Entry Unit – Pensacola, Florida
FF-AR-05-079; 03/08/2005

Piqua Business Mail Entry Unit – Piqua, Ohio
FF-AR-05-053; 02/08/2005

Point Richmond Station – Richmond, California
FF-AR-05-022; 12/20/2004

Port Tobacco Post Office – Port Tobacco, Maryland
FF-AR-05-069; 02/25/2005

Port Townsend Business Mail Entry Unit – Port Townsend, Washington
FF-AR-05-058; 02/09/2005

Portland Self-Service Postal Center Unit #0036
FF-AR-05-049; 01/28/2005

Rochelle Business Mail Entry Unit – Rochelle, Illinois
FF-AR-05-036; 01/03/2005

San Antonio Business Mail Entry – San Antonio, Texas
FF-AR-05-043; 01/11/2005

Seahurst Main Office – Burien, Washington
FF-AR-05-018; 12/08/2004

Sheridan Post Office – Sheridan, Montana
FF-AR-05-066; 02/18/2005

Somerset Business Mail Entry Unit – Somerset, New Jersey
FF-AR-05-047; 01/20/2005

Staten Island Business Mail Entry Unit – Staten Island, New York
FF-AR-05-084; 03/23/2005

Sumter Business Mail Entry Unit – Sumter, South Carolina
FF-AR-05-088; 03/17/2005

Wheaton Branch – Silver Spring, Maryland
FF-AR-05-040; 01/05/2005



DEVELOPING PEOPLE

HUMAN CAPITAL

Complaints of a Hostile Work Environment at a South Florida District Priority Mail Processing Center
HM-AR-05-001; 11/04/2004

INFORMATION SYSTEMS

Reports Distribution
IS-AR-05-001; 10/25/2004

NETWORK PROCESSING

Efficiency Review of the Akron, Ohio, Processing and Distribution Center
NO-AR-05-009; 03/30/2005

Efficiency Review of the Mansfield, Ohio, Main Post Office
NO-AR-05-004; 12/08/2004

Office of Inspector General Assistance to Evolutionary Network Development Independent Verification and Validation Team
NO-MA-05-001; 03/30/2005

SUPPLY MANAGEMENT

Application of Agreed-Upon Procedures to Costs Incurred Under Contract 102592-00-Z-0799 Submitted by Logistics Management Institute
CA-CAR-05-001; 10/14/2004

Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number TNET 93-01
CA-CAR-05-014; 02/24/2005

Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number TNET 93-01
CA-CAR-05-011; 01/20/2005

Audit of Certified Price Adjustment Claim Submitted by Evergreen Aviation Ground Logistics Enterprises, Incorporated, Under Contract Number TNET 93-01
CA-CAR-05-010; 01/20/2005

Audit of Firm Fixed Price Base Proposal Submitted by Lockheed Martin Systems Integration Owego – Under Solicitation Number 3AAERD-04-Z-6397
CA-CAR-05-012; 02/03/2005

Audit of Firm Fixed Price Proposal Submitted by ABB Automation, Incorporated, Under Solicitation Number 3BMHRD-04-A-1116
CA-CAR-05-003; 10/25/2004

Audit of Firm Fixed Price Proposal Submitted by Lockheed Martin Distribution Technologies – Owego, Under Solicitation Number 3BMHRD-03-B-4267
CA-CAR-05-007; 12/27/2004

Audit of Firm Fixed Price Proposal Submitted by Lockheed Martin Systems Integration – Owego Under Solicitation Number 3BNHRD-040-A-1342
CA-CAR-05-006; 12/14/2004

Audit of Firm Fixed Price Proposal Submitted by Lockheed Martin Systems Integration – Owego, Under Solicitation Number 3AAERD-04-Z-6397
CA-CAR-05-009; 01/14/2005

Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation Electronic Systems Company
CA-CAR-05-008; 01/10/2005

Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation Electronic Systems Company
CA-CAR-05-015; 03/14/2005

Audit of Forward Pricing Rate Proposal for Standard Labor, Material Overhead, Program Overhead, and Postal General and Administrative Expense Rates Submitted by Siemens Logistics and Assembly Systems
CA-CAR-05-013; 02/11/2005

Audit of Incurred Cost Price Adjustment Proposal and Reformation Proposal Submitted by Matheson Flight Extenders, Incorporated Under Contract Number SNET-01-WR
CA-CAR-05-004; 12/01/2004

Audit of Parts of a Firm Fixed Price Proposal Submitted by Advanced Technology and Research Corporation, Under RFP Number 3BMHRD-04-A-1337
CA-CAR-05-002; 10/25/2004

Audit of Price Adjustment Proposal Submitted by Integrated Airline Services, Incorporated Under Contract Number SNET-01-SWR
CA-CAR-05-005 11/30/2004

Automated Postal Center Program Management
CA-AR-05-001; 12/21/2004

Beach Haven Post Office – Beach Haven, New Jersey
CA-OT-05-002; 11/02/2004

Corporate Contact Management – GAO Fraudnet
CA-OT-05-001; 10/13/2004

Post Occupancy Review of the Greensboro, North Carolina, and Columbus, Ohio, Processing and Distribution Centers
CA-MA-05-001; 02/08/2005

TRANSPORTATION

Mail Backlogs at the Hartsfield – Jackson Atlanta International Airport NL-AR-05-002; 03/08/2005	Mail Transport Equipment Service Center Network – Network Realignment – Pittsburgh, Detroit, Cleveland NL-AR-05-001; 01/25/2005	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Eastern Area NL-AR-05-003; 03/17/2005
Mail Transport Equipment Service Center Network – Equipment Processing NL-AR-05-006; 03/31/2005	Surface Networks – Intermodal Rail and Highway Transportation – Pacific Area NL-AR-05-004; 03/18/2005	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southeast Area NL-AR-05-005; 03/18/2005

GROWING REVENUE**MARKETING**

Postal Service's Negotiated Service Agreement With Capital One
ST-AR-05-001; 12/20/2004

NETWORK PROCESSING

Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Buffalo, New York NO-AR-05-005; 12/20/2004	Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Nashville, Tennessee NO-AR-05-002; 11/24/2004	Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Sacramento, California NO-AR-05-008; 03/30/2005
Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Mobile, Alabama NO-AR-05-003; 12/02/2004	Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Oklahoma City, Oklahoma NO-AR-05-006; 01/18/2005	Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Terre Haute, Indiana NO-AR-05-001; 11/23/2004

PERSERVING INTEGRITY**INFORMATION SYSTEMS**

Click-N-Ship Application Control Review IS-AR-05-005; 02/22/2005	Oracle Security Environment at the Eagan and San Mateo Information Technology and Accounting Service Centers IS-AR-05-002; 11/10/2004	Security Assessment (PhoneSweep) of PBX Site Event Buffers IS-CS-05-001; 12/08/2004
Click-N-Ship Security Vulnerability Assessment IS-CS-05-002; 01/13/2005	Postal Service's Business Partner Connectivity – Firewall Permissions IS-AR-05-006; 03/24/2005	Windows Server Security at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers IS-AR-05-003; 01/05/2005
Fiscal Year 2004 Information Systems General Controls Capping Report IS-AR-05-004; 01/28/2005		

OVERSIGHT OF INVESTIGATIVE ACTIVITIES

Audit of Postal Inspection Service's Emergency Preparedness
SA-AR-05-001; 01/05/2005



APPENDIX B

FINDINGS OF QUESTIONED COSTS

For the period October 1, 2004, through March 31, 2005

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

OFFICE OF INSPECTOR GENERAL AND POSTAL INSPECTION SERVICE

As required by the Inspector General Act (IG), 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	12	\$63,715,526	\$6,716,428
Reports requiring management decision that were issued during the reporting period	18	\$17,090,638	\$22,837
TOTAL	30	\$80,806,164	\$6,739,265
Reports for which a management decision was made during the reporting period (i+ii)	9	\$3,700,471	\$22,837
(i) Dollar value of disallowed cost	—	\$2,328,399	\$1,470
(ii) Dollar value of cost not disallowed	—	\$1,372,072	\$21,367
Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing.	21	\$77,105,693	\$6,716,428
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	3	\$49,245,892	\$4,718,940
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	6	\$13,208,954	\$1,997,488

Note 1 - Reports for which no management decision was made within six months of issuance:			Total Questioned Costs	Unsupported Costs Included in Questioned Costs
Subject	Report Number	Report Date		
Audit of Termination for Convenience Price Adjustment Claim Submitted by Abcon Associates, Incorporated	CA-CAR-04-022	6/16/2004	\$4,478,385	\$2,702,465
Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005	9/30/2004	\$42,751,032	—
Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006	9/30/2004	\$2,016,475	\$2,016,475
OFFICE OF INSPECTOR GENERAL TOTAL			\$49,245,892	\$4,718,940

Note 2 - Reports for which no management decision was made within one year of issuance:			Total Questioned Costs	Unsupported Costs Included In Questioned Costs
Subject	Report Number	Report Date		
Contract Audit – M.E.S. Incorporated	CA-CAR-02-045	6/28/02	\$1,053,263	\$134,340
Contract Audit – M.E.S. Incorporated	CA-CAR-02-051	9/13/02	\$620,681	\$187,271
Contract Audit – Bell and Howell Mail and Messaging Technologies	CA-CAR-03-002	10/16/02	\$343,759	—
Contract Audit – D. L. Kaufman, Incorporated	CA-CAR-03-011	2/11/03	\$4,028,935	—
Audit of Equitable Adjustment Claim Submitted by STV, Incorporated	IR-CAR-03-011	9/30/03	\$98,569	—
OFFICE OF INSPECTOR GENERAL TOTAL			\$6,145,207	\$321,611
Contract Audit; 181-1294644-AC(1)		11/17/99	\$7,063,747	\$1,675,877
POSTAL INSPECTION SERVICE TOTAL			\$7,063,747	\$1,675,877
COMBINED TOTAL			\$13,208,954	\$1,997,488

APPENDIX C

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period October 1, 2004, through March 31, 2005

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

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

OFFICE OF INSPECTOR GENERAL

Description	Number of Reports	Dollar Value
Reports for which no management decision was made at the beginning of the reporting period	8	\$161,242,201
Reports requiring management decision that were issued during the reporting period	7	\$114,646,808
TOTAL	15	\$275,889,009
Reports for which a management decision was made during the report period (i + ii)	6	\$113,600,568
(i) Value of recommendations agreed to by management	—	\$105,652,568
(ii) Value of recommendations that management did not agree	—	\$7,948,000
Reports for which no management decision was made by the end of the reporting period*	9	\$162,288,441
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	3	\$55,257,637
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	5	\$105,984,564

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
Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006	9/30/2004	\$7,300,150
Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005	9/30/2004	\$40,296,954
Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004	9/29/2004	\$7,660,533
TOTAL			\$55,257,637

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
Trailer Lease Justification	TD-AR-02-002	3/29/2002	\$82,349,739
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
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
TOTAL			\$105,984,564

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



APPENDIX D

REPORTS WITH SIGNIFICANT RECOMMENDATIONS PENDING CORRECTIVE ACTIONS

For the period through March 31, 2005

As required by the IG Act, the following pages include a list 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.

OFFICE OF INSPECTOR GENERAL

Issue Date	Number of Recommendations*	Report Title	Report Number
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
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	2	Trailer Lease Justification	TD-AR-02-002
5/8/2002	1	Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayments and Refundable Disbursements	LH-AR-02-003
7/9/2002	4	Review of eBusiness Agreements	EM-AR-02-012
7/10/2002	2	New York Metro Area Trailer Acquisition Requirements	TD-MA-02-003
9/3/2002	2	Postal Service's Corporate Succession Planning Process	LH-AR-02-004
9/26/2002	1	Utility Payments to Commonwealth Edison	FT-AR-02-015
9/27/2002	3	Effectiveness of the Postal Service's Asset Locator	FT-AR-02-017
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
10/28/2002	1	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
3/12/2003	2	Address Change Service	TD-AR-03-004
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	1	Retail Data Mart System – Security Issues	OE-AR-03-002
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
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
9/10/2003	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	8	General Controls at the Engineering Research and Development Center	IS-AR-03-008
9/30/2003	3	Postal Service and Union Labor Relations	LH-AR-03-012
12/2/2003	1	Fiscal Year 2003 Information System Controls, Eagan, San Mateo, and St. Louis Information Technology and Accounting Service Centers	IS-AR-04-001

* Pending corrective action

Issue Date	Number of Recommendations*	Report Title	Report Number
12/5/2003	3	Vehicle Maintenance Facilities – Chicago District – Accidental Vehicle Damage Cost and Vehicle Safety, Security, and Appearance	NL-AR-04-002
3/10/2004	1	Information Systems Disaster Recovery Process	IS-AR-04-004
3/30/2004	2	Compliance with the Bank Secrecy Act	FF-AR-04-100
3/31/2004	1	Efficiency of the San Francisco International Service Center and the General Services Administration Facility	NO-AR-04-006
3/31/2004	1	Efficiency of the Oakland International Service Facility and the Regatta Facility	NO-AR-04-007
4/21/2004	1	Postal Inspection Service's Postal Police Officers	SA-AR-04-001
6/8/2004	2	Follow-up of the Network Security and Security Testing of Load Balancers at the San Mateo Host Computing Services	IS-AR-04-006
7/1/2004	1	Financial Opportunities of Underutilized Land	CA-MA-04-004
9/22/2004	2	Self-Service Vending Program – Nevada-Sierra District	DR-AR-04-009
9/24/2004	1	Technology Acquisition Management	DA-AR-04-003
9/24/2004	1	Efficiency of the New York International Service Center	NO-AR-04-009
9/28/2004	2	Self-Service Vending Program – Sacramento District	DR-AR-04-011
9/29/2004	3	Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004
9/29/2004	3	Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006
9/30/2004	1	Fiscal Year 2003 Supply Chain Management Savings	CA-AR-04-003
9/30/2004	1	Advanced Facer Canceler System Improvements	DA-AR-04-004
9/30/2004	2	Self-Service Vending Program – Southeast Area	DR-AR-04-013
9/30/2004	2	Postal Service's Business Partner Connectivity	IS-AR-04-014
9/30/2004	5	Vehicle Management – Delivery Vehicles – Buy Versus Lease	NL-AR-04-005
10/14/2004	2	Self-Service Vending Program – Boston District	DR-AR-05-002
10/25/2004	1	Reports Distribution	IS-AR-05-001
10/27/2004	2	Self-Service Vending Program – Pacific Area	DR-AR-05-006
11/1/2004	2	Self-Service Vending Program – Bay Valley District	DR-AR-05-008
11/4/2004	2	Self-Service Vending Program – Santa Ana District	DR-AR-05-007
12/10/2004	2	Self-Service Vending Program – Southwest Area	DR-AR-05-010
12/21/2004	6	Automated Postal Center Program Management	CA-AR-05-001
1/10/2005	2	Fiscal Year 2004 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center	FT-AR-05-005
1/25/2005	2	Mail Transport Equipment Service Center Network – Network Realignment – Pittsburgh, Detroit, Cleveland	NL-AR-05-001
2/1/2005	2	Self-Service Vending Program – Northeast Area	DR-AR-05-011
3/15/2005	1	Fiscal Year 2004 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-05-009
3/17/2005	2	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Eastern Area	NL-AR-05-003
3/18/2005	1	Intermodal Rail and Highway Transportation – Pacific Area	NL-AR-05-004
3/18/2005	1	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southeast Area	NL-AR-05-005
3/29/2005	1	Efficiency Review of the Akron, Ohio, Processing and Distribution Center	NO-AR-05-009

* Pending corrective action



APPENDIX E

SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period October 1, 2004, through March 31, 2005

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

Trailer Lease Justification (TD-AR-02-002, 3/29/2002)

Recommendation 1: The OIG recommended the Vice President, Purchasing and Materials prepare a Decision Analysis Report to purchase the common fleet trailers currently under the nationwide lease and submit it to the Board of Governors.

Recommendation 4: The OIG recommended the Vice President, Purchasing and Materials develop management controls to ensure use of a Decision Analysis Report for leases exceeding \$10 million per year.

Agency Response: Postal Service management stated the National Trailer Lease was not a lease, but a service contract, and as a result, did not require a Decision Analysis Report or Board of Governors' approval. However, on July 22, 2002, in an effort to reach resolution, the deputy postmaster general directed Postal Service management to analyze the National Trailer Lease in accordance with the procedures specified by the Postal Service investment policy, and stated that Postal Service Finance would independently verify the analysis in accordance with the same procedures they use for capital projects. The OIG is currently working with the Postal Service to resolve this issue.

New York Metro Area Trailer Acquisition – Lease Versus Buy (TD-AR-03-009, 3/31/2003)

Recommendation 1: The OIG recommended the Vice President, Supply Management prepare a Decision Analysis Report in accordance with Postal Service investment policy to support acquisition of trailers for the New York Metro Area.

Recommendation 2: The OIG recommended the Vice President, Supply Management submit the Decision Analysis Report to the Board of Governors for approval.

Agency Response: Postal Service management pointed out that the issues raised during this audit were substantially the same as the issues raised during the Trailer Lease Justification audit. Accordingly, the OIG has joined its resolution efforts concerning these two audits.

APPENDIX F

INVESTIGATIVE STATISTICS¹

For the period October 1, 2004, through March 31, 2005

OFFICE OF INSPECTOR GENERAL

Misconduct Statistics		Employee Mail Theft Statistics²
Investigations completed	1,269	1,115
Arrests/Indictments/Informations	194	316
Convictions/Pretrial diversions	23	218
Administrative Actions	306	800
Fines, restitutions and recoveries	\$12,251,411.40	—
Amount to Postal Service ³	\$3,521,640.28	—

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

² Cases worked solely by the Postal Inspection Service.

³ Amount included in total fines, restitutions and recoveries.



APPENDIX G

SUMMARY OF POSTAL SERVICE INVESTIGATIVE ACTIVITIES UNDER 39 USC 3013

For the period October 1, 2004, through March 31, 2005

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

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

SUMMARY OF U.S. POSTAL INSPECTION SERVICE ACTIONS UNDER 39 USC 3005 AND 3007

For the period October 1, 2004, through March 31, 2005

Type of Scheme	Complaints Filed	Consent Agreements	FROs	Cease & Desist Orders
False Billings	3	2	2	4
Internet Auction	1	1	1	1
Lotteries (Foreign and Domestic)	2	—	—	—
Medical	1	—	—	—
Merchandise:	—	—	—	—
Failure to furnish	1	1	1	1
Misrepresentation	1	1	—	1
Miscellaneous	1	—	—	—
Work at Home	2	1	1	3
TOTAL	12	6	5	10

OTHER ADMINISTRATIVE ACTIONS

Administrative Action Requests	20
Temporary Restraining Orders Requested	4
Temporary Restraining Orders Issued	2
Civil Injunctions (1345) Requested	2
Civil Injunctions (1345) Issued	2
Cases Using Direct Purchase Authority	3
Civil Penalties Imposed	\$1,315,842
Expenditures Incurred for:	
Test Purchases	\$510
Expert Testimony	—
Witness Travel	—
Withholding Mail Orders Issued	15
Voluntary Discontinuances	12

FINANCIAL REPORTING ON INVESTIGATIVE ACTIVITIES FY 2005 MO 1-6

Type	Semiannual Report
Personnel	\$167,831,425
Nonpersonnel	\$40,396,168
TOTAL	\$208,227,593
Capital Obligations	\$3,085,048

NOTE: There were no administrative subpoenas issued during the reporting period.

APPENDIX H

CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period October 1, 2004, through March 31, 2005

This appendix lists the 43 Congressional and Governors inquiries the OIG closed during this reporting period. The OIG reviewed these inquiries to help identify systemic issues and to determine the need for future Postal Service-wide audits.

MANAGING COSTS

Requestor	Allegations/Concern	Closure Date
Governors	Improper contracting procedures used in closing Mail Transport Equipment Service Center.	28-Jan-05
Governors	Senior USPS employee accepted bribes from a contractor.	10-Mar-05
Senator, Iowa	Improprieties in procurement.	17-Mar-05
Representative, Oklahoma	Improprieties in procurement.	8-Oct-04
Representative, Oklahoma	Improprieties in procurement.	8-Oct-04
Representative, Texas	Postal Service violated its rules on selection of independent contractors.	17-Mar-05
Senator, California	Allegations of fraud, waste, and mismanagement at a Post Office.	14-Oct-04
Representative, Tennessee	Improprieties in the USPS Fuel Management Program.	15-Nov-04
Senator, Missouri	Improprieties at a Postal Service facility, including sexual harassment and misuse of government credit cards.	17-Mar-05
Representative, Alabama	Delays in EEO case settlement.	4-Nov-04
State Assemblyman, California	Request to review plans for closing two postal facilities.	15-Nov-04
Representative, Ohio	Request for assistance to obtain a response for an MSPB case.	7-Dec-04
Senator, West Virginia	Improprieties in assigning a rural route.	30-Nov-04
Senator, California	Misuse of government vehicle.	15-Mar-05
Senator, Texas	Retaliation following protected communications.	3-Mar-05
Representative, Louisiana	Availability of report concerning alleged on-the-job injury.	16-Mar-05
Representative, Alabama	Request for assistance regarding an EEO case.	22-Mar-05

PRESERVING INTEGRITY AND SECURITY

Requestor	Allegations/Concern	Closure Date
Representative, Florida	Misreporting and misuse of medical information by supervisor.	10-Mar-05
Representative, Maryland	Harassment, intimidation, interrogation, and surveillance.	6-Oct-04
Representative, Alabama	Harassment and hostile work environment at a Post Office.	27-Oct-04
Representative, Virginia	Harassment and retaliation at a Post Office.	27-Oct-04
Senator, Virginia	Misuse of Postal Service facilities and equipment to harass and slander an individual and a corporation.	2-Feb-05
Senator, West Virginia	Delays in delivery or loss of mail.	22-Nov-04
Senator, Georgia	Availability of OIG report confirming forged training documents.	9-Nov-04
Senator, Georgia	Misdelivery or loss of Priority Mail.	3-Nov-04
Senator, Arizona	Retaliation as a result of an EEO complaint and communication with the OIG.	7-Dec-04
Representative, Georgia	FOIA request and Worker's Compensation issues under control of the Postal Service.	22-Nov-04
Senator, West Virginia	Refusal to deliver Standard Mail.	22-Nov-04



Senator, New York	Possible forgery of leave documents.	2-Dec-04
Representative, Virginia	Delays in mail delivery.	6-Dec-04
Representative, Arizona	Availability of OIG investigative report.	17-Feb-05

DEVELOPING PEOPLE

Requestor	Allegations/Concern	Closure Date
Representative, Missouri	Harassment and violations of Family and Medical Leave Act at a Post Office.	26-Oct-04
Governor	Noise complaints at a Post Office.	2-Nov-04
Representative, Massachusetts	Retaliation following an EEO complaint against the OIG.	18-Oct-04
Senator, Texas	OIG employee reassignment.	13-Dec-04
Senator, Massachusetts	Harassment, discrimination, and retaliation by an OIG employee.	29-Oct-04
Senator, California	Registered nurse qualifications at a Postal Service facility.	2-Nov-04
Representative, Texas	OIG employee reassignment.	13-Dec-04
Senator, Massachusetts	Harassment, discrimination, and retaliation by an OIG employee.	13-Jan-05
Representative, Hawaii	Medical records provided under subpoena not yet returned.	15-Feb-05
Senator, Wyoming	Request for information on existing Postal Service programs and initiatives to combat obesity.	9-Mar-05

SUPPLEMENTAL INFORMATION

AUDIT SYNOPSES

For the period October 1, 2004, through March 31, 2005

IMPROVING SERVICE

City Letter Carrier Operations — Rio Grande District, DR-AR-05-009

The OIG found opportunities to improve the management of city letter carrier operations in the Cresthaven, J. Frank Dobie, and University Park delivery units. The OIG recommended the Manager, Rio Grande District make a number of changes including direct delivery unit supervisors and managers to require carriers to properly complete required forms; instruct the supervisors to only authorize time that carriers request, obtain, and use correct time factors for approving and justifying requests for additional time; require supervisors to properly and fully utilize the DOIS system.

The OIG also recommended requiring delivery unit supervisors and managers, scheduled for an upcoming route inspection, to review the Southwest Area's *Post Route Adjustment Guidelines* on post evaluation follow-up procedures and provide additional training to managers or supervisors in more effectively using Managed Service Points (a computerized tool designed to monitor consistency of delivery time and enhance street management using mobile data collection devices). The OIG also recommended requiring supervisors and managers to consistently document unauthorized overtime on required forms and take appropriate corrective action. Management agreed with the OIG's findings and recommendations and has completed initiatives and plans addressing the issues in this report. Management also agreed that the \$193,947, identified by the OIG using the F2B Audit process, was unjustified cost. However, management stated that through their analysis only 2,543 hours or \$92,762 was unrecoverable. The OIG reported only \$92,762 as unrecoverable costs.

Self-Service Vending Program, DR-AR-05-001, DR-AR-05-002, DR-AR-05-003, DR-AR-05-004, DR-AR-05-005, DR-AR-05-006, DR-AR-05-007, DR-AR-05-008, DR-AR-05-010

The Self-Service Vending (SSV) Program provides an alternative to the retail counter that gives customers convenient access 24 hours-a-day, seven days-a-week, to the postal products and services they most frequently need.

During reviews of the SSV equipment in various districts, the OIG noted that Postal Service officials could increase revenue opportunities by redeploying equipment that did not meet minimum revenue requirements. Further, officials could discontinue the use of obsolete equipment to reduce maintenance and repair costs. The OIG's physical observation of vending machines, in the various districts, indicated that the machines are, overall, easily accessible, with few exceptions.

Area management agreed with the findings and recommendations and initiated corrective actions to redeploy underperforming vending equipment and remove obsolete equipment. Further, the Vice President, Delivery and Retail, issued a directive in August 2004 to implement nationwide changes in the Postal Service's Self Service Vending Program. The changes included development of a task force to implement a self-service strategy that would eliminate costly obsolete vending equipment; remove and redeploy current, underperforming vending equipment; and revise removal and redeployment vending machine criteria.

MANAGING COSTS

Accountability at the San Francisco Vehicle Maintenance Facility, FT-AR-05-008

The OIG conducted an audit of the San Francisco Vehicle Maintenance Facility (VMF) as part of the annual financial statements audit of the San Mateo Information Technology and Accounting Service Center. The audit looked at whether the VMF properly accounted for vehicle parts, bulk fuel and oil inventories, and vehicles. The OIG found that the San Francisco VMF did not maintain accountability over vehicle parts inventories and five types of vehicle parts could not be reconciled to the local VMF accounting system. Additionally there were differences between the physical counts used to update the two parts accounting systems and between the physical counts and the amounts recorded in the Vehicle Management Accounting System (VMAS). The differences were not reconciled, nor was the VMAS updated to reflect the accurate numbers of parts.

Application of Agreed-Upon Procedures to Costs Incurred Under Contract Number 102592-00-Z-0799 Submitted by Logistics Management Institute, CA-CAR-05-001

This report presented results of the application of agreed-upon procedures to costs incurred under contract 102592-00-Z-0799 submitted by the Logistics Management Institute. The audit's aim was to verify costs incurred and determine their allowability. The audit disclosed no questioned or unallowable costs. The OIG did not perform an examination and, accordingly, did not express an opinion on the subject matter of this report. Additional matters might have come to the OIG's attention and been reported, if more procedures had been performed.

Audit of Certified Price Adjustment Claim Submitted by a Logistics Company, Under Contract Number TNET 93-01, CA-CAR-05-011

The OIG audited a \$3,755,842 certified price adjustment claim for the period of July 18, 1998, through April 5, 2004, submitted by a logistics company for the handling of mail containers at an airmail facility. The audit looked at whether the claimed costs were acceptable as a basis to negotiate a fair and reasonable settlement. The audit questioned the claim in its entirety because the claimed costs do not represent the incremental additional costs associated with the claimed additional work and are not supported by the contractor's accounting records. The contractor has not made any attempt to specifically identify and quantify the claimed additional labor.

The results of the audit are qualified because the contractor's accounting system did not accumulate direct costs by job or contract. Also, the issue of contractor entitlement was not addressed in this report because it is a matter for legal determination.

The audit found that the contractor submitted inadequate cost or pricing data and the claim was not prepared in accordance with appropriate provisions of the Postal Service's Purchasing Manual. Because the noncompliances were considered significant, the OIG did not consider the claim to be an acceptable basis for negotiation of a fair and reasonable settlement.

Audit Opinion on the Postal Service's Special-Purpose Financial Statements: Federal Intragovernmental Transactions, FT-AR-05-002, FT-AR-05-001

The OIG audited the Postal Service's "special-purpose closing package" and performed agreed-upon procedures on federal intragovernmental transactions. (The special-purpose closing package is a submission of fiscal year-end financial statements and other related data to the Department of the Treasury, as required by Section 405 of the Government Management Reform Act of 1994. The data is used in preparing the Financial Report of the United States.)

The reclassified balance sheet as of September 30, 2004, and the related reclassified statements of net cost and changes in net position for the year then ended, and accompanying notes, were prepared by the Postal Service to provide financial information to the Department of the Treasury and GAO to use in preparing and auditing the Financial Report of the U.S. Government. In the OIG's opinion, the special-purpose financial statements were presented fairly, in all material respects, the financial position of the Postal Service as of September 30, 2004, and its net costs and changes in net position for the year then ended in conformity with accounting principles generally accepted in the United States, and the presentation was pursuant to the requirements prescribed in the Treasury Financial Manual, Chapter 4700.

Automated Postal Center Program Management, CA-AR-05-001

The Automated Postal Center (APC) program office began a phased, nationwide deployment of 2,500 APCs on April 1, 2004. The process for selecting APC deployment sites needed improvement, since the Postal Service had incurred \$68,742 for facility design and support for 46 sites no longer included in the APC deployment schedule. These costs represent unrecoverable costs for the Postal Service. Also, the deployed APCs generally met requirements but were found to be missing four functional capabilities described in the DAR, APC development, and deployment processes, including control weaknesses that exposed the Postal Service to unnecessary risks. Additionally, APC capital investment costs may exceed the approved \$95.43 million capital funding level. Finally, the program office generally kept the Board of Governors and senior Postal Service officials informed of changes in APC program status via the Investment Highlights reports, but did not disclose a potentially significant operational concept change and the fact that four functional requirements, described in the DAR, were not included with deployed APCs.

Management agreed with the OIG's recommendations to develop and document APC requirements; prepare schedules and cost estimates for planned future upgrades not already on contract; complete site security reviews; and ensure contractor employees obtain appropriate security clearances. Additionally, management agreed to coordinate the site selection process for future APCs with all affected stakeholders, submit quarterly DAR compliance reports that fully communicate missing APC functionality and operational concept changes, and submit a DAR Modification Request for Board of Governor consideration and approval, if necessary, that identifies additional capital funding requirements. Finally, management agreed to capitalize contractor Customer Acceptance Testing costs; however, they disagreed with recommendations to capitalize certain other program costs. The OIG considers management's disagreement with the recommendations as unresolved and is pursuing these issues through the formal audit resolution process.

Beach Haven, New Jersey Post Office, CA-OT-05-002

The OIG examined documentation detailing noise and other concerns that neighboring residents voiced regarding operations at the Beach

Haven, N.J., Post Office. The OIG discussed those concerns with the Postal Service Law Department and South Jersey District personnel and learned that postal officials participated in non-binding mediation with neighboring residents on October 7, 2004. The Postal Service plans to continue discussions to resolve concerns and agreed to meet with the residents again. The OIG believes this matter is best addressed by first allowing the agreed-upon mediation to proceed; and therefore does not plan to perform any further review.

Contract Reviews

The Defense Contract Audit Agency (DCAA) performed 15 contract-related audits during this reporting period at the OIG's request. The audits evaluated cost proposals associated with Robotic Containerization Systems, Automatic Tray Sleviers, and Automatic Flat Sorting Machines. The DCAA also audited certified price adjustment claims, verified incurred costs, and determined whether forward pricing rates were reasonable. The OIG considered most of the cost proposals acceptable for negotiating fair and reasonable rates; however, the claims were not considered to be acceptable as a basis for negotiation of a fair and reasonable settlement. In total, \$17 million was identified as potential contract savings.

Corporate Contact Management — GAO Fraudnet, CA-OT-05-001

The OIG conducted a limited review of allegations of mismanagement, by the Postal Service and Convergys Corporation, in developing a new customer contact system. The OIG found that the Postal Service entered into the contract to streamline and consolidate various customer-call centers and estimates substantial savings with this initiative. The OIG found no evidence that key applications were deemed out of scope or that there were multiple contracts; contract terms that permit Convergys to subcontract portions of the work; and Convergys failure to meet the milestone required for receipt of its associated bonus payment.

Efficiency Review of the Mansfield, Ohio, Main Post Office, NO-AR-05-004

An OIG audit of the Mansfield Main Post Office (MPO) found it could improve operational efficiency by reducing 24,000 mail processing workhours, based on the assumption that mail volume will not significantly change from FY 2003 levels. This would allow the Mansfield MPO to achieve 90 percent of its targeted goals and could produce a cost avoidance of approximately \$7.6 million based on labor savings over 10 years.

The OIG also concluded that moving the outgoing mail operations from the Mansfield MPO to the Akron P&DC would save 28,000 workhours at the Mansfield MPO, improve network efficiencies, and potentially upgrade delivery service. This workhour reduction could produce a cost avoidance of more than \$9.6 million based on labor savings over ten years. The OIG reported this amount, and the approximately \$7.6 million in labor savings, as funds put to better use.

Field Operations Reviews

The OIG audited the financial operations of 77 installations, including 34 post offices, 38 business mail entry units, and 5 self-service and automated postal centers. At 11 of the 77 installations, financial transactions were reasonably and fairly presented and generally internal controls were in place and effective. At 65 of the 77 installations, although financial transactions were reasonably and fairly presented in the accounting records, and generally internal controls were in place and effective, the OIG noted some internal control and compliance issues. For example, there were issues with account-

ability, cash, stamps and mail acceptance and verification. Also, at one of the 77 installations, internal controls were not in place.

For the FY 2005 Cost and Revenue Analysis, the OIG observed statistical tests conducted at 13 Postal Service installations. Data collectors generally followed Postal Service policies and procedures when conducting statistical tests, except for some test errors at nine of the 13 installations.

In support of an independent public accounting firm's opinion on the Postal Service's financial statements, the OIG examined the financial activities and accounting records at Postal Service Headquarters and the Information Technology and Accounting Service Centers in St. Louis, Mo.; San Mateo, Calif.; and Eagan, Minn. The OIG also audited computer systems that generate financial data. The audit determined management's policies and accounting procedures conformed to 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.

Fiscal Year 2004 Postal Service Financial Statements Audit — Eagan Information Technology and Accounting Service Center, FT-AR-05-005

The OIG conducted its annual audit of the Postal Service's financial statements, in support of the independent public accounting firm's overall audit opinion on the Postal Service's financial statements. The audit disclosed that management's financial accounting policies and procedures conform to generally accepted accounting principles and provide for an adequate internal control structure. Additionally, accounting transactions at the Eagan Information Technology and Accounting Service Center that affect the general ledger account balances were fairly stated in the National Trial Balance Report in accordance with generally accepted accounting principles. (The National Trial Balance Report represents the general ledger account balances that make up the financial statements of the Postal Service.)

The OIG did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements. However, the OIG identified an opportunity to improve the Postal Service's impact on the overall adequacy of internal controls. This report provided two recommendations to assist the Postal Service in improving the internal controls over payroll processing. Management agreed with the OIG's recommendations and has initiatives planned to be completed by the third quarter of FY 2005.

Fiscal Year 2004 Postal Service Financial Statements Audit — San Mateo Information Technology and Accounting Service Center, FT-AR-05-007

The OIG audited the financial activities and accounting records at the Information Technology and Accounting Service Center (IT/ASC) in San Mateo, Calif., for the fiscal year ending September 30, 2004. The audit disclosed that management's financial accounting policies and procedures conform to generally accepted accounting principles and provide for an adequate internal control structure.

Additionally, accounting transactions at the San Mateo IT/ASC impacting the general ledger account balances were fairly stated in the national trial balance in accordance with these principles. Also, the OIG did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements; however, the San Mateo IT/ASC did not include all payments in its universe of invoices selected for self-

audit. Specifically, invoices coded to be paid the next business day were excluded from selection as part of the IT/ASC's self-audit. As a result, the San Mateo IT/ASC did not effectively use its self-audit program to ensure it correctly entered invoices into the Accounts Payable Accounting and Reporting System II (APARS II) and to identify systemic processing errors.

During the audit, the San Mateo IT/ASC took corrective action to modify the timing of the APARS II selection of invoices for self-audit. The OIG confirmed that the system now selects invoices prior to processing invoices for payment, to include those invoices entered into APARS II the previous day and coded for payment on the next business day. The results of the audit were discussed with Postal Service management on October 26, 2004, but management chose not to respond because there were no recommendations.

Fiscal Year 2004 Postal Service Financial Statements Audit — Washington, D.C., Headquarters, FT-AR-05-006

The OIG audited selected financial activities and accounting records at Postal Service Headquarters for the fiscal year ending September 30, 2004. The audit disclosed that management's financial accounting policies and procedures conform to generally accepted accounting principles and provide for an adequate internal control structure. Additionally, general ledger account balances for investments, unemployment compensation, workers' compensation, and Governors' and officers' travel and expenses were stated in the national trial balance in accordance with these principles. Also, the OIG did not identify any instances of noncompliance with laws and regulations that have a direct and material effect on the financial statements.

In FY 2004, the Postal Service switched from reporting financial data based on 28-day accounting periods to monthly reporting and implemented a new general ledger system, therefore making a number of changes to its legacy chart of accounts, including the elimination and creation of accounts. The Postal Service's general ledger account balances remained consistent with the general classification of accounts from the previous year. The asset, liability, equity, income, expense, and commitment accounts were appropriately classified in the new general ledger system. The results of the audit were discussed with Postal Service management on October 25, 2004.

Imprest Fund at the Former Columbia, Maryland, Facilities Service Office, FT-MA-05-001

The OIG reviewed an imprest fund at the former Columbia, Md., Facilities Service Office, in response to a request from Postal Service Headquarters to review inactive imprest funds. The report presents an issue concerning \$1,470 in unaccounted funds, which were reported as questioned costs. The request listed eight imprest funds (totaling \$17,400) for which personnel at Postal Service Headquarters lacked sufficient status reports. The San Mateo Accounting Service Center (ASC) personnel did not adequately monitor the imprest fund because one of their technicians was not familiar with the requirement to monitor, initiate action, or report on funds not maintained in accordance with Postal Service policies and procedures. As a result, the Postal Service could not determine what happened to \$1,469.58 of the recorded \$2,000 imprest fund.



Mail Transport Equipment Service Center Network — Network Realignment: Pittsburgh, Detroit, Cleveland, NL-AR-05-001

Postal Service officials are realigning the Mail Transport Equipment Service Center (MTEC) network to integrate or consolidate operations, close facilities, and save money. As part of this realignment, officials planned to close service centers in Pittsburgh and Detroit, and consolidate operations in Cleveland. On March 24, 2004, the Board of Governors asked the OIG to examine the plan and notify them before the Postal Service moved operations to Cleveland, after receiving an allegation that the Postal Service never solicited revised pricing from the incumbent contractor and that retaining operations in Pittsburgh and Detroit would be cheaper than moving to Cleveland. The Cleveland contract award was scheduled for May 7, 2004. Ultimately, the Postal Service decided not to consolidate operations to Cleveland. Instead, on August 6, 2004, management entered into a five-year agreement with the incumbent Pittsburgh-Detroit contractor and anticipates savings of more than \$21.6 million over a five-year period compared to current costs.

Postal Service Board of Governors' Travel and Miscellaneous Expenses and Officers' Travel and Representation Expenses for Fiscal Year 2004, FT-AR-05-004, FT-AR-05-003

For the fiscal year ending September 30, 2004, the Board of Governors' expenses of \$234,000, and the officers' expenses of \$1.4 million were properly supported and complied with Board of Governors' guidelines and Postal Service policies and procedures.

Reports Distribution, IS-AR-05-001

The Postal Service's control of the distribution of print outputs by the Eagan Host Computing Services is essential to increasing efficiency and minimizing associated costs. For this to occur, the Postal Service must establish a steering committee to promote its existing electronic infrastructure and implement an output distribution policy that conveys its preference for using electronic media over printing and distributing hardcopies of reports. Areas of opportunity exist for increasing the use of electronic media to print outputs that have an electronic distribution method already in place and are capable of being distributed electronically as part of ongoing initiatives. In addition, the Postal Service can reduce the frequency for mailing some print outputs. The financial impact of these specific opportunities is \$3,220,411, annually.

The OIG agreed with Postal Service managers that a one-time offsetting investment cost for conversion of hardcopy to electronic report distribution may be required. However, additional benefits may also be achieved by evaluating outputs and cost factors that the OIG did not consider in its review.

DEVELOPING PEOPLE

Complaints of a Hostile Work Environment at a South Florida District Priority Mail Processing Center, HM-AR-05-001

The OIG found that a hostile work environment did not exist at the Miami Priority Mail Processing Center (PMPC) as a whole; however, it may have existed for some employees because supervisors and managers, working in a diverse environment failed to address employee issues consistently. The OIG found no evidence that employee treatment was based on race. Additionally, South Florida District and Miami PMPC managers were made aware of employee complaints of a hostile working environment on at least two occasions and responded according to Postal Service policies and proce-

dures with a fact-finding investigation and report issued on April 15, 2004, to the South Florida Human Resources Manager.

After receiving the OIG's report, these managers developed an action plan on June 21, 2004, to resolve the identified issues. The actions taken include ongoing monthly diversity training and activities for all employees in the following areas: anti-harassment, sexual harassment, equal employment opportunity, and sensitivity to others. Additionally, periodic meetings are held with supervisors and managers to ensure they are communicating and enforcing clear, uniform policies regarding employee issues such as attendance, light duty, breaks, and leaving the building while on the clock.

The OIG believes management addressed the issues raised by employees at the Miami PMPC and their proposed action plan should help improve the workplace environment; therefore, no recommendations were made. Management generally agreed with most of the report's information and agreed with the OIG's overall conclusion that there are workplace issues at the Miami PMPC that need to be addressed.

GROWING REVENUE

Mail Evaluation, Readability and Lookup INstrument Utilization at the Business Mail Entry Units, NO-AR-05-001, NO-AR-05-002, NO-AR-05-003, NO-AR-05-005

These reports present the results of OIG self-initiated audits of the Mail Evaluation, Readability and Lookup INstrument (MERLIN) utilization at Business Mail Entry (BMEU) associated detached mail units. The OIG assessed whether BMEU's were fully using MERLIN machines to verify business mailings and whether MERLIN utilization rates have generally met the Postal Service target of 100 percent verification of large mailings.

The OIG examined how well BMEU's collected additional postage assessed by MERLIN verifications and controlled overwrites of revenue assessed by MERLIN to assure that additional postage would be collected. The OIG recommended management comply with existing Postal Service guidance for documenting MERLIN Overwrite Reports. In addition, the OIG recommended management review and approve or disapprove all overwrites of MERLIN assessments.

Management was responsive to OIG recommendations that they reassess staffing and scheduling, collect additional postage assessed by MERLIN verifications, and issue clarifying instructions on overwrite procedures.

Postal Service's Negotiated Service Agreement with Capital One, ST-AR-05-001

The OIG completed a self-initiated audit of the Postal Service's negotiated service agreement (NSA) with Capital One Services, Inc. (Capital One), to determine the extent that the NSA achieved the intended results of increasing mail volume, revenue, and cost savings; and to determine whether the Postal Service could rely on its systems to obtain accurate and timely data on mail volume and revenue.

The audit found the Postal Service could not rely on its Permit System to account for all of Capital One's mail volume because a third-party mailer did not provide mail volume data specific to Capital One. Consequently, the Postal Service had to manually calculate a portion of Capital One's mail volume, which may not accurately account for the mail volume data needed to determine whether Capital One is entitled to a refund. In addition, postal officials did not establish a dedicated team, throughout the NSA process, to ensure adequate involvement by the necessary Postal Service departments. This

occurred because the Postal Service did not have formal policies and procedures that defined the roles, responsibilities, and established timelines to process an NSA.

As a result, Postal Service departments may encounter internal delays and experience a breakdown in communication throughout the process. The OIG recommended the Postal Service include a clause in all future NSAs to require customers to stipulate that all third-party mailers provide the Postal Service with customer specific mail volume data. Management disagreed in part with this, stating that all data used to calculate Capital One's volumes are taken from either the Permit or PostalOne! Systems, but agreed to look for ways to explicitly describe obligations of third parties in providing mail volume. However, management felt third-party mailers were not needed to provide data not relevant to an NSA. The OIG also recommended the Postal Service finalize the draft Handbook for Negotiated Service Agreements, and management agreed to finalize the draft by December 2004.

PRESERVING INTEGRITY AND SECURITY

Audit of Postal Inspection Service's Emergency Preparedness, SA-AR-05-001

The Postal Inspection Service (USPIS) has embraced the requirements of Homeland Security Presidential Directive 5 and is taking action to develop a USPIS-Integrated Emergency Management Plan (IEMP) to fully meet the requirements while ensuring continuity with the Postal Service's IEMP. In July 2004, the USPIS established a working group of subject matter experts made up of postal inspectors from various divisions in the USPIS to help achieve a USPIS all-hazard, one-plan goal. The USPIS has established a plan of action with target dates for its IEMP initiative. This plan will assist the USPIS with developing procedures to more effectively protect people and maintain operations during emergencies.

Click-N-Ship Security Vulnerability Assessment, IS-CS-05-002

The OIG conducted a security vulnerability assessment on selected servers that support the Click-N-Ship application to assess the security of selected servers and to determine whether the servers were in compliance with current Postal Service server hardening standards. The Click-N-Ship application is generally secure; however, security can be enhanced by frequent monitoring and review of system configurations and compliance with Postal Service standards. Although the report did not contain formal recommendations, the OIG urged system administrators to review the information provided and use it as a tool to assist in locating potential weaknesses, establishing priorities for corrective action, and implementing repairs as necessary.

Computer Security at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers, IS-AR-05-003

The OIG audited information systems controls for selected servers, at the Eagan, Minn., and San Mateo, Calif. Information Technology and Accounting Service Centers, and found that Postal Service servers were reasonably secure. The Postal Service has developed — and continues to update — corporate-wide policies and procedures for the purpose of building a consistent and secure server configuration. However, the audit found that management could improve server

security by reviewing the current configurations. Management concurred with the two recommendations in the report.

Oracle Security Environment at the Eagan and San Mateo Information Technology and Accounting Service Centers, IS-AR-05-002

The OIG audited information systems controls for selected Oracle applications at the Eagan, Minn., and San Mateo, Calif., Information Technology and Accounting Service Centers and found that the Oracle security environment related to the selected applications is reasonably secure. However, Postal Service management could improve controls. Management concurred with this recommendation and agreed to make corrections by December 30, 2004.

Security Assessment (PhoneSweep) of PBX Site Event Buffers, IS-CS-05-001

The OIG utilized PhoneSweep software to test 442 PBX site event buffers managed by Sprint and found that the telecommunications professionals are managing them well. PhoneSweep attempts to identify systems attached to remote modems and find areas of poor security by guessing common usernames and passwords. The OIG was able to connect to and identify site event buffers (modems), but were unable to penetrate them. Summary results show that PhoneSweep did not succeed in penetrating any systems. However; PhoneSweep did not complete the full brute force routine, because site event buffers were designed to freeze or stop sessions after attempts by the software the OIG used. No inconsistent results were found during this PhoneSweep scan. Finally, the OIG noted that security alerts are functioning as intended and security incidents identified by Sprint were reported to the Postal Service as required.



SUPPLEMENTAL INFORMATION

INVESTIGATIVE SYNOPSES

For the period October 1, 2004, through March 31, 2005

Acceptance of Gratuities and Loans Cost Senior Postal Manager His Job

The Postal Service fired a senior Postal Service manager at the Dallas-Fort Worth Airport, on January 6, 2005, for accepting gifts and loans from a national contractor that he managed.

The contractor provided passenger, cargo, and ramp handling services to major commercial and charter airlines, and held a Postal Service contract for the Dallas-Fort Worth Airport from May 1991 to May 2004. During this period, the manager took \$10,000 in gratuities, including meals and alcoholic beverages, and \$3,500 in cash loans from the contractor. The contractor also employed the manager's spouse.

Contractor Jailed for Stealing \$861,541 from Postal Service

On December 3 and 6, 2004, a California Superior Court judge sentenced the owner of a vehicle repair shop to a two-year prison term and payment of full restitution for stealing \$861,541 from the Postal Service. Between August 2001 and October 2003, the man submitted Voyager credit card charges for services and gasoline not provided. He had held a contract since 2001 to maintain and provide minor repair to Postal Service delivery vehicles.

On October 8, 2004, the owner pled guilty to one of 10 counts of theft. To date, \$99,329 of the stolen funds have been recovered, with \$97,000 of the reimbursement from a U.S. Bank credit to the Postal Service.

Defective Roofing Product Investigation Nets Postal Service More Than \$2 Million

The Postal Service has recovered \$2,054,004 to date by opting into a class-action suit involving phenolic foam roofing insulation (PFRI). Of this amount, \$323,220 was recovered during this semiannual reporting period. PFRI can corrode metal roof decks and was installed on various Postal Service facilities. It was manufactured and sold from 1980 through approximately 1992.

Opened in 2001, this national investigation is based on a referral from the Postal Service Law Department in St. Louis, Mo., indicating that two manufacturers of PFRI concealed the fact that it corrodes metal roofing decks. OIG agents mined databases to identify postal facilities where PFRI might be installed. They narrowed an initial list of more than 8,000 postal facilities to 343 facilities that required additional testing to determine the presence of PFRI. Of those, the OIG identified 58 facilities with PFRI. Additional recoveries are expected from outstanding claims.

False Medical Claims Put Two Physical Therapists in Jail, Aide on House Arrest

Two physical therapists and a physical therapist aide were convicted of fraud for submitting claims for health-care services that were neither necessary nor actually performed. The men submitted false claims to Medicare, workers' compensation programs (including the OWCP for Postal Service employees), and private health insurers. On November 2, 2004, a U.S. District Court judge in Charlotte, N.C., sentenced one therapist to 41 months imprisonment and ordered him to pay \$281,064 in restitution. The judge ordered the aide to six months house arrest with work release. On September 10, 2004, the other therapist was sentenced to 16 months imprisonment. The OIG conducted this investigation jointly with the U.S. Department of Health and Human Services, FBI, and state law enforcement offices.

Jury Convicts Mail Handler of Fraud, Helps Postal Service Avoid \$800,000 in Disability Benefits

A Postal Service mail handler was convicted, by a jury in U.S. District Court in Martinsburg, W.Va., on March 31, 2005, on 26 counts of fraud, resulting in an \$800,000 cost avoidance to the Postal Service. The jury found the mail handler guilty on two counts of defrauding the OWCP by concealing the true nature of his physical condition. He was also convicted on 5 counts of mail fraud and 19 counts of wire fraud. The mail handler had been on disability, since 1996, and had received nearly \$163,000 in compensation for work-related injuries. OIG investigators found that he was routinely exceeding his medical restrictions.

The mail handler faces a maximum sentence of 20 years imprisonment and a \$250,000 fine on the mail and wire fraud counts; and a maximum sentence of five years imprisonment and a \$250,000 fine on the workers' compensation fraud convictions.

Neurologist and Wife Imprisoned for Health-Care Fraud, Must Pay Government \$445,600

A Virginia neurologist and his wife were sentenced, on February 25, 2005, for conspiracy and health-care fraud, in U.S. District Court in Alexandria, Va. Both were convicted, on November 30, 2004, of one count of conspiracy and 61 counts of health-care fraud. Both were ordered to spend 41 months in jail, followed by 36 months supervised probation. The neurologist was also ordered to pay \$445,598 in restitution to the government.

OIG investigators found that the physician had treated 18 Postal Service employees for \$765,656 in medical service. He improperly received \$65,526 from OWCP by upcoding billing for services not rendered, and misrepresenting dates of services.

Neurologist Indicted on 188 Counts of Health-Care and Mail Fraud

The U.S. Attorney's Office in Oakland, Calif., filed an indictment, on January 20, 2005, charging a neurologist with 188 counts of health-care and mail fraud. (This indictment superseded one filed on October 28, 2004, that charged the neurologist with 102 counts of fraud.) The physician allegedly submitted fraudulent claims to various health-care benefit programs for services not provided to Postal Service employees, Medicare beneficiaries, and private insurance claimants. Since 1990, the Postal Service has paid the doctor more than \$391,969, under OWCP, for 32 postal employees.

The Medical Board of California issued a "no-practice" order against the doctor on March 2, 2004. His physician's and surgeon's certificate was also suspended. A trial date is scheduled for October 2005.

Operation Bad Voyage Indicts 46, Arrests 41, and Seizes 44 Vehicles

In the Operation Bad Voyage case, the OIG and other state and federal agencies arrested 41 individuals on February 16, 2005, and seized 44 vehicles, including two tanker trucks with 4,500- and 9,500-gallon capacities. The operation also resulted in a 546-count indictment filed against 46 individuals and 10 companies in the 11th Judicial Circuit Court in Miami-Dade County, Fla. Since July 2003, more than 270 account numbers from Postal Service Voyager Fleet Cards and many Personal Identification Numbers (PINs) have been compromised to make approximately \$400,000 in fraudulent fuel purchases throughout the Miami area.

To date, 73 arrests, 78 indictments, 1 information, and 5 sentencings have resulted from this OIG joint investigation with the Miami-Dade Police Department, Florida Department of Environmental Protection, U.S. Department of Transportation OIG, and U.S. General Services Administration OIG.

Postal Official Admits Taking Gratuities from Subcontractor

On October 28, 2004, a former high-level Postal Service manager pleaded guilty to one count of knowingly receiving a contribution and supplementation to his salary from a source other than the Postal Service. He was charged in an information filed in U.S. District Court in South Bend, Ind., on September 23, 2004.

OIG investigators found that the manager accepted entertainment, in the form of golf outings, meals, and drinks, from a Postal Service subcontractor, from 1998 to 2000. The manager was involved in, and supervised those involved in, evaluating contract bid proposals. The contract ultimately was awarded to the subcontractor's prime contractor. The former manager was scheduled for sentencing on April 26, 2005, and is no longer employed by the Postal Service.

Printer Admits Bribery to Win Postal Contracts

The owner and president of a local printing company were fined \$10,000 by a U.S. District Court judge in Washington, D.C., on April 8, 2005. The printer pleaded guilty, on January 24, 2005, to paying gratuities to a Postal Service purchasing specialist. From 1996 to 2003, the printer paid gratuities to the employee, including a payment of \$11,575 to his divorce attorney, in exchange for favorable treatment on numerous printing contracts. OIG special agents confirmed that the Postal Service awarded the printing company 212 contracts, with a value of \$4.7 million. The printer provided various services to the Postal Service, including the production of brochures, labels, and posters.

This investigation was opened as a spin-off from an earlier investigation of the Postal Service purchasing specialist, who accepted more than \$771,000 in bribes and gratuities from various Postal Service printing vendors in the Washington D.C., area. The printer is the seventh person in this case to plead guilty, including the purchasing specialist and five other printing vendors.

Purchasing Specialist Jailed for Taking \$770,000 in Bribes

A Postal Service purchasing specialist was ordered, by a U.S. District Court judge in Washington, D.C., to spend 46 months in jail and pay \$771,363 in restitution to the Postal Service, on February 11, 2005. The former employee signed a plea agreement, on October 7, 2004, admitting to receiving bribes and taking part in a conspiracy to commit money laundering.

The OIG determined that the purchasing specialist steered Postal Service contracts to various printing companies for more than 12 years. The specialist used fictitious front companies and dummy bank accounts to launder some of the bribes. This investigation also resulted in guilty pleas from a number of the printing vendors that were seeking and obtaining printing contracts with the Postal Service through the purchasing specialist. Payments to some of the vendors go as far back as 1991.

Top Officers of Postal Subcontractor Guilty of Falsifying Payrolls

On March 8, 2005, the vice president of a construction and restoration firm pleaded guilty in U.S. District Court, in Brooklyn, N.Y., to making false statements to the Postal Service regarding certified payrolls. The firm's president was expected to plead guilty to the same charge, at a court appearance scheduled for April 21. Both the president and vice president were arrested on December 14, 2004.

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

Trucker Investigation Saves Postal More than \$740,000 in Disability Benefits

An OIG investigation of a Postal Service tractor-trailer operator resulted in a potential cost avoidance to the Postal Service of more than \$740,000. On January 28, 2005, the operator pleaded guilty, in U.S. District Court in Denver, Co., to one count of making false statements to obtain federal employee's compensation. Investigators determined that the operator fraudulently received more than \$345,000 in workers' compensation benefits.

The operator was injured on the job, on January 2, 1995, when he slipped and fell on ice in a parking lot. He filed a disability claim, which was accepted by the Department of Labor, OWCP, on March 21, 1995. OIG investigators found that the driver operated a car sales business, from June 2003 until August 2004, but failed to claim any type of employment on annual OWCP questionnaires that he submitted in May and June 2003. He was arrested on October 27, 2004, and scheduled for sentencing on April 15, 2005. The OIG investigated this case jointly with the USPIS.

Truck-Trailer Contractor to Pay \$1.7 Million for Criminal False Claims

A San Francisco U.S. District Court judge ordered a Postal Service truck-trailer contractor who falsified repair estimates to pay a \$500,000 criminal fine and \$1.2 million to the OIG to cover investigative costs, on October 5, 2004. The company pleaded guilty, on August 3, 2004, to one count of "making and using a false writing and document." OIG investigators learned that the Texas contractor, who leases truck trailers for mail delivery, filed nearly 2,000 claims for damage reimbursement supported by forged and fraudulent bids and estimates. More than 95 percent of the claims submitted between 1997 and 2002, contained a falsified estimate for repair. The contractor also colluded with certain preferred vendors to undermine the required competitive bidding process. As a condition of its plea agreement, the company entered into a corporate integrity agreement with the Postal Service, requiring the implementation of a quality assurance program to ensure its compliance with postal regulations and sound business ethics.



SUPPLEMENTAL INFORMATION

FREEDOM OF INFORMATION ACT

ACTIVITIES

For the period October 1, 2004, through March 31, 2005

REQUESTS	Number of Requests
Carryover from prior period	23
Received during period	77
Total on hand during the period	100

OIG ACTIONS	Number of Requests
Processed during the period	95
Released (34)	
Withheld (8)	
No records (29)	
Referred to Postal Service or other agency	22
Otherwise closed	2
Total Processed During the Period	95
Balance at end of period (pending)	5

SUPPLEMENTAL INFORMATION

GLOSSARY

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

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

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.

BMEU – See Business mail entry unit.

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

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

Biohazard Detection System – The Biohazard Detection System (BDS) is a system that is used to detect the presence of harmful bio-agents that may exist in mailpieces that are processed in Processing and Distribution Centers (P&DCs) operated by the Postal Service. The BDS continuously monitors the air for hazardous aerosol contaminants that may be released by mail being handled by one or more systems of United States Postal Service (USPS) mail processing equipment.

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

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

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.

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

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

FY – Fiscal Year.

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

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

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

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

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

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

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

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

Postal Reorganization Act – The statute that requires postal rates and fees to "provide sufficient revenues so that the total estimated income and appropriations... will equal



as nearly as practicable total estimated costs.”
(Public Law 91-375, signed August 12, 1970.)

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

Processing and Distribution Center/Facility (P&DC/F) – A central mail facility that processes and dispatches part or all of both incoming mail and outgoing mail for a designated service area. It also provides instructions on the preparation of collection mail, dispatch schedules, and sorting plan requirements to mailers.

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

Retail facility – A postal unit of a Post Office and its subordinate units as well as military Post Offices that sell postage stamps and provide 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.

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

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

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

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

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

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