



# OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2006 — MARCH 31, 2007

PROMOTING INTEGRITY AND ACCOUNTABILITY



## 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, theft, and misconduct;
- Promote economy, efficiency, and effectiveness;
- Promote program integrity; and
- Keep the Governors, Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.

## A MESSAGE FROM THE INSPECTOR GENERAL

This report, submitted pursuant to the Inspector General Act, outlines our work and activities for the 6-month period ending March 31, 2007. It focuses on the four strategic goals outlined in the Postal Service's Strategic Transformation Plan 2006–2010: Improve Service, Generate Revenue, Reduce Costs, and Achieve Results with a Customer-Focused Performance-Based Culture. We discuss the state of the Postal Service through our eyes and explain how our work adds value. Finally, we have a separate chapter that discusses preserving integrity.

In this period, we issued 201 audit reports and management advisories. These efforts resulted in a total monetary impact of \$441,189,917. We had 58 significant audit recommendations, all of which were accepted by the Postal Service.

In addition, we closed 3,820 cases and management took administrative action on 1,776 cases. Our investigations led to 412 arrests and indictments, and returned more than \$22 million in fines, restitutions, and recoveries to the Postal Service.

I look forward to working with the Governors, Congress, and Postal Service management as we continue to address the challenges ahead.

*David Williams*

# SUMMARY OF PERFORMANCE

October 1, 2006 — March 31, 2007

## Audit

Reports issued.....	201
Significant recommendations issued .....	58
Total reports with financial impact.....	83
Funds put to better use .....	\$132,938,118
Questioned costs <sup>1</sup> .....	\$305,085,052
Revenue Impact .....	\$3,198,426
<b>Total<sup>2</sup>.....</b>	<b>\$441,221,596</b>

## Investigations<sup>3</sup>

Investigations completed .....	3,820
Arrests .....	277
Indictments/informations .....	135
Convictions/pretrial diversions <sup>4</sup> .....	141
Administrative actions .....	1,776
Cost avoidance .....	\$79,336,879
Total fines, restitutions, and recoveries .....	\$128,149,410
Amount to Postal Service <sup>5</sup> .....	\$22,191,944

## Hotline Contacts

Telephone calls .....	29,481
e-Mail.....	9,805
Virtual Front Office calls .....	2,469
Mail .....	1,226
Voice mail messages .....	598
Facsimile — FAX.....	317
<b>Total Contacts.....</b>	<b>41,427</b>

1 Includes unsupported costs of \$24,192,391.

2 The Postal Service agreed to recommendations or proposed alternative corrective actions that, if implemented, could result in more than \$441 million in savings.

3 Statistics include joint investigations with other law enforcement agencies.

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

5 Amount included in fines, restitutions, and recoveries.

# TABLE OF CONTENTS

<b>Assessing Strategic Transformation Progress</b> .....	1
Reduce costs.....	1
Generate revenue .....	9
Achieve results with a customer-focused, performance-based culture .....	11
Improve service.....	13
<b>Preserving Integrity</b> .....	17
Audit activities.....	17
Investigative activities .....	24
<b>Map of Office Locations</b> .....	39
<b>Appendices</b> .....	41
<b>Appendix A</b> – Reports with quantifiable potential monetary benefits.....	41
Report listing.....	45
<b>Appendix B</b> – Findings of questioned costs .....	50
<b>Appendix C</b> – Recommendations that funds be put to better use.....	52
<b>Appendix D</b> – Reported non-monetary benefits.....	53
<b>Appendix E</b> – Reports with significant recommendations pending	
corrective actions .....	54
<b>Appendix F</b> – Significant management decisions in audit resolution .....	57
<b>Appendix G</b> – Investigative statistics.....	57
<b>Appendix H</b> – Summary of Postal Service investigative activities	
under title 39 USC § 3013 .....	58
<b>Appendix I</b> – Closed Congressional and Board of Governors inquiries .....	59
<b>Supplemental Information</b> .....	62
Freedom of Information Act.....	62
Workplace environment .....	63
Glossary .....	64

# ASSESSING STRATEGIC TRANSFORMATION PROGRESS

*In this report, we assess the status of the Postal Service's progress toward the strategic goals articulated in its Strategic Transformation Plan: 2006-2010, issued in September 2005. The Postal Service's plan describes how it intends to improve the value of mail services and sustain a financially stable enterprise that best serves the nation's mailing needs while providing affordable and reliable service.*

*The Postal Service's strategic goals are to reduce costs, generate revenue, achieve results with a customer-focused performance-based culture, and improve service. Each of these strategic goals presents significant challenges to the Postal Service. This section discusses audits and reviews we completed during the reporting period in each of these areas, as well as in the area of preserving integrity.*

## MANAGEMENT RESPONSE TO OIG WORK

We adhere to professional audit standards and present our audit work to management for comments prior to issuing a final report. Unless otherwise noted in the selected audit work discussed in this report, management has agreed or partially agreed with our recommendations and is taking or has already taken corrective action to address the issues we raised.

## REDUCE COSTS

The Postal Service's strategy to reduce costs is to improve operational efficiency. This strategy includes:

- expanding standardization and process control;
- reducing the cost of meeting universal service obligations by focusing on major cost drivers, especially delivery operations and supply chain management;

- capturing improvements from existing equipment and technology; and
- targeting new investments to improve productivity.

The strategy emphasizes continued partnerships with customers by developing low-cost forms of customer access via technology and product simplification. Additionally, the Postal Service plans to examine facility capacities to transition from overlapping single-product networks to an integrated multiproduct network.

## POSTAL ACCOUNTABILITY AND ENHANCEMENT ACT HIGHLIGHTS

The Postal Accountability and Enhancement Act (Act) of 2006 is the first major legislative change to the Postal Service since 1971. The Postal Service's mandate continues to be providing reliable universal service at affordable prices. At the same time, the Postal Service strives to enhance its ability to operate in a businesslike manner, while fostering growth and innovation in the mailing industry. The Act directs the Postal Service to persevere with its transformation efforts and cost-cutting measures.

### A number of important requirements of the Act impact the OIG. The Act:

- Requires the OIG to submit to Congress and the Postal Service, within 6 months of enactment, a report that details and assesses Postal Service progress in improving safety, reducing workplace injuries, and identifying opportunities for improvement.
- Requires the OIG, within 1 year of enactment, to study and submit to the President, the Congress, and the Postal Service a report concerning how the Postal Service administers the assessment of revenue deficiencies for Nonprofit Standard Mail.
- Applies certain provisions of the Sarbanes-Oxley Act to the Postal Service, and requires the Postal Service to conform with certain aspects of Securities and Exchange Commission reporting, both of which will require the OIG to conduct substantial audit work.
- Requires the OIG to regularly audit the data collection systems and procedures the Postal Service uses in collecting information used for its report to the Postal Regulatory Commission. In this reporting period, we audited the Transportation Cost System (TRACS), a Postal Service data collection system used to estimate purchased

The Postal Service has focused on reducing its costs and has reported that it has achieved some success. Our work in this area assisted the Postal Service in identifying significant opportunities to reduce costs by maximizing the cost-effectiveness of contracts, improving transportation efficiency, optimizing the mail processing network, controlling facility and operational costs, reducing the number of administrative vehicles, and improving internal controls.

**Maximizing the Cost-Effectiveness of Contracts.** We issued 10 contract-related audit reports during the reporting period. Specifically, we evaluated seven cost proposals associated with major systems, and we conducted audits on incurred costs, labor and overhead rates, and a termination claim. These audits identified questioned costs of more than \$276 million. These identified costs are provided to the contracting officers for their consideration in negotiating the best terms for

the Postal Service. Examples of significant work in this area include:

- An audit of a \$912 million firm-fixed-price proposal for the Flats Sequencing System (FSS) production disclosed more than \$175 million in questioned costs. After configuration changes, the contractor submitted a revised proposal of more than \$921 million. Close coordination between the team members expedited the audit of the revised proposal and disclosed more than \$91 million in questioned costs for the contracting officer's consideration in contract negotiations. Before awarding the contract, all questioned costs were evaluated during an independent review performed by the Postal Service Engineering and Supply Management teams.
- An audit of a \$120 million firm-fixed-price proposal for the Multiline Replacement Program — delivery barcode sorters (DBCS) disclosed more

transportation costs for major classes and subclasses of mail and type of service. We found that overall, internal controls were effective and TRACS data was valid and reliable. Validity refers to whether TRACS data represents purchased transportation costs for major classes and subclasses of mail and type of service. Reliable data is complete, accurate, and consistent; meets its intended purpose; and is not subject to inappropriate alteration.

**Additional Act provisions that could impact our work require the Postal Service to:**

- Review workforce plans to achieve modern service standards for market-dominant products, and to assess the impact of facility changes on the postal workforce.
- Prepare comprehensive plans for reemployment assistance and early retirement benefits for postal employees who are displaced as a result of network reductions.
- Establish regulations for the safe transportation of hazardous material in the mail.
- Define measures it must take to incorporate affirmative action and equal employment opportunity criteria into the performance appraisals of senior supervisory or managerial employees.
- Transfer the current escrow and any future surplus for civil service retirement to the Postal Service Retiree Health Benefits Fund.
- Establish a new formula for funding retiree health benefits.

than \$1 million in questioned costs. This was a team effort that allowed the auditors to evaluate portions of the proposal while the contractor prepared them, greatly expediting negotiations.

- An audit of a \$60 million firm-fixed-price proposal for the Automated Package Processing System (APPS) Phase II disclosed more than \$1 million in questioned costs. The parties failed to reach agreements on terms and conditions, and the contract was never awarded.
- An audit of an \$8 million price adjustment claim for the design and installation of electrical and telecommunications equipment disclosed more than \$5 million in questioned costs.

***Automated Package Processing System.*** We assessed whether Automated Package Processing System (APPS) machines met objectives for replacing Small Parcel

and Bundle Sorter (SPBS) machines and minimizing maintenance requirements. We also reviewed whether contract activities supported program requirements and were performed according to Postal Service policies and procedures, and whether the Postal Service recovered funds for contractor nonperformance.

At the beginning of our audit, APPS machines were breaking mail bundles, and management was using the SPBS to process mail it could not sort on APPS machines. In addition, APPS machines needed more maintenance than planned. By the end of our audit, test results showed that a vendor-installed retrofit improved APPS performance, but maintenance remained a concern. Management agreed to remove SPBS machines as APPS performance warranted, and to reassess its investment considering the additional maintenance requirements. Additionally, management agreed to ensure that equipment contracts include

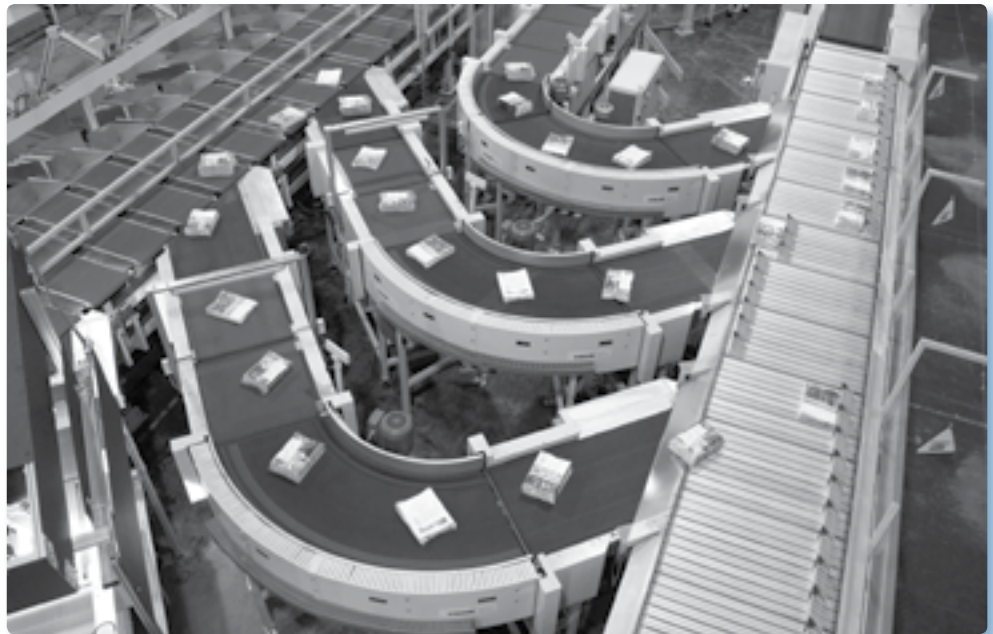


Photo of Small Parcel and Bundle Sorter (SPBS) machines.



maintenance specifications prior to contract award.

We found the Postal Service properly:

- established payment withholding for technical performance shortfalls;
- sought appropriate recoveries for contractor schedule slippages;
- specified the conditions for full acceptance;
- negotiated to recover funds for contractor schedule slippages; and,
- specified conditions for full acceptance of APPS machines.

However, at the time the Postal Service awarded the APPS production and deployment contract, it also awarded a second contract to the same contractor, resulting in an apparent unapproved \$12 million advance payment. Specifically, the Postal Service awarded a \$308.8 million contract for the design; manufacture; test and acceptance; delivery; installation; and support of the production level APPS. On the same day, the Postal Service awarded a \$12 million contract to the same contractor for APPS core recognition technology software, Version 1.0, and nonrecurring engineering. Three days later, the contractor delivered the software on a CD-ROM; however, program management personnel stated they did not test or use the CD-ROM or know its whereabouts. About \$2 million in interest was lost on the advanced funds.

Management generally agreed with our recommendations to improve contract activities; however, management disagreed with the characterization of the \$12 million contract payment and associated \$2 million in lost interest, stating the contract was part of negotiations that resulted in a price reduction that was

ultimately in the Postal Service's best interest.

#### ***Improving Mail Processing Efficiency.***

The Postal Service and the OIG worked together to improve mail processing efficiency, by recommending that management move the off-site flat mail processing operations to the Jacksonville, Florida, Processing and Distribution Center (P&DC). Relocating the flat operations could help avoid facility and transportation costs totaling more than \$3 million.

#### ***Management of the Flats Recognition Improvement Program.***

We assessed the Flats Recognition Improvement Program (FRIP) to determine whether the Postal Service met requirements in a timely and effective manner. To reduce flats processing costs, the Board of Governors authorized capital funds to enhance address recognition technology used in flat mail automation equipment. The Postal Service then awarded \$150 million to a vendor to improve optical character reader (OCR) acceptance rates and reduce error rates for automated flat sorter machines (AFSM 100) and upgraded flat sorter (UFSM 1000) machines.

The Postal Service did not deploy the FRIP program, as initially planned, but it generally met performance requirements in laboratory tests. FRIP upgrades to AFSM 100 operations reduced workhours as expected, but we did not find similar operational benefits from upgrades to the UFSM 1000. This could be attributed to changing business needs for UFSM 1000 operations. As a result, we questioned \$21.4 million paid to a vendor for FRIP Phase 1 improvements on the UFSM 1000, since the intended operational value was not clearly demonstrated. We recommended that management reevaluate the need for further FRIP enhancements, evaluate FRIP Phase 2

after the first deliverable, and modify the contract based on needs and performance. Management disagreed with the questioned program costs, but was responsive to the recommendations.

***Optimization of the Transportation Network.***

The Postal Service has one of the largest transportation and logistics networks in the world, reaching every city and town in the United States. Its facilities are linked by a complex transportation system that depends on the nation's air, rail, highway, and maritime infrastructure.

The Postal Service spends close to \$8.1 billion annually to transport 213.1 billion pieces of mail worldwide. Network transportation is the fastest growing cost in the Postal Service's annual operating budget, and is second to human capital in the annual budget. Network transportation costs increased about 10 percent across the board in fiscal year (FY) 2006, even after

aggressive cost-savings initiatives. This was partly due to dramatic increases in fuel costs, which increased 57 percent in FY 2006. While most mail is time-sensitive, network officials must continually balance meeting and improving on-time performance with lowering costs. They have little control over rising fuel costs.

We work closely with management to improve the cost-effectiveness of air and surface network operations, as well as logistical support functions, such as fuel procurement and vehicle management. For example, during this reporting period, we monitored implementation of the Postal Service's Integrated Air Strategy, designed to reduce reliance on passenger airlines, expand transportation by dedicated cargo carriers, and in some cases, shift mail to less costly ground transportation. We will continue our audit work on optimizing surface transportation operations and reducing fuel costs in FY 2007.



We work closely with management to improve the cost-effectiveness of air and surface network operations, as well as logistical support functions, such as fuel procurement and vehicle management.



Our audit of the Postal Service's air network operations concluded that management could improve the effectiveness of the Atlanta Airport Mail Center (AMC) operations.

During the past 6 months, our transportation audit reports identified close to \$117 million in future savings.

***Enhancing Surface Transportation Network Operations.***

The Postal Service's surface transportation network consists of contracted transportation, costing the Postal Service about \$3 billion annually. It also includes transportation using Postal Service employees and vehicles (known as Postal Vehicle Service [PVS]), which costs about \$900 million annually. The transportation network is dynamic and fluid, and managers adjust to changing network demands by ascertaining which type of surface transportation to use to maximize efficiency, provide operational flexibility, and address long-term operational requirements.

As part of our Value Proposition Agreement with the Postal Service Vice President of Network Operations, we audited whether the Postal Service can reduce costs by reducing the number of highway contract trips servicing Processing and Distribution Centers (P&DC). In our audit of Eastern Area P&DCs, we concluded that the Postal Service could save approximately \$2.3 million over the term of existing Eastern Area P&DC highway contracts by canceling, not renewing or modifying 78 highway trips. The Postal Service could eliminate these trips without affecting on-time service by consolidating mail and equipment loads to better utilize trailer capacity.

In addition, we audited the effectiveness of PVS operations at the Memphis P&DC and found that management

could improve PVS effectiveness and save more than \$7.3 million over 10 years by removing 18,874 excess hours from existing PVS schedules. They could eliminate hours without negatively affecting service because schedules contained unassigned time when drivers were not needed for a specific trip or related activity, duplicate trips, and trips that were not as full as possible. Of these, management believed 4,911 hours were still necessary. Of the \$9.6 million in savings detailed above, about \$1 million is related to fuel costs.

***Improving the Effectiveness of Airport Mail Center Operations.*** Our audit of the Postal Service's air network operations, in the context of its overall integrated air strategy, concluded that management could improve the effectiveness of the Atlanta Airport Mail Center (AMC) operations. Further, the Postal Service could save at least \$107 million over a 10-year period, if management increased the Atlanta AMC's productivity and reduced work-hours commensurate with operational requirements. The Postal Service could achieve these results by using equipment efficiently in accordance with productivity standards, eliminating unnecessary staffing, and reducing workhours, including unsupported overtime. Subsequent to the audit, the Postal Service implemented a variety of management tools to better monitor data, share information, improve efficiencies, and match operational targets with workload projections.

***Facility Reviews.*** Our review of the sale of the Philadelphia Main Post Office found the Postal Service did not conduct the sale in compliance with existing procedural requirements, and noted the apparent conflict of interest of a broker/developer working for the Postal Service.

We recommended the Postal Service require an appraisal of the property,

reevaluate the terms of the sale, take steps to meet Postal Service requirements when disposing of future excess properties, take steps to mitigate the apparent conflict of interest on this transaction, and educate its staff on the importance of avoiding conflicts of interest with brokers and developers. The Postal Service had the property independently appraised, reevaluated the terms of the sale and the apparent conflict of interest, provided training on its real estate management policies and procedures to all pertinent employees, and established procedures that include increased oversight and documentation regarding potential conflicts of interest. These steps are expected to strengthen the Postal Service's real estate asset management program and are fully responsive to our recommendations.

***eBuy Monthly Reconciliation Procedures.*** eBuy is an electronic commerce portal that provides Postal Service employees with electronic requisitioning, approval, and invoice certification capability. Our audit of eBuy monthly reconciliation procedures showed that internal controls over eBuy reconciliations needed significant strengthening. We determined that the Postal Service did not reconcile 85 percent of the eBuy monthly accounts reviewed, and did not have adequate supporting documentation for those accounts' billing summaries. As a result, \$9.7 million of the \$10.8 million total purchases reviewed were at risk. In addition, Material Logistics Bulletins (MLB) for eBuy supplies and services did not always contain the reconciliation requirements. Further, management did not consistently keep relevant MLBs current on the MLB website. Management agreed with the report's recommendations and associated assets at risk. They have initiatives in progress and corrective actions planned to address the issues in this report.

**Controls for Cellular Services.** The Postal Service is committed to having secure, reliable, and cost-effective voice and data telecommunications capabilities for its business needs. Cellular technology has advanced rapidly in the last few years and is now part of a broad spectrum of remote telecommunication devices. The Postal Service is challenged with effectively managing a variety of cellular services and devices. Currently, Postal Service employees use more than 26,500 cellular devices nationwide. Three major wireless vendors provide the majority of these services.

Our audit showed the Postal Service can capture savings by implementing centralized management and control practices, performing comprehensive inventories and needs assessments, and improving inventory and usage review practices. This would help eliminate unnecessary cellular phones, BlackBerry™ devices, pagers,

and cellular broadband cards, with an estimated cost savings of \$6.8 million.

In response to a previous OIG telecommunication audit, the Postal Service disconnected thousands of unnecessary voice lines and reported an annual savings of almost \$5.7 million. It also centralized and optimized related management and control functions. As a result of a contract modification that added wireless services and devices, the Postal Service expects to further reduce its expenses by \$4 million annually.



The Postal Service is challenged with effectively managing a variety of cellular services and devices.

## GENERATE REVENUE

A major challenge facing the Postal Service is increasing revenue while streamlining core services, controlling costs, and providing greater value to its customers. To do so, the Postal Service must provide high-quality customer service along with greater efficiency.

The Postal Service's strategy for generating revenue is to foster growth through customer value. It plans to do this by creating more customer value in core products and services, thereby increasing mail volume and revenue to continue financing universal service and the growing delivery network. Customer value is defined as increased product utility; improved ease of use and access; and more reliable, predictable performance at affordable prices.

We believe there are more opportunities to increase revenue in the areas of collecting revenue on stamps and annual mail fee sharing. We further believe the Postal Service could increase emphasis on accurately collecting, recording, and reporting all revenue; and strengthening internal controls to minimize risks relating to financial transactions.

**Collecting Revenue on Stamps.** We evaluated delivery and signature confirmation deficiencies for stamp stock shipped to consignees under the national Stamps on Consignment (SOC) program. We found that Postal Service officials properly managed this program and accounted for stamp inventory under consignment with American Banknote Company (ABN). However, ABN deducted unapproved transactions from its stamp accountability. Further, delivery personnel did not always confirm proof of delivery of stamp stock to consignees, and consignees did not always make timely payments for stamp stock received.



We evaluated delivery and signature confirmation deficiencies for stamp stock shipped to consignees under the national Stamps on Consignment program.

These conditions existed primarily because ABN and Postal Service officials did not fully comply with provisions of the SOC contract to account for lost or missing shipments. Postal Service employees did not follow prescribed procedures to obtain proof of delivery. Further, consignees had no incentive to make timely payments for stamp stock. When officials do not follow contract provisions to account for stamp inventory under consignment, they maintain inaccurate stamp balances. When stamp shipments to consignees do not contain proper proof of delivery and the Postal Service is unable to provide proof of delivery, the Postal Service could be liable to reimburse consignees for the value of lost or missing shipments. Further, the longer consignees' past due accounts remain unpaid, the more interest income the Postal Service forfeits. Our audit identified more than \$310,000 in questioned costs and \$67,000 in unrecoverable revenue.

We recommended improvements to the Postal Service's management of the SOC program, including: determining whether appropriate adjustments to ABN's accountability should be made; requesting that ABN officials adhere to contract provisions for approving lost, missing, damaged, and short shipments; timely signing for stamp shipments; recouping payments for past due accounts; and training pertinent staff.

#### **Annual Mail Fee Sharing — Package Services.**

The Postal Service collects annual fees from customers who mail certain classes of mail at discounted rates. The *Domestic Mail Manual* (DMM) sets forth the fee structure and does not specifically allow for fees for Package Services or Standard Mail to be paid once and shared among all permit imprint accounts held by the same owner. However, we found the Postal Service allowed multiple permit imprint accounts to improperly share fees for certain classes of mail. Specifically, these accounts shared fees for Centralized Account Processing System (CAPS) customers who held multiple permit imprint accounts to mail Package Services items at the same Business Mail Entry Unit (BMEU). In addition, we identified instances of this occurring with non-CAPS customers at eight of the 10 BMEUs we tested. This occurred because CAPS was programmed to share fees across multiple permit imprint accounts, similar to the way fees are shared for First-Class Presort mailing. Further, while the DMM does not specifically allow for fee sharing for Package Services, it has been interpreted inconsistently regarding fee collection for these services.

As a result, the Postal Service has not collected annual fees of \$27,300 for 177 CAPS accounts and \$1,380 for nine locally managed accounts that mailed

Package Services for a 17-month period. In addition, the other 354 CAPS accounts and 41 locally managed accounts we reviewed had the potential to mail Package Services without paying the required fees. If the Postal Service does not take corrective action, it may not realize an additional \$44,480 in revenue over the next 2 years.



The Postal Service collects annual mailing fees from customers who mail certain classes of mail at discounted mailing rates.

## ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED, PERFORMANCE-BASED CULTURE

The Postal Service's strategy for achieving results with a customer-focused performance-based culture is to engage and motivate the workforce. The Postal Service continues to focus on four critical human resource strategies: engaging employees, developing and managing talent, establishing and maintaining market-based compensation, and managing the workforce to assure flexibility.

The Postal Service faces the challenge of managing a large and dynamic workforce. Added to that challenge is the need to create a flexible workforce as part of the network optimization initiative. Further, controlling costs associated with workplace programs is also important to the Postal Service's success. To that end, the Postal Service is standardizing the workers' compensation case management process and will move the process from the areas to the districts before the end of the fiscal year. This change will strengthen case management activities and integrate injury compensation, medical, resource management, and Family Medical Leave Act issues at the district level. The collective expertise in these areas can be used to develop the right approach to each claim.

During this reporting period, we assessed the Postal Service's ability to resolve workforce and workplace issues, particularly those related to the workers' compensation program. We also conducted work in other important human capital areas, such as the workplace environment, employee benefit programs, the comprehensive strategic workforce plan, and the prescription drug card program.

**Workers' Compensation Programs.** A significant cost continuing to impact the Postal Service is workers' compensation expenses for injured workers. The size of the workforce and nature of the work are the primary factors that made the Postal Service the largest participant (47 percent of the total federal workforce cases) in the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) in 2006. Although the Postal Service has taken positive steps over the past 3 years to reduce workers' compensation expenses, in chargeback year (CBY) 2006, workers' compensation payments increased five percent from about \$840 million (in 2005) to \$884 million. According to the Postal Service, the increase occurred partly because claimants received an extra compensation payment in CBY 2006, due to the nature of the payment cycle. Technological improvements that reduced the number of rehabilitation assignments available for injured employees also contributed to the increase.

From FY 2005 to FY 2006, the Postal Service reduced the number of career employees from 704,716 to 696,138, and reduced workhours by almost 5 million. However, in FY 2006, workers' compensation expenses increased approximately \$441 million. This amount includes the \$342 million for future workers' compensation costs, and may also be affected by a change in the forecasting model used for the calculation. Although the number of paid claims decreased, the actual cost of the claims increased due to a cost of living adjustment in January 2006. The Postal Service continues to reduce the number of claims as a result of its efforts to prevent on-the-job injuries and its joint initiative with the DOL OWCP to increase the number of claimants returning to work.



At the same time, the administrative fees that OWCP charged the Postal Service, which are set by statute and therefore binding, increased from \$44.3 million in 2005 to \$48.3 million in 2006. These fees represent approximately five percent of the Postal Service's total medical and compensation costs.

During this reporting period we issued a report to the DOL OIG requesting that it address two issues identified during our review of the Schedule Awards Program in the Postal Service's New York Metro Area. These issues were: (1) OWCP handbooks and course materials do not contain information on how OWCP participating agencies should calculate and verify schedule award payments; and (2) the OWCP does not notify participating agencies of new weekly or monthly schedule award payments resulting from annual cost-of-living adjustments (COLA).

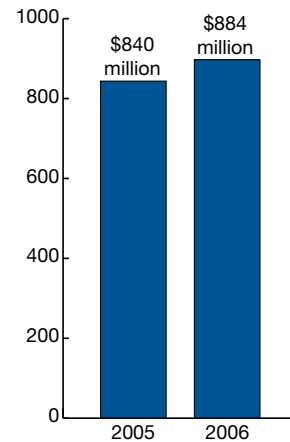
Since the DOL OWCP has program responsibility for schedule awards, we recommended that it provide participating agencies with instructions on how to calculate and verify schedule award payments and advise agencies of COLA changes to employees' schedule awards payments. This would help agencies monitor increases in schedule award payments to ensure they are correct and would enable agencies to identify and correct errors before the OWCP bills them.

An initiative led by the Postal Service, which used an OIG-developed database, discovered more than \$3.9 million in duplicate medical payments since July 2003, \$737,562 of which the DOL OWCP had credited back to the Postal Service as of February 2007. The DOL OWCP is not required to reimburse agencies for the administrative fees they charge to process duplicate payments, rendering approximately \$195,339 (about five

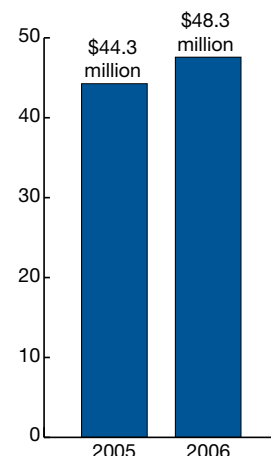
percent of the duplicate payment amount) unrecoverable for the Postal Service.

Employee training in the workers' compensation area has also been improved with the ongoing conversion of the former 8-day Basic Injury Compensation course into a web-based training program. Some training modules are already available, such as the Injury Compensation: Monitoring Fraud and Abuse course.

The Postal Service also continues to engage its employees through its continuous workforce environment improvement and safety programs, such as the Ergonomic Risk Reduction Process and the Voluntary Protection Programs. As a result, from FY 2002 through FY 2006, the Postal Service reduced the total number of injuries and illnesses by 20,692, a 34 percent reduction.



Cost of workers' compensation for injured workers



Administrative fees OWCP charged to the Postal Service

## IMPROVE SERVICE

The Postal Service's strategy to improve service is to provide timely, reliable delivery and improved customer service across all access points. It plans to improve the quality of postal services by focusing on the end-to-end service performance of all mail and ensuring that postal products and services meet customer expectations by being responsive, consistent, and easy to use. However, improving service is a significant concern for the Postal Service while it simultaneously works to cut costs, and service issues have come under increasing scrutiny from external stakeholders in recent months. Our work in this area is aimed at helping the Postal Service improve operational efficiencies related to customer service.

***Service Implications Resulting from Network Optimization.*** The Postal Service's business environment is challenging due to declining First-Class Mail volume, increasing competition with traditional mail products from the private sector, increasing automation and mail processing by mailers, and shifting population demo-



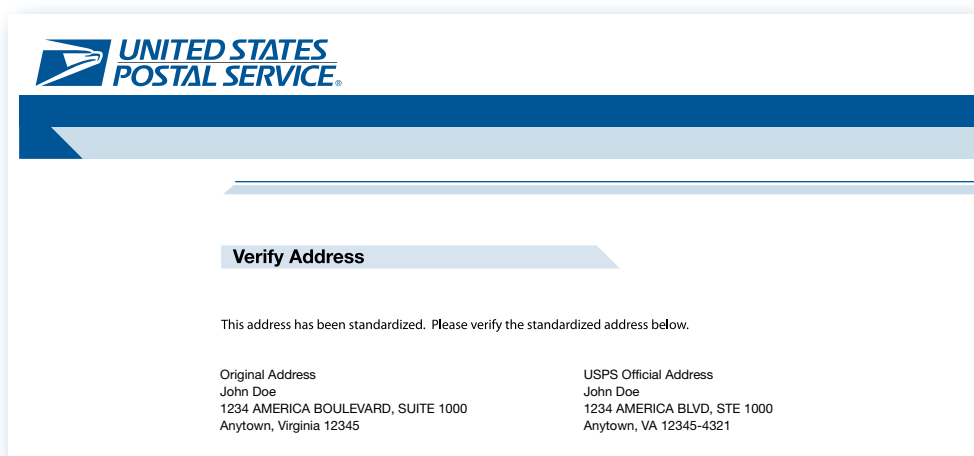
In recent years, the Postal Service's most significant strategic effort to optimize its mail processing network has been the Evolutionary Network Development (END) initiative.

graphics. In addressing these challenges, the Postal Service continually looks for opportunities to streamline operations, reduce costs, increase operational effectiveness, and improve service.

In recent years, the Postal Service's most significant strategic effort to optimize its mail processing network has been the Evolutionary Network Development (END) initiative. Additionally, the Postal Service uses Area Mail Processing (AMP) policy to consolidate mail processing functions to eliminate excess capacity, increase efficiency, and better use resources. However, with the recent Board of Governors' approval of a new flats processing strategy, the recent rate case, and the enactment of the Postal Accountability and Enhancement Act, the Postal Service is reevaluating its processing and transportation network strategy.

Our recent audits in this area have shown that although the Postal Service has generally been successful in evaluating opportunities for cost reduction through the AMP process, it needs to strengthen its analysis of the service impacts of AMP consolidations. Additionally, we found inconsistencies and inaccuracies in the data supporting the consolidations and in the process that was followed. For example:

- In response to a congressional inquiry and management requests, we audited the pre-decisional consolidation proposal for the Sioux City, Iowa, Processing and Distribution Facility (P&DF). We determined that the Postal Service generally complied with AMP guidance, maintained supporting documentation, and provided confirming evidence for the consolidation. However, we identified some inconsistencies in AMP proposal data and found that inaccurate information may have been shared with stakeholders.



The Postal Service strives to obtain accurate address information for internal use and for its customers, as its Customer Contact Centers use this data to provide operations information to mailers and the public.

- We assessed the post-implementation review (PIR) of the Steubenville Main Post Office — Youngstown, Ohio, P&DF outgoing mail consolidation and found evidence of cost savings, improved service performance, and increased productivity. However, we found discrepancies with the approval of the AMP proposal and the data used to support it, and with the timing of the PIR and the data used to support it. Management has ongoing actions to address AMP policy issues based on prior audit recommendations. In this report, we recommended that management conduct training on AMP policy.
- We audited the service implications of AMP consolidations and concluded that the Postal Service could improve the way it documents service impacts in AMP proposals and PIRs. Management did not fully document changes to service standards, analyze service performance data for the affected facilities, or review actual service performance after a consolidation of PIRs. The consolidation proposals also did not consistently address other potential changes affecting customer service, such as collection box pick-up times, access to business mail entry units, and changes to retail services that may be associated with AMP consolidations.

**Mail Delays.** In response to an August 2006 congressional inquiry, we reviewed allegations of delayed mail at the Los Angeles P&DC. The audit found that during the period July 2005 through May 2006, the Los Angeles P&DC had difficulty with the timely processing of mail, resulting in mail delays and service declines. However, the Los Angeles P&DC had made significant improvements and, as of August 2006, the Los Angeles Customer Service District met or exceeded national service score averages. In addition, the Los Angeles P&DC had less delayed First-Class Mail, Priority Mail, and Package Services Mail than similar-sized facilities. Our review focused on the processing of mail at the P&DC, and not on the actual delivery of mail to Postal Service customers.

**Mail Processing Efficiency.** We assessed whether the Postal Service was complying with the National Color Code Policy and best practices as they relate to improving mail processing efficiency within plants. For Standard Mail, this includes using a series of color-coded tags to ensure that mail is processed efficiently in a first-in, first-out sequence to meet processing, dispatch, and delivery

targets. A color-coded tag represents the day of the week the mail arrives on Postal Service premises and denotes targeted clearance from the facility in 1 or 2 days. At the South Jersey P&DC, we concluded that the Postal Service generally processed Standard Mail using the correct color-code processes, but recommended that the Postal Service tighten controls over its color-coding process and provide training to avoid possible delays and negative service implications.

***Delivery & Retail Standard Operating Procedures.*** We assessed the implementation of Standard Operating Procedures (SOP) in the nine Postal Service areas and selected district and delivery and retail units within the Capital Metro, Great Lakes, Southeast, and Southwest Areas. We found that all nine Postal Service areas implemented the City Delivery Operations SOP appropriately; however, we identified areas for improvement in Morning Standard Operating Procedures (AMSOP), integrated operating plans (IOP), volume recording, Delivery Point Sequencing (DPS), and matching work-hours to workload. Key recommendations included developing a plan to achieve AMSOP certification by the end of FY 2006, following the SOP for revising IOPs, measuring mail volume, and adhering to policies for matching workhours to workload.

***Facility and Address Management.*** Address management forms the basis of how the Postal Service moves mail. The Facilities Database system contains facilities-related information, such as facility identification, physical characteristics, addresses, hours of operation, and products and services provided. The Postal Service strives to obtain accurate address information for internal use and for its customers, as its Customer Contact Centers

use this data to provide operations information to mailers and the public.

In March 1993, the Postal Service implemented delivery point sequencing (DPS). DPS is the process of arranging barcoded mail according to the Letter Carrier's line of travel to eliminate manual mail sorting, improve efficiency, and reduce costs. In 1994, the Postal Service established the Address Management System (AMS) to capture, correct, and complete address information to enhance the efficiency of mail processing and delivery via automation. AMS captures address information in sortation programs used to process mail in DPS.

We found that district officials in the Northeast and Southeast Areas effectively managed delivery AMS quality review results for approximately 24 percent (4,818 of 19,774) of their routes according to Postal Service guidelines. However, opportunities existed for them to implement best management practices from the New York Metro Area's New York District to improve the quality of AMS data used in processing and delivering mail. Almost 212,115 AMS data errors may exist in the selected Northeast and Southeast Area Districts on the 14,956 routes for which street reviews were not conducted. If the area officials implemented a program similar to the New York District, they could reduce errors by almost 32 percent, saving the Postal Service more than \$5.4 million over the next 10 years.

Additionally, AMS helped Postal Service management improve the utility and completeness of facility data that the AMS provided to the Facilities Database. We made recommendations to increase use of standard facility naming conventions, add input and validation controls over facility data, and establish an independent quality assurance function to enhance data reliability.

## WORKING TOGETHER TO ACHIEVE THE POSTAL SERVICE'S GOALS

Over the past few years, while focusing on our audit and investigative work, we also worked hard to improve our professional relationship with our client, the Postal Service. The following summaries highlight areas where we worked with Postal Service officials to address significant issues, and in one case, the Postal Service took our findings in one district and formulated nationwide corrective actions.

### Flats Sequencing System

We worked with the Postal Service to expedite the review of two proposals for the production of the Flats Sequencing System (FSS). FSS is the latest advancement in mail automation technology that the Postal Service expects will greatly expedite and reduce the cost of flats processing. The original proposal of more than \$900 million had significant cost concerns, and a major configuration change occurred during its review. All parties worked to ensure a full review of both proposals and to promptly address major pricing concerns the audits raised.

### Governors' Official Expense Policy

The Postal Service Governors requested that the Postal Service review the *Guidelines Relating to Governors' Official Expenses*. A working group comprised of Postal Service

management, the Board of Governors office, and OIG members was formed to accomplish this review. The working group discussed suggestions and ultimately drafted revised guidelines. The Governors reviewed, further revised, and approved the guidelines as policy effective January 2007. This policy governs reimbursement of expenses incurred by individual governors in the performance of their postal-related duties, beyond the annual \$30,000 stipend and \$300 per meeting fees authorized by statute. It also serves as a guideline for annual OIG reviews of the Governors' travel and miscellaneous expenses.

### Mail Processing Task Force

The Postal Service formed a task force in February 2007 to review mail conditions and operations at the Chicago Metro Surface Transportation Center (Busse Hub). It was comprised of management, the OIG, and the Inspection Service. The task force's objectives were to assess the role of the Busse Hub and to identify opportunities to improve service. The task force found the Busse Hub had expanded beyond its original intent and had some inefficient operations. The task force also noted inefficient floor layout and mail flows; unnecessary handling of mail; ineffective staffing and scheduling; and inadequate visual aids and signs to help expedite mail processing. The report made

recommendations to streamline processing operations and improve service.

### Mail Sorting Efficiency

In 2006, we reviewed the efficiency of carrier sequence barcode sorters (CSBCS) in cooperation with the Seattle District. We found opportunities existed to process letter mail on the Delivery Barcode Sorters (DBCS) at the plants, rather than the less efficient CSBCS at some associated offices. This resulted in reduced mail processing and maintenance workhours, increased processing efficiency, and increased use of the DBCSs. We estimated the Postal Service would save more than 10,000 workhours, which could produce a cost avoidance of \$3.7 million over 10 years. The Postal Service subsequently took the OIG report theme — processing mail upstream in plants on more efficient sorters — and developed a methodology to eliminate as many CSBCSs as appropriate nationwide. The Postal Service team identified excess letter processing capacity on the DBCSs nationwide and matched offices nearby that had CSBCSs. To date, the Postal Service identified 360 excess and/or idle CSBCSs. The estimated workhour savings for the project equates to millions of dollars. This is a win-win project that simultaneously streamlines the processing network and increases the efficiency of the Postal Service.

Processing most mail on automated equipment means that the quality of address information is very important. Mail that employees cannot process on automated equipment requires manual processing, which is less efficient and more costly to the Postal Service. Use of correct and complete address information can reduce costs to the Postal Service. Since the Postal Service's goal is to sort 95 percent of letters by DPS by 2010, a decrease in AMS data errors will help officials achieve their goal and will reduce operating costs.

**Contact Centers.** Contact centers provide customers access to local post office hours and locations, information on domestic and international rates, ZIP Code lookup, stamp sales transactions, and a number of other services. In January 2003, the Postal Service entered a 4-year, \$254.6 million fixed-price incentive contract to consolidate and streamline the call center network into a more fully integrated and managed network.

During this reporting period, we issued a report on the contact centers' ability to improve customer service. We found that the Postal Service could not determine whether the contact center contract had improved customer service since it did not have effective measures to capture the accuracy of contact center responses to customers. In addition, we determined that the Postal Service could reduce the cost of the contact center contract by relaxing the current service level requirements. Management partially agreed with our finding to relax the service level and disagreed with our recommendation and monetary impact. During that process, management identified initiatives to address the issues in the report; those initiatives are now in progress.

## PRESERVING INTEGRITY

The OIG works to preserve the integrity of Postal Service processes and personnel, which are essential elements for safeguarding Postal Service products, customers, services, and assets.

During its long history, the Postal Service has faced both natural and man-made disasters that adversely impacted mail delivery. These incidents led to a renewed emphasis on developing initiatives to more effectively secure the nation's mail system. This is a significant challenge due to the sheer size and geographic dispersal of the Postal Service. In support of the Postal Service, we participate in the Mail Security Task Force and attend training relating to emergency planning and dangerous mail investigations. We are also a member of the President's Council

on Integrity and Efficiency (PCIE) Homeland Security Roundtable, which shares information on related security work performed by all OIGs.

By conducting financial audits of Postal Service installations and information systems audits, the OIG helps assure integrity in this vital process. Investigative efforts assist the Postal Service in protecting the mail, safeguarding the Postal Service's revenue and assets, and helping maintain the integrity of postal personnel. This section discusses audit and investigative activities to preserve integrity in the Postal Service during this period.

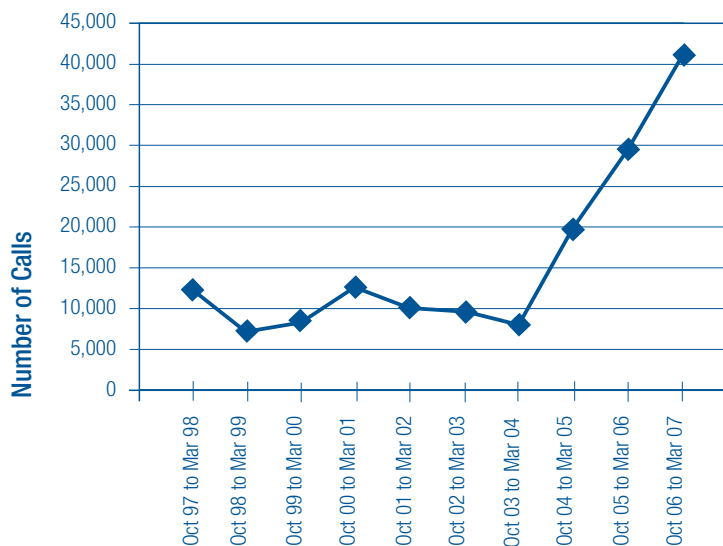
### Audit Activities

By focusing on key vulnerabilities of Postal Service installations, our audits have shown how the Postal Service can further protect the integrity of the mail-stream. Ultimately, assessing the integrity and accuracy of management data helps to maintain a stable and sound Postal Service.

**Financial Statements Account for the Postal Service's Costs and Revenues.** The following is an outline of the Postal Service's financial position and a summary of the financial audits of Postal Service installations performed in support of the independent accountant's opinion on the financial statements.

**Postal Service's Financial Position.** The Postal Service realized its fourth consecutive year of positive net income and a third consecutive year of positive retained earnings. The Postal Service also achieved a net income of \$900 million, although it added more than 1.8 million delivery points and handled 1.4 billion additional pieces of mail compared to the prior year.

### 10-Year Hotline Trends by Reporting Period



#### October — March Reporting Periods

This chart shows the combined number of contacts made to the OIG Hotline by phone, e-mail, fax, mail, and voice mail during the first half of each fiscal year since 1998. The dramatic rise in the contact population began in early 2004, and continued with the implementation of the Virtual Front Office (our new call center) in 2006.



We audited and issued reports on 102 post offices and Business Mail Entry Units.

Revenues increased to \$72.8 billion (more than \$2.8 billion over FY 2005) primarily due to a rate increase across all rate classifications, implemented in January 2006. However, operating expenses increased from \$68.3 billion in FY 2005 to \$71.6 billion in FY 2006 primarily due to increases in compensation and benefits and transportation expenses, the same factors that drove the increase from FY 2004 to FY 2005. The Postal Service expects the economy to continue to affect revenue growth, but it expects revenues to increase by \$2.5 billion, or 3.4 percent, primarily due to the anticipated rate increase. It also expects expenses to increase 2.3 percent over FY 2006 primarily due to cost-of-living pay adjustments and potential contractual pay increases. However, the Postal Service plans to limit operating expense increases by reducing 40 million workhours through process improvements, automation, and projected volume decline.

The Postal Service began FY 2006 with no outstanding debt obligations. However, because cash flows were not sufficient to fund the more than \$2.9 billion escrow

requirement of the Postal Civil Service Retirement System (CSRS) Funding Reform Act of 2003 (PL 108-18) and capital and operational needs — and because it was heading into an environment of perceived uncertainty — the Postal Service borrowed \$2.1 billion on September 30, 2006, to satisfy these requirements and provide operating cash for future operations. For 2007, the Postal Service does not expect cash flows from operations to be sufficient to fund legal mandates and all capital investments. Therefore, the Postal Service expects to borrow at least \$1.2 billion to cover the shortfall.

The Postal Accountability and Enhancement Act has financial implications for the Postal Service. It eliminates the escrow previously required under PL 108-18 and reduces payments into the CSRS. However, it requires the Postal Service to place between \$5.4 billion and \$5.8 billion into the newly created Postal Service Retiree Health Benefits Fund each year for the next 10 years to substantially fund its share of retiree health benefits. Also, the Postal Service expects to incur significant costs as a result of the requirement to comply with Section 404 of the Sarbanes-Oxley Act beginning in FY 2010.

**Field Financial Audits.** As part of the overall audit of the Postal Service's financial statements, using a stratified sampling plan, we audited and issued reports on 102 post offices and BMEUs. We also issued 18 reports in addition to those in the sampling plan and four summary captioning reports. The reports concluded that financial transactions were reasonably and fairly presented in the accounting records and, generally, internal controls were in place and effective. However, the reports identified various internal control and compliance issues that could be improved. In addition, we issued four



The OIG publication, "Discover the OIG," is distributed internally to postal employees and to our external stakeholders.

audits at Postal Service headquarters and the Information Technology and Accounting Service Centers, which concluded that management's financial accounting policies and procedures conformed to accounting principles generally accepted in the United States and provided for an adequate internal control structure. We did not identify any instances of noncompliance with laws

### POSTAL SERVICE EFFORTS TO PROTECT SENSITIVE INFORMATION

The Postal Service adopted an initiative in October 2005 to strengthen controls over sensitive information that mirrors many of the concerns included in the Office of Management and Budget's Memorandum M-06-16 security directive. After issuance of Memorandum M-06-16, the Postal Service appointed a team to manage the protection of sensitive data, develop goals and action items to safeguard personally identifiable information, and update policies on transporting and storing sensitive information off-site. The Postal Service will

also deploy encryption tools for employee use and replace existing laptops with encryption-capable laptops over the next 2 years. We made recommendations to amend policy and implement procedures to recertify sensitive and business-controlled sensitive applications every 3 years, update the information security assurance documentation for systems that are reclassified as sensitive or business-controlled sensitive, and establish milestones for completing the sensitive data action plan. When fully implemented, these initiatives safeguard sensitive business, customer, and employee data and are expected to assist in preserving the value and integrity of the Postal Service brand.

and regulations that have a direct and material effect on the financial statements.

We issued 10 reports and one summary capping report for Cost and Revenue Analysis test observations. We concluded that the Postal Service generally conducted the statistical tests in accordance with established policies and procedures. However, we noted some areas where the Postal Service could make improvements to maintain the integrity of the statistical data.

### **Security and Controls in Technology Investments.**

We perform information systems general controls reviews to support the annual financial statement audit and to assess the adequacy of controls over information systems security and software.

### **FY 2006 Information Systems General Controls.**

General controls are the policies and procedures that apply to all or a large segment of an organization's information systems and help ensure the systems' proper operation. Examples of general controls include those that safeguard data, protect computer application programs, protect system software from unauthorized access, and ensure continued computer operations in case of unexpected interruptions. Moreover, the effectiveness of general controls is a significant factor in determining the effectiveness of application controls. Without effective general controls, application controls may be rendered ineffective by circumvention or modification. For example, edits designed to prevent users from entering unreasonably large dollar amounts in a payment processing system can be an effective application control. However, this control cannot be relied on if the general controls permit unauthorized program modifications that might allow some payments to be exempt from the edit. Both general and application



controls must be effective to help ensure the reliability, confidentiality, and availability of critical automated information.

During the reporting period, we supported the annual financial statements audit with an audit of information systems general controls. For FY 2006, we found that general controls for selected applications, data, and computer infrastructure at selected Postal Service information technology (IT) data centers provided reasonable assurance that computer-processed data were complete, validated for accuracy, and secure; data integrity controls were in place; and business practices complied with Postal Service policies, procedures, and standards. In addition, controls over software, data, personnel, and physical security that affect computer systems were adequate. However, we identified some IT audit control issues that neither alone nor collectively represent a significant risk to reliance on general computer controls. These issues were in the areas of access to UNIX servers, Oracle password settings, mainframe disaster recovery equipment testing, physical security over information assets, security clearance retention and database reconciliation policies and procedures, and security and administration of routers and switches.



We perform security vulnerability assessments on critical Postal Service Information Technology resources — networks, servers, and databases.

#### SECURITY VULNERABILITY ASSESSMENTS

A vulnerability assessment is a process that defines, identifies, and classifies the security weaknesses in a computer, network, or communications infrastructure. We perform security vulnerability assessments on critical Postal Service Information Technology resources — networks, servers, and databases — to ensure that these resources and the sensitive customer information they handle are secure. The assessment results provide management with technical information to assist in locating potential weaknesses, establishing priorities for corrective action, and implementing repairs, as necessary.

**Mainframe Service Continuity and Physical Security.** To ensure continued computer operations in case of unexpected interruptions, management made major improvements in service continuity affecting the mainframe processors at two of its IT data centers. For example, management developed policies requiring essential business functions located in major IT facilities to develop workgroup recovery plans, track the development and testing of application disaster recovery plans on a monthly basis and identify those that are incomplete or are past due for testing, and began an effort to acquire and implement new technology that allows the near real-time replication of production mainframe files on storage devices located in Eagan, Minnesota, and San Mateo, California.

As part of the FY 2006 information systems general controls audit, we evaluated whether service continuity controls were

in place to ensure that critical operations would continue without interruption or could be resumed within a reasonable amount of time when unexpected events occur. We determined that while management established and updated continuity plans and procedures relating to essential business functions at the IT data centers and used new technology for backing up critical data files and sending them off-site, management needed to complete testing of mainframe disaster recovery equipment at the San Mateo and Eagan IT facilities. Management was responsive to the finding and began tests to validate that the new disaster recovery environment functioned properly. Further tests designed to validate that applications functioned properly in the new environment began in February 2007.

To determine whether management has adequately protected critical IT physical resources from accidental or intentional

### **SUSPICIOUS EXPENDITURES TASK FORCE**

During this reporting period, we established a cross-component task force to coordinate purchase card audit and investigative work. Our Office of Chief Information Officer developed a Computer Assisted Assessment Techniques (CAATs) Continuous Monitoring System (CCMS) where purchase card transactions are analyzed and flagged based on certain anomalies or indicators. The CCMS allows users to analyze purchase card transactions using pre-defined queries. Our Offices of Investigations and Audit use the CCMS data and other data mining tools to identify and review transactions that appear to be non-compliant with Postal Service policies and procedures. We then ask the cardholder and approving official of the flagged transactions to provide explanations and supporting documentation for the transactions. The results of these inquiries are evaluated

and may result in the initiation of an investigation or issuance of an audit report. We also track trends in suspicious transactions and their resolution and will report on them periodically to management.

In addition, the task force has a number of planned and ongoing audits, such as audits of purchase card transactions at Postal Service districts and statistically selected field units as part of the annual financial statement audits. Further, at the request of management, we will audit Postal Service executives' use of purchase cards, complementing ongoing Postal Service efforts to strengthen controls. We are also auditing the effectiveness of internal controls on Voyager transaction cards that Postal Service employees and highway contract route suppliers use to purchase commercial fuel for postal-owned and leased vehicles, and supplier vehicles transporting mail for the Postal Service. Beginning in 2002,

we published a series of audit reports that noted unauthorized transactions and serious internal control weaknesses in the Voyager card program. Our current audits will assess the effectiveness of the internal controls that were implemented as a result of our recommendations, and the internal controls applied to the recently created highway contract route Voyager card program.

The work of this task force exemplifies the effectiveness that coordinated efforts between OIG components can have. For example, auditors and investigators working together led to a significant case in North Carolina, which identified an alleged embezzlement possibly exceeding \$100,000 and led to the resignation of one Postal Service employee and the retirement of another employee.

loss or damage, we performed an audit of physical security controls at the Eagan, San Mateo, and St. Louis, Missouri, Information Technology and Accounting Service Centers (IT/ASC). While we found management had implemented beneficial physical security controls at the IT/ASCs, we noted they could improve physical security over information system assets by performing regular testing of the badge access system in St. Louis and by storing the badge system backups in a secure, off site location. In San Mateo, managers could improve controls over physical security by regularly reviewing the monitoring system of the restricted areas to verify it is functioning properly and to take immediate action to correct any deficiencies that they identify as a result.

**Inspection Service.** We conducted two qualitative assessment reviews of investigative and related administrative processes at the Inspection Service's Miami and Washington Divisions. Overall, inspectors generally complied with basic investigative standards while conducting investigations; however, we found improvements could be made to overall case documentation and supervisory reviews to further maximize program efficiency and the quality of investigations. We recommended that management make changes to investigative policies and procedures, improve management controls, and train inspectors to address the issues identified during our reviews.

We also assessed emergency preparedness efforts at each division by examining their Integrated Emergency Management Plans (IEMP). Both divisions' IEMPs generally provided a consistent framework for an integrated plan as required by Homeland Security Presidential Directive 5; however, emergency preparedness at both divisions could be enhanced. For

example, we recommended that management update stand-alone emergency management plans, conduct required risk assessments, and incorporate lessons learned from emergency preparedness exercises to identify systemic weaknesses and strengthen emergency management plans to respond effectively to emergencies.

In March 2007, the Postal Service began consolidating its homeland security responsibilities under the Inspection Service. Emergency Preparedness and Aviation Mail Security are being realigned to form the National Preparedness Group (NPG). NPG will focus on policy and guidance, continuity of operations planning, exercise coordination and evaluation, aviation mail security, hazardous materials and substances, emergency management, facility security reviews, and homeland security performance measures aligned to potential risks and vulnerabilities.

**Security Review.** We audited Postal Service security controls and processes for the Capital Metro Area and concluded that the Postal Service and the Inspection Service have opportunities to improve security controls and processes to more effectively and efficiently protect employees, customers, the mail, and critical assets. For example, responsible security personnel did not always conduct facility security surveys accurately or annually as required, and did not always sufficiently address and resolve deficiencies identified during security assessments. Key recommendations included requiring personnel to implement internal controls to ensure that responsible security personnel complete these surveys accurately and in a timely manner, developing performance measures to assess the achievement of security goals, and providing appropriate guidance and training.



We reviewed the handling of a potentially explosive ordnance found in the mailstream at the Dallas Bulk Mail Center and found that employees mishandled the ordnance. Depicted here is the ordnance (a World War II, American 3-inch training round) that came out of a package and the special package holding unit where the ordnance was held.



**Explosive Ordnance.** We reviewed the handling of a potentially explosive ordnance found at the Dallas Bulk Mail Center (BMC) and found that employees mishandled the ordnance. Additionally, Dallas BMC management had not established a site-specific IEMP to ensure they could effectively respond to bombs and suspicious mail. Management agreed to provide training and practice drills to ensure that employees understand

the procedures for handling suspicious and dangerous mail. Management also agreed to complete a site-specific IEMP with procedures for handling suspicious and dangerous mail and to implement plan requirements.

## INVESTIGATIVE ACTIVITIES

Special Agents — federal law enforcement officers — play a key role in maintaining America's trust in the postal system. Their charge is to investigate internal crimes and fraud against the Postal Service and to help detect and prevent postal crimes.

The vast majority of postal personnel are dedicated, hardworking public servants whose daily efforts instill trust in America's postal system. However, it takes only one incident of theft, fraud, or misconduct to potentially diminish that trust.

To identify trends and develop effective countermeasures to prevent or minimize future violations, we created a Countermeasures team. This team uses trend surveys to capture information on investigations, develop justifications, and work with other OIG components to ensure proper implementation and monitoring of approved countermeasures. For example, employee mail theft at a plant may be prevented or minimized with an enforced policy prohibiting employees from carrying personal items like a backpack or gym bag on the workroom floor and allowing only clear plastic bags for personal items. The Countermeasures team works closely with important mailers such as the Department of Veteran Affairs (VA). Currently, we are working with the VA's Consolidated Mail Outpatient Pharmacy on proactive initiatives to identify non-receipt of life-saving prescriptions and possible points of loss within the postal network.

With more than 500 Special Agents stationed in more than 90 offices nationwide,

the OIG carries out that mission by investigating internal postal crimes involving:

- Theft, delay, or destruction of mail by employees and contractors
- Injury compensation fraud
- Embezzlements and financial crimes
- Contract fraud
- Computer crimes
- Internal affairs and executive investigations
- Whistleblower reprisals
- Employee misconduct and general crimes
- Narcotics.

Investigative Analysts examine data and analyze trends to augment investigators' work in the field. Analysts and Special Agents partner to help detect and prevent fraud, provide investigative analysis and research, review investigative trends, and facilitate strategic initiatives.



OIG Special Agents prepare to arrest a Charlotte postal employee at her residence.

***Theft, Delay, or Destruction of Mail by Employees and Contractors.*** Americans expect their letters and parcels to arrive on time and not be stolen, rifled, read, or obstructed while in the possession of Postal Service employees. That expectation and trust extends to every one of the 690 million letters that travels across the country daily — whether it is a First-Class Mail letter; a Priority Mail piece; Express Mail overnight service; a magazine; or a family heirloom sent by Registered Mail.

Last year, the Chairman of the Board of Governors and the Postmaster General



OIG Special Agents from the Los Angeles Field Office arrest a postal employee for mail theft.

announced their decision to complete the investigative realignment between the OIG and the Inspection Service. This realignment transferred all investigations of employee misconduct, including theft of mail, to the OIG. The announcement established a timeline for completing this transfer and set September 1, 2006, as the starting date for our assumption of employee mail theft investigations. As of January 1, 2007, we are exclusively



These video cassettes and CDs were seized from the home of a Florida Letter Carrier. The employee resigned from the Postal Service and the Florida State Attorney is still considering state prosecution at this time.

responsible for all employee misconduct and mail theft investigations.

To handle the new investigative responsibilities, our Office of Investigations has hired more than 260 new investigators since April 1, 2006, and has identified an internal mail theft subject matter expert within each field office. These specialists offer experience and guidance to their respective field offices. Special Agents assigned mail theft duties have completed a rigorous training program in preparation for taking on these new duties.

Office of Investigations management is taking a lead role in partnering with the mailing industry by attending strategic meetings with key mailers (such as Netflix, Blockbuster, and QVC) and major financial industry associations (such as the International Association of Financial Crimes Investigators) to ensure a seamless transfer of responsibilities. Additionally, these partnerships will identify and exchange best practices and share loss prevention strategies.

Many of the new investigators who joined the OIG last year were Postal Inspectors specializing in internal crime investigations. These investigators, along with the existing complement of Special Agents, had an immediate impact. Following is a

mail theft investigation that occurred in this reporting period.

- ***\$50,000 in Stolen Credit Card Charges by Letter Carrier Uncovered.*** A manager of a self-service storage facility in Fort Worth, Texas, contacted us after one of his units, rented by a Letter Carrier overdue on payments, was opened and found to contain thousands of pieces of mail.

Special Agents recovered deliverable mail dating back to 2002, along with numerous rifled First-Class Mail letters containing credit cards. The investigation revealed that the Letter Carrier had stolen the contents of numerous First-Class Mail letters containing credit cards, and had incurred fraudulent charges of approximately \$50,000. It was also determined the Letter Carrier stole hundreds of free samples, prescription medicine sent via the Postal Service, magazines, and other types of mail.

The Letter Carrier resigned from the Postal Service and was indicted by a federal grand jury in February 2007.

Delay or destruction of mail entrusted to postal employees is a serious federal crime punishable by up to 5 years in prison. Regardless of the class of mail, all mail has value and postage has been paid by the mailer who expects that the mail will be delivered in a timely manner. The OIG takes all allegations of delay, destruction, or “dumping” of any class of mail as a serious matter.

During the reporting period, we found instances of employees “dumping” various classes of mail in Michigan, Texas, and Virginia. After our investigations, management took administrative action ranging from letters of warning to proposed removals of employees. The



The OIG takes all allegations of delay, destruction, or “dumping” of any class of mail as a serious matter.

following describes a specific investigation in Arizona.

- ***Arizona Postal Employee Indicted for Dumping Mail.*** An Arizona Manager reported that a Rural Carrier Associate had discarded mail at a post office. Our investigation revealed that the Rural Carrier Associate put mail in a trash bag and threw it in a Dumpster. Discarded mail included 257 pieces of First-Class Mail, 423 pieces of Standard Mail, and 10 pieces of Nonprofit Standard Mail. The dumping occurred regularly when he could not fit the mail into his delivery vehicle or if the addressees’ mailboxes were full.

#### **TITLE 18, UNITED STATES CODE, § 1703. DELAY OR DESTRUCTION OF MAIL OR NEWSPAPERS**

**(a)** Whoever, being a Postal Service officer or employee, unlawfully secretes, destroys, detains, delays, or opens any letter, postal card, package, bag, or mail entrusted to him or which shall come into his possession, and which was intended to be conveyed by mail, or carried or delivered by any Letter Carrier or other employee of the Postal Service, or forwarded through or delivered from any post office or station thereof established by authority of the Postmaster General or the Postal Service, shall be fined under this title or imprisoned not more than five years, or both.

**(b)** Whoever, being a Postal Service officer or employee, improperly detains, delays, or destroys any newspaper, or permits any other person to detain, delay, or destroy the same, or opens, or permits any other person to open, any mail or package of newspapers not directed to the office where he is employed; or

Whoever, without authority, opens, or destroys any mail or package of newspapers not directed to him, shall be fined under this title or imprisoned not more than one year, or both.

## INJURY COMPENSATION FRAUD INVESTIGATIVE RESULTS

October 1, 2006 — March 31, 2007

- 1,143 fraud investigations resolved
- \$79 million in compensation payments avoided
- 13 arrests
- 12 indictments/informations
- 6 convictions\*
- 261 personnel actions taken by postal management

\* Convictions do not necessarily reflect the results of investigations from this reporting period.

- In December 2006, the Rural Carrier Associate was indicted for Delay or Destruction of Mail and was issued a Notice of Removal.

**Injury Compensation Fraud.** The Postal Service funds workers' compensation benefits for employees who sustain job-related injuries. The monetary and medical benefits the Postal Service paid to workers' compensation claimants totaled \$1.2 billion in 2006. At the end of 2006, the Postal Service's estimated total liability for future workers' compensation costs was more than \$7.8 billion. This was an increase of \$342 million over the previous year. Administered by the DOL, the OWCP provides direct compensation to providers, claimants, and beneficiaries. The Postal Service later reimburses OWCP in a process known as "charge-back billing."

Most employees receive workers' compensation benefits because of legitimate job-related injuries. However, a small percentage of postal employees and health care providers abuse the system. These schemes cost the Postal Service millions of dollars each year in compensation payments, medical costs, administrative expenses, and enforcement costs.

We initiate criminal investigations when it is suspected that individuals or health care providers are defrauding the DOL's Federal Employees' Compensation Act benefits fund. Criminal prosecutions are an effective deterrent to fraud and may permanently prevent the payment of any additional compensation. Any cases that may require administrative action are referred to the Postal Service and the DOL. Special Agents work closely with Injury Compensation Specialists from the Postal Service on all phases of these investigations.

During this reporting period, injury compensation fraud investigations resulted in more than \$79 million in cost savings/avoidances. Investigations by Special Agents led to arrests of 13 suspects and 261 administrative personnel actions, including removals, letters of warning, and claim terminations. Following are examples of injury compensation fraud cases investigated during this reporting period.

- **Bogus Injury Claim Uncovered, Yielding \$1.3 Million Cost Avoidance.** A Louisiana Flat Sorter Machine Clerk (FSM Clerk) submitted an OWCP form claiming she had a medical condition of "plantar wart and ganglion cyst," and therefore could not perform her required duties to stand on concrete floors 8 hours per day lifting and pushing heavy equipment. Thereafter, the OWCP placed her on the long-term Periodic Roll for total disability.

Our investigators videotaped the FSM Clerk engaging in various activities exceeding her stated limitations and indicating the Clerk's ability to perform postal work. After our Special Agent showed the video to the Clerk's physician, he issued a revised OWCP form documenting restrictions to allow the Clerk to return to work in a limited-duty capacity.

The Postal Service thereafter extended a job offer to the FSM Clerk matching the physician's imposed limitations. The FSM Clerk did not respond to the job offer or to numerous requests to complete OWCP documentation.

On February 7, 2007, the DOL terminated the FSM Clerk from the Periodic Roll for failing to respond to a valid job offer from the Postal Service, saving the Postal Service more



than \$1.3 million in future payments. The Postal Service is in the process of removing the FSM Clerk from the employment rolls for failing to accept a valid job offer.

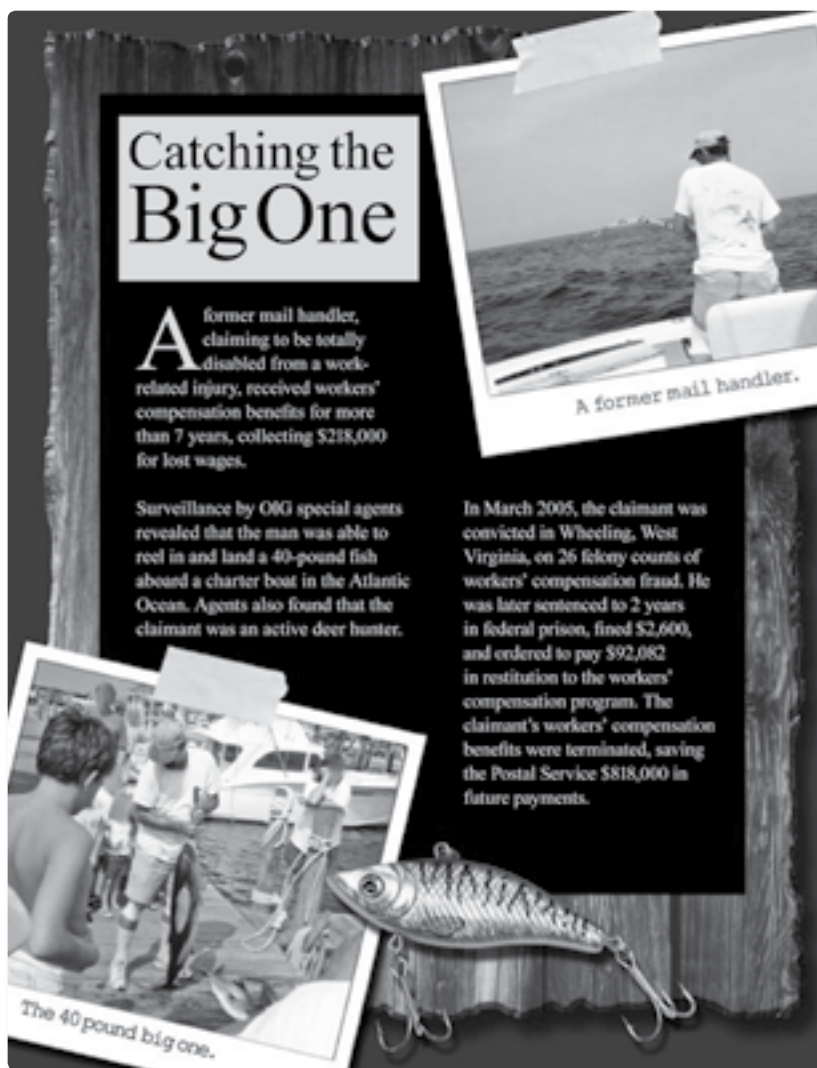
- **Civil War Collector Ordered to Pay \$260,000 in Restitution.** A former Virginia City Letter Carrier allegedly injured his back and hip. After the employee's physician wrote that the City Letter Carrier could not drive a vehicle more than 1 hour per day, nor stand, walk, kneel, or bend more than 2 hours per day, he was given a sedentary limited-duty job at his post office in 1998.

The City Letter Carrier's stated physical limitations were directly contradicted after our Special Agents followed him as he drove 525 miles from his home in Virginia to his parent's house in Georgia over a 10-hour period. Special Agents also showed he had no difficulty bending and kneeling after obtaining two full days of videotape showing the allegedly disabled City Letter Carrier using a metal detector to collect Civil War artifacts from Northern Virginia battlefields.

As a result of the investigation the City Letter Carrier was removed from the Postal Service. In October 2006, he pleaded guilty to committing fraud to obtain workers' compensation benefits in the Western District of Virginia. In January 2007, the City Letter Carrier was sentenced to 1 year of home confinement and 3 years' probation, and was ordered to pay \$260,765 in restitution.

- **Craft Business Scam Ends, Saving \$900,000 in Long-Term Expenses.** In January 2007, a former Mail Handler and former Postmaster were sentenced in New York for committing fraud to obtain federal workers' compensation benefits. Each defendant was fined \$1,500. Each was also ordered to pay \$15,240 in restitution.

The joint investigation by Special Agents and Postal Inspectors revealed that the former Mail Handler failed to



During this reporting period, injury compensation fraud investigations resulted in more than \$79 million in cost savings/avoidances.

report income from her craft business while receiving workers' compensation benefits. The former Postmaster, who lived with the claimant, was an accomplice in her fraudulent workers' compensation scheme, as he had assisted her in the craft business. He was demoted from his Postmaster position to that of a Letter Carrier.

Following the conviction, the claimant's workers' compensation benefits were terminated, thereby saving the Postal Service \$902,545 in future workers' compensation payments.

***Embezzlements and Financial Crimes.***

Employee embezzlements include those in which postal employees steal money from cash drawers, manipulate postal money orders or money order funds, or falsify financial retail records. When post offices experience unusual or significant shortages, our investigators employ various investigative techniques to uncover embezzlements and report improper or lax procedures to management for corrective action. When employees are

found responsible for missing postal funds, we report this to management for appropriate administrative action. In cases that warrant criminal prosecution, offenders not only face the loss of their jobs, but also may face jail time and court-ordered restitution.

The Postal Service uses the International Merchant Purchase Authorization Card (IMPAC), Voyager Fleet, and Employee Travel Cards to manage common recurring expenditures. The IMPAC program processed approximately \$267 million in transactions during this reporting period, and earned the Postal Service approximately \$1 million in refunds. The Voyager Fleet Card Program pays for fuel, oil, repair, maintenance, and washing of more than 214,996 postal vehicles. This program processed more than \$186 million in transactions during this reporting period, with documented savings and cost avoidance to the Postal Service of almost \$15 million. Following are examples of financial fraud cases we investigated during this reporting period:



New York Special Agents recover mail pursuant to a search warrant on an employee's home.

- **\$200,000 in Restitution Ordered in Postal Vehicle Repair Scam.** After our 2006 investigation, the Owner, General Manager, and Administrative Officer of a California auto body shop signed plea agreements and agreed to pay more than \$134,000 in restitution for making false claims against the Postal Service. The auto body shop employees submitted inflated accident repair claims and estimates to a Postal Service California Accident Investigator. The Accident Investigator received free repair services on his vehicles and received a percentage of checks made out to Postal Service claimants. The former Accident Investigator also signed a plea agreement and agreed to pay approximately \$114,000 in restitution.
  
- **\$14,000 Money Order Scam Results in Postmaster's Removal.** A Michigan Postmaster was removed, in October 2006, for misusing postal funds. Our investigation determined the Postmaster deviated from policy by accepting checks as payment for money order purchases. The Postmaster issued more than \$14,000 in postal money orders to her ex-husband and accepted non sufficient fund (NSF) checks as payment. The Postmaster was aware of the policies that restricted money order sales to cash and debit card tender. Further, she continued to accept NSF checks from her ex-husband after district management advised her that his checks were being returned.
  
- **Self-Service Postal Center Technician Indicted on Misappropriation of Postal Funds.** We received information regarding a Self-Service Postal

Center Technician (Technician), who serviced about 10 vending machines in the New York area. According to a Postal Service audit, the Technician had a reported shortage of more than \$4,400. Records for every periodic audit conducted from 2003-2006 had indicated shortages.

A Special Agent conducted "test buys" on one of the vending machines the Technician serviced. Of 12 marked \$20 bills, only seven were accounted for in the deposit monies. Analysis of the vending machine data attributed to the Technician revealed that losses incurred from October 2003 through June 2006 totaled more than \$65,000.

While under investigation, the Technician retired from the Postal Service. In January 2007, the Technician was indicted in federal court on one count of Misappropriation of Postal Funds.

**Contract Fraud.** The Postal Service presently manages more than \$42.4 billion in postal contracts. These contracts range from multimillion dollar national contracts for services such as transportation networks and IT infrastructures to local contracts for supplies and services at individual postal facilities. The sheer volume of contracts (48,457) and their huge dollar value provide opportunities for contractors and employees to defraud the Postal Service. We aid the Postal Service by assessing its management of acquisitions and contracts and investigating allegations of contract improprieties.

Contract fraud is defined as any willful or conscious wrongdoing relating to a contract that adversely affects the Postal Service's interests. Following are

#### **CONTRACT FRAUD CAN OCCUR AT VARIOUS STAGES DURING THE LIFE OF THE CONTRACT:**

##### **Pre-Solicitation Phase**

Attempted/actual bribes and kickbacks.

##### **Solicitation Phase**

Falsification of certifications such as Woman/Minority Owned Business, bid submissions by nonexistent companies, kickbacks, bribery, conflicts of interest, and/or bid-rigging.

##### **Proposal Phase**

Bid-rigging among contractors, including bid rotation, sporadic bidding, token bids, market allocation, and/or change-order schemes.

##### **Negotiation and Award Phase**

Bid-rigging among contractors, including bid rotation, sporadic bidding, token bids, market allocation, and/or change-order schemes.

##### **Contract Performance Phase**

Cost mischarging including material and labor mischarging, defective pricing, false invoices, over billing, duplicate billing, fraudulently charging "extra costs" for work not performed, and/or product/service substitution.

examples of contract fraud that we look to uncover.

- Overbilling, billing for services not rendered, and/or fraudulently charging for “extra costs”
- Making false statements and/or false claims
- Misrepresenting material facts
- Bribes/gratuities
- Falsifying records
- Arranging for secret profits, kickbacks, or commissions
- Conflict of interest.

We joined the National Procurement Fraud Task Force, which was formed in October 2006 by the Criminal Division of the U.S. Department of Justice. The national task force promotes the “early detection, prevention, and prosecution of procurement fraud associated with increased contracting activity for national security and other government programs.” In conjunction with this initiative, various OIG field offices joined regional working groups, formed by U.S. Attorney’s Offices, to coordinate and organize procurement fraud investigations and implement the strategies and mission of the national task force. These regional working groups will also facilitate the exchange of information among agencies at the regional level.

During this reporting period, Special Agents conducted 137 contract fraud investigations, resulting in more than \$7.2 million in funds returned to the Postal Service. Following are examples of contract fraud investigated during this reporting period.

- **Defective Pricing Investigation Nets Postal Service \$1.5 Million.** A postal contractor, who submitted defective pricing



The Houston Field Office presented Certificates of Appreciation to the East Memphis Purchasing Service Center group for their assistance with an investigation that netted a \$384,000 check to the Houston District and eliminated a possible \$3.5 million overcharge over the potential 10-year life of the contract.

information for a \$41.4 million postal contract, agreed to pay the Postal Service \$1.5 million in January 2007. The Postal Service let a contract in which the vendor was to supply 200 machines that could verify information provided by bulk mailers. Previously, the Postal Service had no means to verify that mail was properly sorted and weighed.

During contract negotiations in 2000, the vendor’s representatives knew the company’s standard cost for materials was steadily decreasing, but did not inform the Postal Service about the lower cost. By September 8, 2000, the standard cost for material was \$35,900 per machine, compared to the proposal price of \$41,000. Since the vendor knew of the lower cost and did not disclose it to the Postal Service before the end of contract negotiations, a defective pricing issue existed.

Because of our investigation, the U.S. Attorney’s Office issued a demand letter to the contractor for \$3,356,614 in damages (including the loss, plus treble damages and penalties) on November 14, 2005. The \$1.5 million agreed-upon settlement resulted.

- \$384,000 Overcharge by Postal Contractor Uncovered.** A Forensic Examiner's proactive initiative determined a postal contractor was underpaying the Postal Service for the waste paper and cardboard it picks up, and charging the Postal Service to haul away the recyclables when payment for this service was already included in the contract.

Our investigators confirmed that the contractor was using the wrong rate and charging separate hauling fees.

Special Agents met with Postal Service contracting officials, who agreed with the findings. The contracting officials then issued a letter of demand to the contractor for \$384,394. If the incorrect billing had continued, the Postal Service would have been overcharged by more than \$3.5 million over the potential 10-year life of the contract. On December 21, 2006, the contractor agreed with our findings and issued a check to the Postal Service for the full amount.



U.S. Department of Justice announces a \$10 million settlement agreement as a result of OIG investigative work.

**Computer Crimes.** As the Postal Service information infrastructure expands and the number of products and services available over the Internet increases, the agency faces increased exposure to online risks. Unauthorized access to Postal Service networks and improper usage of computers by employees are just two types of computer crimes to which the Postal Service may fall victim. Training staff to investigate these computer crimes is a top OIG priority to ensure the Postal Service's networks and databases remain secure.

Our Computer Crimes Unit initiates investigations and provides digital forensics support to our investigations. During this reporting period, the Unit proactively generated 35 investigations — 12 of which pertained to felony allegations. The Unit also responded to more than 450 requests for investigative support. Following are examples of computer crime investigations.

### WHISTLEBLOWER ACTIVITY

In the Postal Service, a whistleblower is an employee or an applicant for employment who reports misconduct to people or entities that have the power to take corrective action. Generally, the misconduct is a violation of law, rule, regulation, and/or a direct threat to public interest — fraud, health, safety violations, and corruption are just a few examples. In order to be eligible for whistleblower protection, the employee must reasonably believe his or her employer has committed a violation of some law, rule, or regulation.

#### Whistleblower Activities for this Reporting Period:

Retaliation allegations received (including congressional inquiries):	47
OIG investigations initiated:	18
Investigations closed with no finding of retaliation:	5
Open investigations:	13
OIG found reprisal:	—
Number of allegations reviewed but closed without further action:	35

- **Special Agents Uncover nearly \$450,000 in Uncollected Postage.** During a 6-month period, an Alaska postal employee failed to collect the appropriate postage due on business accounts and then took the postage statements home to dispose of. Special Agents arrested the postal employee and searched his residence pursuant to federal warrants.

A Special Agent from the Computer Crimes Unit analyzed data from the employee's personal computer seized during his arrest. The analysis revealed a spreadsheet identifying 503 bypassed mailings valued at nearly \$450,000. Of that amount, the Postal Service recovered approximately \$80,000 either before or during the investigation when business mailers and other postal employees discovered account discrepancies. The employee failed to collect the postage because he felt he was unfairly passed over for promotions. Upon conclusion of the investigation, the Postal Service began collecting the remainder of the unpaid postage the investigation identified. The postal employee was sentenced to 30 months in jail and 3 years of probation.

- **Postal Employee Gets 6 ½ Years in Jail for Child Pornography Surfing.** During a web-log review and hard drive imaging of a post office computer, our Computer Crimes Unit discovered the child pornography surfing activity of a postal employee. The Kentucky employee was using the workroom floor computer almost 1 hour per day to visit websites containing child pornography. In December 2006, a Western District of Kentucky judge sentenced the former postal employee to a felony violation. The employee was sentenced to 78 months of federal detention, with



Some of the merchandise recovered during a search warrant executed at a San Francisco Supervisor's residence. The Supervisor allegedly stole approximately \$40,000 in merchandise from the mail in late 2006.

7 years of supervised release upon completion of the term, and a \$100 fine.

#### ***Internal Affairs and Executive Investigations.***

We conduct criminal and administrative investigations of Postal Service executives, Inspection Service personnel, and alleged whistleblower reprisal. Among the investigative activity for the reporting period was the following case.

##### ■ ***Whistleblower Reprisal Investigated.***

Our Hotline received a complaint of possible whistleblower reprisal. The complainant alleged that her Postmaster removed her from her position as an acting Supervisor, and reassigned her as a Letter Carrier, in reprisal for reporting that her Supervisor changed color codes (indicating urgency) on the mail. The complainant also alleged that the Postmaster denied her entry into the Associate Supervisor Program

as an additional act of reprisal for her disclosure.

The investigation disclosed insufficient evidence to support the claim that the Postmaster denied the complainant entry into the Associate Supervisor Program in reprisal for her protected communications. However, the investigation found *prima facie* evidence that the complainant's protected disclosure contributed to the Postmaster's decision to reassign her to a Letter Carrier position.

We forwarded the findings to the Postal Service. In March 2007, the Postal Service offered the complainant back pay and corrected her leave record.

# The Star-Ledger

Friday, March 23, 2007

Volume 4

## Letter carrier gets 23 years for running prostitution ring

BY STAR-LEDGER STAFF

A former New York postal worker was sentenced to more than 23 years in prison today for running a multi-million dollar prostitution ring that spanned from Las Vegas to Atlantic City and used girls as young as 13. U.S. District Judge Freda Wolfson ordered a 280-month prison term for Matthew Thompkins, the upper range of the 10 to 24 years he faced under a plea agreement he struck with federal prosecutors last year. Thompkins, who

went by the nickname "Knowledge," ran a sprawling sex network by training young prostitutes, housing them in apartments and homes in New York and New Jersey and hiding millions of dollars in illegal proceeds in their names.

Prosecutors said it was extremely lucrative: the women charged up to \$1,000 a night for sex, with all of it being passed onto Thompkins. One prostitute earned \$222,000 in a year, authorities said. When FBI agents searched one of Thompkins' homes in South Jersey

in 2005, they found a foot-high trophy declaring him the "International Pimp of the Year." It was given to him by his counterparts in the sex-trade industry. Thompkins, a Bronx native and former letter carrier, resigned from the Postal Service after he plead guilty to conspiring to launder money and transport minors across state lines for prostitution last year. His arrest came after a year-long probe that involved investigators from the FBI, New Jersey State Police, the U.S. Postal Service Inspector General's Office, and local police.

Periodically, results of OIG investigations are picked up and reported by local and national media.

### **Employee Misconduct and General Crimes.**

Misconduct on the part of Postal Service employees may include the following offenses committed in the course of their official duties: misuse of Postal Service computers; destruction or theft of Postal Service property; falsification of official documents/forgery; theft of funds; abuse of authority; sabotage of operations; narcotics usage or sale of drugs while on duty; and alcohol abuse. To focus on these areas, we created a new program area called Employee Misconduct and General Crimes. Following are examples of work performed under this program area.

- **Publisher's Mailing Rate Fraud Results in Letter of Demand for \$94,000.** We received a referral about a Florida magazine publishing company's mailing account. A follow-up review by a Miami Business Mail Entry Unit Clerk revealed the publisher appeared to be inflating the number of subscribers to qualify for periodical mailing rates. For example, the publisher paid \$1,760 to mail 4,172 magazines at the periodical rate. Without that rate, the mailing would have cost the publisher \$3,496.

Individuals associated with the publisher's circulation department told our Special Agents they knowingly lied by representing that the magazine had 50 percent more paid subscriptions than it actually had. This resulted in more than \$100,000 in unwarranted discounts.



The Department of Justice agreed to negotiate a settlement between the publisher and the Postal Service. On October 19, 2006, the U.S. Attorney's Office issued to the magazine publisher a Letter of Demand for \$94,175.

■ **Fraudulent \$10 Million Tort Claim**

**Uncovered.** We received a referral from the Inspection Service that an individual submitted a \$10 million tort claim for a motorcycle accident involving a Postal Service vehicle in March 2004.

Our investigation revealed the individual fraudulently obtained motorcycle insurance through his girlfriend, and neither the individual nor the girlfriend had a valid permit or license to operate a motorcycle. In addition, the individual's California driver's license was suspended. Numerous surveillances confirmed the individual was exceeding his claimed limitations.

The case was settled and judgment rendered for the government, denying payment claims to the individual. In February 2007, we received a letter from the U.S. Attorney's Office stating that the government attained a \$10 million cost avoidance for the Postal Service.

■ **Colorado Carrier Technician Finds**

**Gambling Does Not Pay.** An investigation by Special Agents, the Colorado District Attorney's Office, and local law enforcement resulted in the indictment of a postal employee and others on charges relating to illegal gambling. The investigation revealed approximately \$80,000 in bets were placed weekly through the enterprise. While on duty, the Carrier Technician collected bets and paid winnings on sporting events from his postal vehicle.

Four additional postal employees were involved in placing bets, collecting winnings, or otherwise facilitating the illegal operation. A Jefferson County grand jury indicted all the postal employees. The Carrier Technician was placed on indefinite suspension, pending the outcome of the legal proceedings. On March 15, 2007, the four postal conspirators pled guilty to misdemeanor professional gambling charges and were fined. Administrative action against the postal employees is pending.

**Narcotics.** Narcotics (illegal drugs and prescription drug abuse) in the workplace can negatively impact employee productivity and safety. Illegal drugs affect employee judgment and can increase stress levels, leading to acts of violence or hostility. Use and sale of illegal drugs by employees on duty can also contribute to other crimes such as theft, embezzlement, and workers' compensation fraud claims.

Our mission in dealing with illegal drugs in the workplace focuses on detection, investigation, and prevention. Detection of illegal drug sales, distribution, and usage in the workplace is the first step in this overall approach. Employees selling or distributing illegal drugs are vigorously investigated and prosecution is pursued. Postal employees who are using illegal drugs are normally referred to the Postal Service Employee Assistance Program for treatment.

Prevention remains a key long-term strategy for providing a safe and drug-free work environment for postal employees. Deterring employee illegal drug use is the desired outcome. Following is a typical illegal drug investigation involving a postal employee.

■ **Illinois Letter Carrier Arrested and Removed for Selling Marijuana from Postal Vehicle.** Working jointly with the Illinois Police Department, Special Agents arrested a Letter Carrier for state narcotics violations after he was observed selling marijuana from his postal vehicle while on duty. Subsequent to his arrest, a search warrant was served at the Letter Carrier's residence. Special Agents seized drug paraphernalia and several bundles of Bulk Business Mail, which the Letter Carrier had not delivered to customers on his route. The Postal Service issued the Letter Carrier a Letter of Removal, effective February 16, 2007.

**Carrier Observation Program.** Misconduct by postal employees who are on duty and in uniform casts the Postal Service in a negative light. This improper conduct includes, but is not limited to, Letter Carriers purchasing or consuming alcohol in public places, selling illegal narcotics from their postal vehicles, driving with suspended state drivers' licenses, deviating from their routes to conduct non-postal business — all while on duty and in uniform. Letter Carriers who drive postal trucks while intoxicated or under the influence of a narcotic also present a threat to others, themselves, and Postal Service property while placing the security of the mail at risk.

On September 1, 2005, our Office of Investigations initiated the Carrier Observation Program based on allegations of Letter Carrier misconduct. We received information from various sources nationwide, including:

- Hotline allegations
- Surveillance of postal vehicles parked outside bars or similar establishments for prolonged periods
- Contact with Postal Service Supervisors, Managers, Postmasters, and District Managers.

In addition, Special Agents reviewed Overtime Usage Reports and Managed Service Points Exception Reports to identify excessive early, late, or missing scans re-occurring for the same Letter Carriers and to compare workload and resource utilization.

As a result of investigative activity by Special Agents, postal management took corrective action against 293 employees, as of March 31, 2007. Actions ranged from reprimands and suspensions to removal.



Special agents found evidence of a marijuana "grow operation" when searching the house of a Letter Carrier suspected of using and selling narcotics.

**“MASTER IMPOSTER”  
SENTENCED TO 303  
YEARS FOR FORGERY**

A check forger who fashioned himself after Frank Abagnale, the impersonator whose life story was

captured in the movie, “Catch Me If You Can,” was sentenced February 2007 in Denver District Court to 303 years in prison. The forger was also ordered to pay \$129,171 in restitution to the Postal Service.

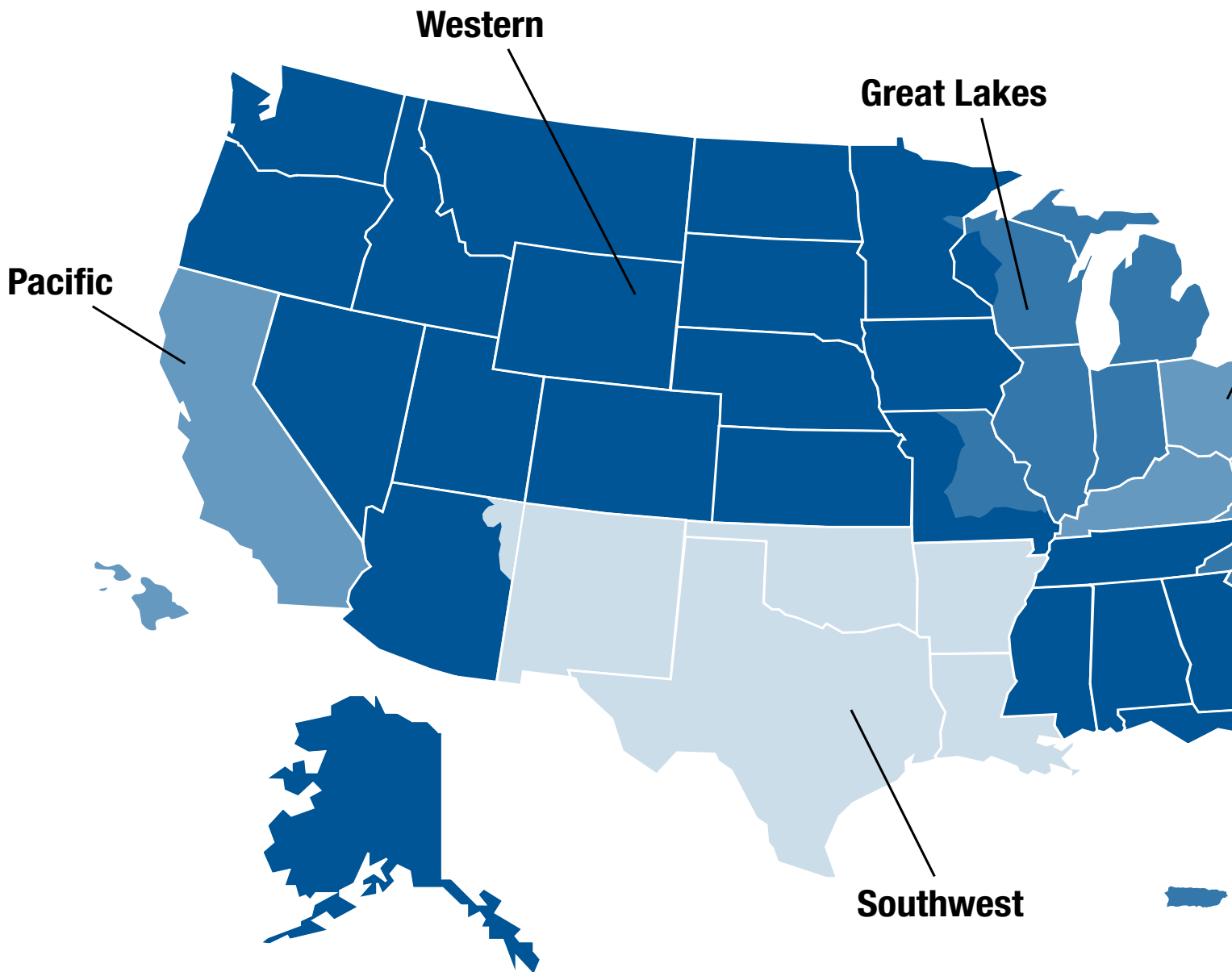


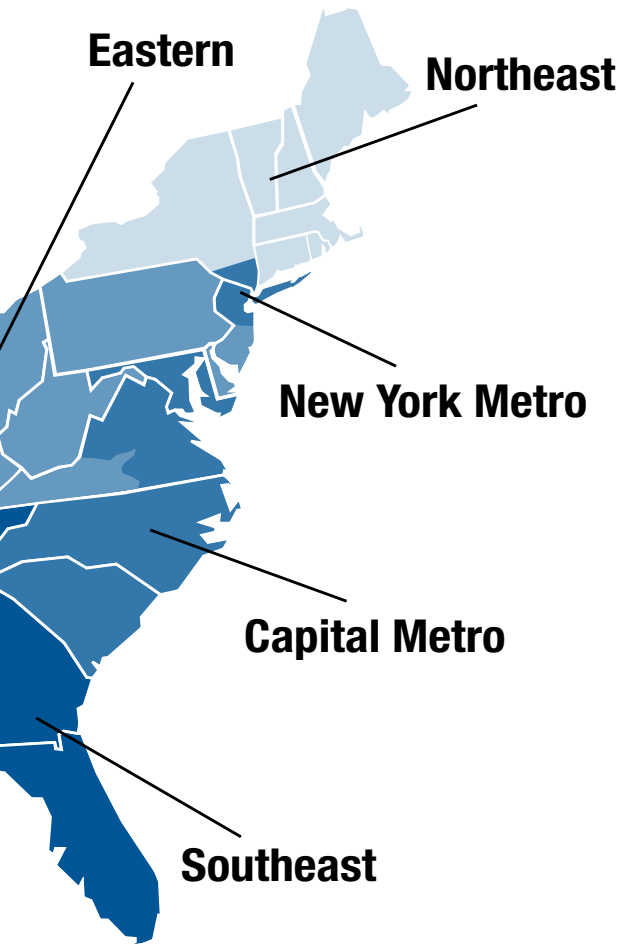
Office of Inspector General Special Agents and Postal Inspectors jointly investigated numerous forged check transactions at multiple post offices in California, Colorado, Arizona, Minnesota, Iowa, and Utah for the purchase of postage stamps (First-Class, Priority, and Express Mail). The forger used counterfeit computer-generated fictitious checks at these Post Offices to obtain the stamps and then resold the stamps to businesses across the country at a discounted rate. Over a 10-month period, the forger passed more than 558 counterfeit checks, resulting in \$327,124 in revenue loss for the Postal Service.

In imposing the sentence — believed to be the longest white-collar sentence ever handed down in Denver — Judge Herbert Stern said this about the forger, “You are a serial counterfeiter. You are a serial forger. You are beyond rehabilitation. You are a menace to society. These crimes are grave and serious.”

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

The OIG currently has more than 1,100 employees located in more than 100 offices nationwide in each of the Postal Service's nine areas.





**Capital Metro**

Arlington, VA (HQ)  
Baltimore, MD  
Charleston, WV  
Charlotte, NC  
Columbia, SC  
Greensboro, NC  
Norfolk, VA  
Richmond, VA  
Washington, DC

**Eastern**

Charleston, WV  
Clarksburg, WV  
Cleveland, OH  
Columbus, OH  
Covington, KY  
Harrisburg, PA  
Louisville, KY  
Philadelphia, PA  
Pittsburgh, PA  
Wilmington, DE

**Great Lakes**

Carol Stream, IL  
Chicago, IL\*  
Detroit, MI  
Fox Valley, IL  
Gary, IN  
Grand Rapids, MI  
Indianapolis, IN  
Milwaukee, WI  
Omaha, NE  
St. Louis, MO\*

**New York Metro**

Hoboken, NJ  
Jersey City, NJ  
Long Island, NY  
New York, NY  
San Juan, PR  
Trenton, NJ

**Northeast**

Albany, NY  
Boston, MA\*  
Buffalo, NY  
New Haven, CT  
Portland, ME  
Providence, RI  
Springfield, MA  
Syracuse, NY

**Pacific**

City of Industry, CA  
Honolulu, HI  
Long Beach, CA  
Los Angeles, CA  
Richmond, CA  
Riverside, CA  
Sacramento, CA  
San Diego, CA  
San Francisco, CA  
San Jose, CA  
San Mateo, CA  
Santa Clarita, CA

**Southeast**

Atlanta, GA  
Birmingham, AL  
Jackson, MS  
Jacksonville, FL  
Knoxville, TN  
Memphis, TN  
Miami, FL  
Nashville, TN  
North Metro, GA  
Orlando, FL  
Raleigh, NC  
Tallahassee, FL  
Tampa, FL

**Southwest**

Albuquerque, NM  
Baton Rouge, LA  
Bedford, TX  
Coppell, TX  
Dallas, TX  
El Paso, TX  
Houston, TX\*  
Little Rock, AR  
New Orleans, LA  
Oklahoma City, OK  
San Antonio, TX  
Shreveport, LA

**Western**

Anchorage, AK  
Billings, MT  
Denver, CO\*  
Des Moines, IA  
Eagan, MN  
Independence, MO  
Kansas City, KS  
Las Vegas, NV  
Omaha, NE  
Phoenix, AZ  
Portland, OR  
Salt Lake City, UT  
Seattle, WA  
Sioux Falls, SD  
Spokane, WA  
St. Paul, MN

*\*Multiple OIG Offices*

## APPENDICES

The Inspector General Act of 1978 requires semiannual reports on the immediately preceding 6-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.

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

## Appendix A

### DEFINITIONS

#### FUNDS PUT TO BETTER USE

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

#### QUESTIONED COSTS

Costs that are unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, and so forth.

#### UNSUPPORTED COSTS

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

#### REVENUE IMPACT

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

### REPORTS ISSUED TO POSTAL SERVICE MANAGEMENT

For the period October 1, 2006 — March 31, 2007

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

#### Summary

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

Management Goals	Number of Reports	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
Reduce Costs	23	\$122,689,783	\$302,253,373	\$24,002,855	\$922,478
Generate Revenue	2	—	310,608	7,869	140,497
Achieve Results with a Customer-Focused Performance-Based Culture	2	—	—	—	—
Improve Service	13	10,191,676	570,000	—	—
Preserving Integrity	161	56,659	1,951,071	181,667	2,135,451
<b>Total</b>	<b>201</b>	<b>\$132,938,118</b>	<b>\$305,085,052</b>	<b>\$24,192,391</b>	<b>\$3,198,426</b>

## Reports With Quantifiable Potential Monetary Benefits

Report Title	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
<b>REDUCE COSTS</b>				
<b>ENGINEERING</b>				
Automated Package Processing System Status and Administration; DA-AR-07-001; 1/26/2007	—	\$1,980,150	\$1,980,150	—
Management of the Flats Recognition Improvement Program; DA-AR-07-002; 1/26/2007	—	\$21,367,952	\$21,367,952	—
<b>FINANCIAL REPORTING</b>				
Rail Management Information System Service Claim Payments — Capital Metro Distribution Networks Office; FT-AR-07-008; 3/5/2007	—	\$654,753	\$654,753	—
San Francisco International Service Center — Inbound International Mail; FT-AR-07-012; 3/30/2007	—	—	—	\$922,478
<b>INFORMATION SYSTEMS</b>				
Cellular Services; IS-AR-07-010; 3/29/2007	\$5,141,194	\$1,679,991	—	—
<b>SUPPLY MANAGEMENT</b>				
Automated Package Processing System Phase II Submitted by Lockheed Martin Systems Integration — Owego, Distribution Technologies; CA-CAR-07-004; 12/4/2006	—	\$1,889,476	—	—
Firm Fixed Price Proposal for 200 Envelope Reflective Meter (ERM) III Kits and Other Related Items Submitted by Bowe Bell and Howell Postal Systems Company; CA-CAR-07-008; 3/5/2007	—	\$100,648	—	—
Firm Fixed Price Proposal for the Biohazard Detection System (BDS) — Flats Production and Deployment, and Additional Options Submitted by Northrop Grumman Electronic Systems Company (\$87,502,887); CA-CAR-07-010; 3/26/2007	—	\$522,396	—	—
Flats Sequencing System Production Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company; CA-CAR-07-003; 12/4/2006	—	\$175,670,235	—	—
Flats Sequencing System Production Revised Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company; CA-CAR-07-005; 12/29/2006	—	\$91,710,395	—	—
Participation on an Integrated Process Team for the Multiline Replacement Program — Delivery Bar Code Sorter 6 Proposal, Submitted by Siemens Energy and Automation, Incorporated, Postal Automation Division; CA-CAR-07-001; 10/2/2006	—	\$1,650,550	—	—
Price Adjustment Claim Submitted by Government Telecommunications, Incorporated; CA-CAR-07-007; 2/2/2007	—	\$5,026,827	—	—
<b>TRANSPORTATION</b>				
Air Networks - Airport Mail Center Operations — Atlanta; NL-AR-07-001; 12/22/2006	\$107,873,000	—	—	—
Postal Vehicle Service Transportation Routes — Memphis Processing and Distribution Center; NL-AR-07-003; 3/30/2007	\$7,344,820	—	—	—
Surface Transportation — Processing and Distribution Center Transportation Routes — Eastern Area; NL-AR-07-002; 3/23/2007	\$2,330,769	—	—	—
<b>GENERATE REVENUE</b>				
<b>FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDITS</b>				
Annual Mailing Fee Sharing — Package Services; FF-AR-07-118; 3/16/2007	—	—	—	\$73,160
<b>SALES &amp; SERVICE</b>				
Stamps on Consignment Program; DR-AR-07-003; 3/31/2007	—	\$310,608	\$7,869	\$67,337
<b>IMPROVE SERVICE</b>				
<b>DELIVERY</b>				
Address Management System Information — Northeast Area; DR-AR-07-001; 3/15/2007	\$4,590,875	—	—	—
Address Management System Information — Southeast Area; DR-AR-07-002; 3/30/2007	\$862,134	—	—	—
<b>NETWORK PROCESSING</b>				
Jacksonville Processing and Distribution Center Flat Processing Operations; NO-AR-07-002; 3/20/2007	\$3,112,457	—	—	—
<b>SALES &amp; SERVICE</b>				
Postal Service Contact Center Phase 1: Customer Service MS-AR-07-001; 12/11/2006	\$1,626,210	\$570,000	—	—

## Reports With Quantifiable Potential Monetary Benefits

Report Title	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
<b>PRESERVING INTEGRITY</b>				
<b>FINANCIAL REPORTING</b>				
Employee Accounts Receivable — Follow-up; FT-AR-07-009; 3/20/2007	—	\$1,292,399	—	—
<b>FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDITS</b>				
Alamo Main Post Office — Alamo, California; FF-AR-07-003; 10/3/2006	—	\$914	\$914	\$112
Attleboro Post Office — Attleboro, Massachusetts; FF-AR-07-02; 11/7/2006	—	—	—	\$617
Bronx General Post Office Business Mail Entry Unit — Bronx, New York; FF-AR-07-011; 10/25/2006	—	—	—	\$29,750
Coronado Station — El Paso, Texas; FF-AR-07-024; 11/27/2006	—	\$7,120	—	\$10,956
Corpus Christi Southside Station — Corpus Christi, Texas; FF-AR-07-007; 10/23/2006	—	—	—	\$1,851
Denver General Mail Facility — Denver, Colorado; FF-AR-07-001; 10/2/2006	—	\$903	—	\$15,990
Duluth Main Post Office — Duluth, Minnesota; FF-AR-07-002; 10/2/2006	—	\$498	\$395	\$963
Englewood Main Post Office — Englewood, Colorado; FF-AR-07-020; 11/7/2006	—	\$830	\$830	\$10,617
Industry Processing and Distribution Center Window Unit — City of Industry, California; FF-AR-07-016; 10/31/2006	—	\$688	—	\$26,563
New York Main Post Office — New York, New York; FF-AR-07-010; 10/23/2006	—	\$1,692	—	—
Newark Main Post Office — Newark, Delaware; FF-AR-07-013; 10/27/2006	—	—	—	\$13,133
Norfolk Business Mail Entry Unit — Norfolk, Virginia; FF-AR-07-019; 11/3/2006	—	—	—	\$33,809
Pittsburgh Business Mail Entry Unit — Pittsburgh, Pennsylvania; FF-AR-07-014; 10/27/2006	—	—	—	\$37,218
<b>FISCAL YEAR 2006 FINANCIAL STATEMENT AUDITS</b>				
San Mateo Information Technology and Accounting Service Center; FT-AR-07-010; 3/26/2007	—	\$159,653	—	—
St. Louis Information Technology and Accounting Service Center; FT-AR-07-011; 3/28/2007	—	—	—	\$708,298
<b>FISCAL YEAR 2007 FINANCIAL INSTALLATION AUDITS</b>				
Addison Business Mail Entry Unit — Addison, Illinois; FF-AR-07-077; 1/25/2007	—	—	—	\$25,321
Baltimore Business Mail Entry Unit — Baltimore, Maryland; FF-AR-07-087; 2/12/2007	—	\$173,437	—	\$356,307
Bensenville Business Mail Entry Unit — Bensenville, Illinois; FF-AR-07-086; 2/8/2007	—	—	—	\$3,277
Brunswick Main Post Office — Brunswick, Ohio; FF-AR-07-045; 12/21/2006	—	\$2,448	—	\$28,666
Canoga Park Business Mail Entry Unit — Canoga Park, California; FF-AR-07-064; 1/18/2007	—	\$4,071	\$4,071	—
Columbus Business Mail Entry Unit — Columbus, Mississippi; FF-AR-07-055; 1/8/2007	—	—	—	\$1,428
Concord Business Mail Entry Unit — Concord, New Hampshire; FF-AR-07-012; 3/9/2007	—	—	—	\$49,623
Concord DMU Post Office — Concord, New Hampshire; FF-AR-07-124; 3/21/2007	—	\$6,322	—	\$13,689
Corinth Business Mail Entry Unit — Corinth, Mississippi; FF-AR-07-046; 12/26/2006	—	—	—	\$31,626
Emeryville Station — Emeryville, California; FF-AR-07-042; 12/21/2006	—	\$240	\$240	\$18,577
Fountain Station — Grand Prairie, Texas; FF-AR-07-096; 2/16/2007	—	\$19,065	\$2,418	\$660
Freehold Business Mail Entry Unit — Freehold, New Jersey; FF-AR-07-083; 2/2/2007	—	—	—	\$46,606
Frontier Station — Round Rock, Texas; FF-AR-07-092; 2/13/2007	—	\$5,741	\$5,741	\$10,445
George W. Young Finance Unit — Detroit, Michigan; FF-AR-07-076; 1/25/2007	—	—	—	\$130,591
Great Barrington Business Mail Entry Unit — Great Barrington, Massachusetts; FF-AR-07-132; 3/28/2007	—	—	—	\$1,974
IMPAC-Dallas District — Coppell, Texas; FF-AR-07-122; 3/19/2007	—	\$163,898	\$151,371	—



## Reports With Quantifiable Potential Monetary Benefits

Report Title	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
Jacksonville Post Office — Jacksonville, Arkansas; FF-AR-07-036; 12/14/2006	—	\$5,303	\$5,303	\$840
Lafayette Main Post Office — Lafayette, California; FF-AR-07-131; 3/27/2007	—	\$739	\$739	\$707
Livingston Business Mail Entry Unit — Livingston, New Jersey; FF-AR-07-105; 3/16/2007	—	—	—	\$4,523
Londonderry Business Mail Entry Unit — Londonderry, New Hampshire; FF-AR-07-074; 1/23/2007	—	—	—	\$5,559
Longmont Business Mail Entry Unit — Longmont, Colorado; FF-AR-07-050; 1/5/2007	—	—	—	\$2,678
Margaret L. Sellers Business Mail Entry Unit — San Diego, California; FF-AR-07-125; 3/22/2007	—	\$36,433	—	\$14,148
Mason Business Mail Entry Unit — Mason, Ohio; FF-AR-07-085; 2/5/2007	—	—	—	\$11,328
McLean Main Post Office — McLean, Virginia; FF-AR-07-038; 12/14/2006	—	\$1,218	—	\$34,885
Medina Business Mail Entry Unit — Medina, Ohio; FF-AR-07-095; 2/26/2007	—	—	—	\$72,286
Moraine Valley Post Office — Bridgeview, Illinois; FF-AR-07-101; 2/16/2007	—	\$1,451	—	—
Newark Business Mail Entry Unit — Newark, New Jersey; FF-AR-07-102; 2/26/2007	—	\$270	—	\$13,165
Ontario Business Mail Entry Unit — Ontario, California; FF-AR-07-065; 1/18/2007	\$56,659	—	—	\$14,790
Perryville Business Mail Entry Unit — Perryville, Missouri; FF-AR-07-054; 1/8/2007	—	—	—	\$895
Phoenix Main Office Window — Phoenix, Arizona; FF-AR-07-133; 3/27/2007	—	\$6,665	—	\$32,366
Preston Royal Finance Station — Dallas, Texas; FF-AR-07-134; 3/29/2007	—	\$5,115	—	\$31,095
Sacramento Business Mail Entry Unit — West Sacramento, California; FF-AR-07-097; 2/16/2007	—	\$10,512	—	\$87,009
San Jose Business Mail Entry Unit — San Jose, California; FF-AR-07-098; 2/16/2007	—	\$659	\$659	\$684
Scarborough Post Office — Scarborough, Maine; FF-AR-07-037; 12/21/2006	—	—	—	\$7,029
Sidney Business Mail Entry Unit — Sidney, Ohio; FF-AR-07-129; 3/26/2007	—	—	—	\$7,120
South Suburban Business Mail Entry Unit — Bedford Park, Illinois; FF-AR-07-049; 12/28/2006	—	—	—	\$6,977
Southaven Post Office — Southaven, Mississippi; FF-AR-07-033; 12/11/2006	—	—	—	\$2,084
St. Louis Main Office Finance Unit — St. Louis, Missouri; FF-AR-07-107; 3/28/2007	—	\$18,934	—	\$107,737
Swansea Business Mail Entry Unit — Swansea, Massachusetts; FF-AR-07-114; 3/23/2007	—	—	—	\$1,766
Tulsa Downtown Station — Tulsa, Oklahoma; FF-AR-07-039; 12/18/2006	—	\$1,722	\$1,722	\$19,625
Walnut Business Mail Entry Unit — Walnut, California; FF-AR-07-032; 12/13/2006	—	—	—	\$7,581
West Lynn Post Office — Lynn, Massachusetts; FF-AR-07-111; 3/9/2007	—	—	—	\$3,640
West Menlo Park Station — Menlo Park, California; FF-AR-07-056; 1/9/2007	—	\$7,264	\$7,264	—
West Palm Beach Business Mail Entry Unit — West Palm Beach, Florida; FF-AR-07-108; 3/2/2007	—	—	—	\$27,647
Westlake Hills Station — Austin, Texas; FF-AR-07-121; 3/16/2007	—	\$14,867	—	\$7,306
York Business Mail Entry Unit — York, Pennsylvania; FF-AR-07-115; 3/19/2007	—	—	—	\$1,314
<b>TOTAL</b>	<b>\$132,938,118</b>	<b>\$305,085,052</b>	<b>\$24,192,391</b>	<b>\$3,198,426</b>

## Report Listing

For the period of October 1, 2006 — March 31, 2007.

Complete listing of all OIG Reports issued to Postal Service management

### REDUCE COSTS

#### ENGINEERING

Automated Package Processing System Status and Administration; DA-AR-07-001; 1/26/2007	Management of the Flats Recognition Improvement Program; DA-AR-07-002; 1/26/2007
---	---

#### FINANCIAL REPORTING

Fiscal Year 2007 Peak Season Review — Christmas 2006; FT-WP-07-001; 3/12/2007	Rail Management Information System Service Claim Payments — Capital Metro Distribution Networks Office; FT-AR-07-008; 3/5/2007	San Francisco International Service Center — Inbound International Mail; FT-AR-07-012; 3/30/2007
--	---	---

#### INFORMATION SYSTEMS

Cellular Services; IS-AR-07-010; 3/29/2007

#### SALES & SERVICE

Transportation Cost System;  
MS-AR-07-002; 3/20/2007

#### SUPPLY MANAGEMENT

Automated Package Processing System Phase II Submitted by Lockheed Martin Systems Integration — Owego, Distribution Technologies; CA-CAR-07-004; 12/4/2006	Firm Fixed Price Proposal for the Biohazard Detection System (BDS) — Flats Production and Deployment, and Additional Options Submitted by Northrop Grumman Electronic Systems Company (\$87,502,887); CA-CAR-07-010; 3/26/2007	Forward Pricing Rate Proposal Submitted by Siemens Energy and Automation Incorporated, Postal Automation; CA-CAR-07-006; 1/29/2007
eBuy Monthly Reconciliation Procedures; CA-AR-07-001; 2/16/2007	Fiscal Year 2004 Incurred Costs of Mitretek Systems, Incorporated; CA-CAR-07-002; 11/6/2006	Indefinite Delivery, Indefinite Quantity Proposal for Architect and Engineering Services in Response to Solicitation Number 519809-06-A-001 Submitted by Burt Hill Incorporated; CA-CAR-07-009; 3/9/2007
Estimated Fiscal Year 2006 Supply Chain Management Impact Associated with National Office Supply Contract; CA-OT-07-001; 3/9/2007	Flats Sequencing System Production Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company; CA-CAR-07-003; 12/04/2006	Participation on an Integrated Process Team for the Multiline Replacement Program — Delivery Bar Code Sorter 6 Proposal, Submitted by Siemens Energy and Automation, Incorporated, Postal Automation Division; CA-CAR-07-001; 10/2/2006
Estimated Supply Chain Management Impact Associated with the Custodial Rental Project; CA-MA-07-001; 11/27/2006	Flats Sequencing System Production Revised Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company; CA-CAR-07-005; 12/29/2006	Price Adjustment Claim Submitted by Government Telecommunications, Incorporated; CA-CAR-07-007; 2/2/2007
Firm Fixed Price Proposal for 200 Envelope Reflective Meter (ERM) III Kits and Other Related Items Submitted by Bowe Bell and Howell Postal Systems Company; CA-CAR-07-008; 3/5/2007		

#### TRANSPORTATION

Air Networks — Airport Mail Center Operations — Atlanta; NL-AR-07-001; 12/22/2006	Postal Vehicle Service Transportation Routes — Memphis Processing and Distribution Center; NL-AR-07-003; 3/30/2007	Surface Transportation — Processing and Distribution Center Transportation Routes — Eastern Area; NL-AR-07-002; 3/23/2007
--	--	---

**GENERATE REVENUE****FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDITS**

Annual Mailing Fee Sharing — Package Services; FF-AR-07-118; 3/16/2007

**SALES & SERVICE**

Stamps on Consignment Program; DR-AR-07-003; 3/31/2007

**ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED, PERFORMANCE-BASED CULTURE****HUMAN CAPITAL**

Postal Service Schedule Awards in the New York Metro Area — Report II; HM-AR-07-001; 12/13/2006

**INFORMATION SYSTEMS**

Data Integrity Review of Address Management System Facility Data; IS-AR-07-005; 12/22/2006

**IMPROVE SERVICE****DELIVERY**

Address Management System Information — Northeast Area; DR-AR-07-001; 3/15/2007

Delivery and Retail Standard Operating Procedures — Capital Metro Area; DR-MA-07-001; 10/16/2006

Delivery and Retail Standard Operating Procedures — National Capping Report; DR-MA-07-003; 2/22/2007

Address Management System Information — Southeast Area; DR-AR-07-002; 3/30/2007

**FISCAL YEAR 2006 FINANCIAL STATEMENT AUDITS**

Service Level Agreements; FT-AR-07-001; 11/2/2006

**NETWORK OPTIMIZATION**

Service Implications of Area Mail Processing Consolidations; EN-AR-07-002; 12/05/2006

Sioux City, Iowa, Processing and Distribution Facility Consolidation; EN-AR-07-001; 11/9/2006

**NETWORK PROCESSING**

Color-Coding of Standard Mail at the South Jersey Processing and Distribution Center; NO-MA-07-001; 3/20/2007

Steubenville - Youngstown, Ohio, Outgoing Mail Consolidation; NO-AR-07-003; 3/30/2007

Timeliness of Mail Processing at the Los Angeles, California, Processing and Distribution Center; NO-AR-07-001; 2/9/2007

Jacksonville Processing and Distribution Center Flat Processing Operations; NO-AR-07-002; 3/20/2007

**SALES & SERVICE**

Delivery Confirmation for Inbound International Mail; DR-MA-07-002; 11/21/2007

Postal Service Contact Center Phase 1: Customer Service; MS-AR-07-001; 12/11/2006

## PRESERVING INTEGRITY

### AUDITS OF STATISTICAL TESTS FOR FISCAL YEAR 2006 COST AND REVENUE ANALYSIS

Cost and Revenue Analysis;  
FF-AR-07-093; 2/16/2007

Northern Illinois District;  
FF-AR-07-004; 10/11/2006

### AUDITS OF STATISTICAL TESTS FOR FISCAL YEAR 2007 COST AND REVENUE ANALYSIS

Atlanta District; FF-AR-07-022; 11/8/2006

Bay-Valley District — Pacific Area;  
FF-AR-07-060; 1/17/2007

Bay-Valley District, Oakland International Service  
Center — Pacific Area;  
FF-AR-07-069; 1/18/2007

Dakotas District; FF-AR-07-103; 2/26/2007

Gateway District; FF-AR-07-062; 1/18/2007

Northern New Jersey District;  
FF-AR-07-078; 1/24/2007

Northern Virginia District;  
FF-AR-07-029; 11/30/2006

Pittsburgh District;  
FF-AR-07-116; 3/16/2007

Santa Ana District;  
FF-AR-07-048; 12/27/2006

### FINANCIAL REPORTING

Employee Accounts Receivable — Follow-up;  
FT-AR-07-009; 3/20/2007

### FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDITS

Alamo Main Post Office — Alamo, California;  
FF-AR-07-003; 10/3/2006

Annandale Automated Postal Center —  
Annandale, Virginia;  
FF-AR-07-017; 11/3/2006

Attleboro Post Office —  
Attleboro, Massachusetts;  
FF-AR-07-021; 11/7/2006

Automated Postal Centers;  
FF-AR-07-073; 1/25/2007

Bronx General Post Office Business Mail Entry  
Unit — Bronx, New York;  
FF-AR-07-011; 10/25/2006

Brookshire Post Office — Brookshire, Texas;  
FF-AR-07-005; 10/23/2006

Business Mail Entry Units;  
FF-AR-07-090; 2/15/2007

Contract Postal Units;  
FF-AR-07-075; 1/25/2007

Coronado Station — El Paso, Texas;  
FF-AR-07-024; 11/27/2006

Corpus Christi Southside Station —  
Corpus Christi, Texas;  
FF-AR-07-007; 10/23/2006

Denver General Mail Facility —  
Denver, Colorado;  
FF-AR-07-001; 10/2/2006

Desoto Main Post Office Automated Postal  
Center — Desoto, Texas;  
FF-AR-07-028; 11/28/2006

Duluth Main Post Office —  
Duluth, Minnesota;  
FF-AR-07-002; 10/2/2006

Englewood Main Post Office —  
Englewood, Colorado;  
FF-AR-07-020; 11/7/2006

Hamilton Station Automated Postal Center —  
Palo Alto, California;  
FF-AR-07-012; 10/25/2006

Industry Processing and Distribution Center  
Window Unit — City of Industry, California;  
FF-AR-07-016; 10/31/2006

Irving Valley Ranch Station Automated Postal  
Center — Irving, Texas;  
FF-AR-07-025; 11/24/2006

Lakeville Post Office — Lakeville, Minnesota;  
FF-AR-07-008; 10/23/2006

New York Main Post Office —  
New York, New York;  
FF-AR-07-010; 10/23/2006

Newark Main Post Office — Newark, Delaware;  
FF-AR-07-013; 10/27/2006

Norfolk Business Mail Entry Unit —  
Norfolk, Virginia;  
FF-AR-07-019; 11/3/2006

Oakman Post Office — Oakman, Alabama;  
FF-AR-07-023; 11/14/2006

Pittsburgh Business Mail Entry Unit —  
Pittsburgh, Pennsylvania;  
FF-AR-07-014; 10/27/2006

Post Offices, Stations, and Branches;  
FF-AR-07-094; 2/20/2007

Providence Post Office Automated Postal  
Center — Providence, Rhode Island;  
FF-AR-07-006; 10/23/2006

Spivak Contract Postal Unit — Denver, Colorado;  
FF-AR-07-018; 11/3/2006

Sunnyvale Main Post Office Automated Postal  
Center — Sunnyvale, California;  
FF-AR-07-015; 10/31/2006

Vicksburg Post Office — Vicksburg, Michigan;  
FF-AR-07-009; 10/23/2006

### FISCAL YEAR 2006 FINANCIAL STATEMENT AUDITS

Board of Governors' Travel and Miscellaneous  
Expenses for Fiscal Year 2006;  
FT-AR-07-003; 12/1/2006

Eagan Information Technology and Accounting  
Service Center;  
FT-AR-07-007; 12/29/2006

Internal Controls Over Receipt and Disbursing  
Activities;  
FT-AR-07-006; 12/21/2006

Opinion on the Postal Service's Special-Purpose  
Financial Statements;  
FT-AR-07-002; 11/17/2006

Postal Service Officers' Travel and  
Representation Expenses for Fiscal Year 2006;  
FT-AR-07-005; 12/7/2006

San Mateo Information Technology and  
Accounting Service Center;  
FT-AR-07-010; 3/26/2007

St. Louis Information Technology and Accounting  
Service Center; FT-AR-07-011; 3/28/2007

Washington, D.C., Headquarters;  
FT-AR-07-004; 12/7/2006

## FISCAL YEAR 2007 FINANCIAL INSTALLATION AUDITS

Addison Business Mail Entry Unit — Addison, Illinois; FF-AR-07-077; 1/25/2007	El Paso Business Mail Entry Unit — El Paso, Texas; FF-AR-07-100; 2/20/2006	Londonderry Business Mail Entry Unit — Londonderry, New Hampshire; FF-AR-07-074; 1/23/2007
Avella Post Office — Avella, Pennsylvania; FF-AR-07-026; 11/28/2006	Emeryville Station — Emeryville, California; FF-AR-07-042; 12/21/2006	Longmont Business Mail Entry Unit — Longmont, Colorado; FF-AR-07-050; 1/5/2007
Baltimore Business Mail Entry Unit — Baltimore, Maryland; FF-AR-07-087; 2/12/2007	Fountain Station — Grand Prairie, Texas; FF-AR-07-096; 2/16/2007	Luray Post Office — Luray, Virginia; FF-AR-07-104; 2/27/2007
Bedford Business Mail Entry Unit — Bedford, Massachusetts; FF-AR-07-030; 12/1/2006	Freehold Business Mail Entry Unit — Freehold, New Jersey; FF-AR-07-083; 2/2/2007	Manasota Business Mail Entry Unit — Sarasota, Florida; FF-AR-07-080; 1/29/2007
Belcamp Business Mail Entry Unit — Belcamp, Maryland; FF-AR-07-044; 12/21/2006	Frontier Station — Round Rock, Texas; FF-AR-07-092; 2/13/2007	Margaret L. Sellers Business Mail Entry Unit — San Diego, California; FF-AR-07-125; 3/22/2007
Bensenville Business Mail Entry Unit — Bensenville, Illinois; FF-AR-07-086; 2/8/2007	George W. Young Finance Unit — Detroit, Michigan; FF-AR-07-076; 1/25/2007	Mason Business Mail Entry Unit — Mason, Ohio; FF-AR-07-085; 2/5/2007
Brunswick Main Post Office — Brunswick, Ohio; FF-AR-07-045; 12/21/2006	Great Barrington Business Mail Entry Unit — Great Barrington, Massachusetts; FF-AR-07-132; 3/28/2007	McLean Main Post Office — McLean, Virginia; FF-AR-07-038; 12/14/2006
Bryan Business Mail Entry Unit — Bryan, Texas; FF-AR-07-088; 2/13/2007	Heber Springs Permit — Heber Springs, Arkansas; FF-AR-07-099; 2/20/2007	Medina Business Mail Entry Unit — Medina, Ohio; FF-AR-07-095; 2/26/2007
Buckingham Post Office — Buckingham, Pennsylvania; FF-AR-07-123; 3/19/2007	Holliston Business Mail Entry Unit — Holliston, Massachusetts; FF-AR-07-067; 1/19/2007	Miami Business Mail Entry Unit — Miami, Florida; FF-AR-07-109; 3/2/2007
Canoga Park Business Mail Entry Unit — Canoga Park, California; FF-AR-07-064; 1/18/2007	Houston Post Office — Houston, Missouri; FF-AR-07-034; 12/11/2006	Moraine Valley Post Office — Bridgeview, Illinois; FF-AR-07-101; 2/16/2007
Casa Grande Business Mail Entry Unit — Casa Grande, Arizona; FF-AR-07-082; 1/30/2007	IMPAC-Dallas District — Coppel, Texas; FF-AR-07-122; 3/19/2007	Morley Post Office — Morley, Michigan; FF-AR-07-043; 12/20/2006
Chapel Lakes Branch — Hollywood, Florida; FF-AR-07-040; 12/19/2006	Irving Business Mail Entry Unit — Irving, Texas; FF-AR-07-057; 1/11/2007	Newark Business Mail Entry Unit — Newark, New Jersey; FF-AR-07-102; 2/26/2007
Clarksville Post Office — Clarksville, Texas; FF-AR-07-031; 12/1/2006	Jackson Business Mail Entry Unit; FF-AR-07-119; 3/16/2007	Newark Business Mail Entry Unit — Newark, Ohio; FF-AR-07-059; 1/17/2007
Columbus Business Mail Entry Unit — Columbus, Mississippi; FF-AR-07-055; 1/8/2007	Jackson-LeFleur Station — Jackson, Mississippi; FF-AR-07-130; 3/23/2007	Newport Post Office — Newport, New York; FF-AR-07-068; 1/18/2007
Concord Business Mail Entry Unit — Concord, New Hampshire; FF-AR-07-012; 3/9/2007	Jacksonville Post Office — Jacksonville, Arkansas; FF-AR-07-036; 12/14/2006	Northern New Jersey Stamp Distribution Office — Newark, New Jersey; FF-AR-07-061; 1/17/2007
Concord DMU Post Office — Concord, New Hampshire; FF-AR-07-124; 3/21/2007	Kentlands Station — Gaithersburg, Maryland; FF-AR-07-110; 3/5/2007	Ontario Business Mail Entry Unit — Ontario, California; FF-AR-07-065; 1/18/2007
Corinth Business Mail Entry Unit — Corinth, Mississippi; FF-AR-07-046; 12/26/2006	Kingman Business Mail Entry Unit — Kingman, Arizona; FF-AR-07-052; 1/5/2007	Orlando Stamp Distribution Office — Orlando, Florida; FF-AR-07-120; 3/15/2007
Dallas Stamp Distribution Office — Grand Prairie, Texas; FF-AR-07-113; 3/13/2007	Lafayette Main Post Office — Lafayette, California; FF-AR-07-131; 3/27/2007	Osceola Mills Post Office — Osceola Mills, Pennsylvania; FF-AR-07-027; 11/27/2006
Dulles Stamp Services Center — Dulles, Virginia; FF-AR-07-081; 1/30/2007	Lakeland Downtown Station — Lakeland, Florida; FF-AR-07-041; 12/18/2006	Oswego Business Mail Entry Unit — Oswego, New York; FF-AR-07-071; 1/22/2007
Eastlake Business Mail Entry Unit — Eastlake, Colorado; FF-AR-07-066; 1/18/2007	Linn Business Mail Entry Unit — Linn, Missouri; FF-AR-07-063; 1/17/2007	Palestine Permit — Palestine, Texas; FF-AR-07-128; 3/23/2007
	Livingston Business Mail Entry Unit — Livingston, New Jersey; FF-AR-07-105; 3/16/2007	

## FISCAL YEAR 2007 FINANCIAL INSTALLATION AUDITS

Parkersburg Business Mail Entry Unit — Parkersburg, West Virginia; FF-AR-07-051; 1/5/2007	Scarborough Post Office — Scarborough, Maine; FF-AR-07-037; 12/21/2006	Waverly Business Mail Entry Unit — Waverly, Iowa; FF-AR-07-047; 12/26/2006
Perryville Business Mail Entry Unit — Perryville, Missouri; FF-AR-07-054; 1/8/2007	Shawnee Mission Business Mail Entry Unit — Shawnee Mission, Kansas; FF-AR-07-117; 3/21/2007	West Lynn Post Office — Lynn, Massachusetts; FF-AR-07-111; 3/9/2007
Phoenix Main Office Window — Phoenix, Arizona; FF-AR-07-133; 3/27/2007	Sidney Business Mail Entry Unit — Sidney, Ohio; FF-AR-07-129; 3/26/2007	West Menlo Park Station — Menlo Park, California; FF-AR-07-056; 1/9/2007
Poinciana Branch — Kissimmee, Florida; FF-AR-07-126; 3/26/2007	South Suburban Business Mail Entry Unit — Bedford Park, Illinois; FF-AR-07-049; 12/28/2006	West Palm Beach Business Mail Entry Unit — West Palm Beach, Florida; FF-AR-07-108; 3/2/2007
Preston Royal Finance Station — Dallas, Texas; FF-AR-07-134; 3/29/2007	Southaven Post Office - Southaven, Mississippi; FF-AR-07-033; 12/11/2006	Westlake Station — Austin, Texas; FF-AR-07-121; 3/16/2007
Redding Ridge Post Office — Redding Ridge, Connecticut; FF-AR-07-053; 1/8/2007	St. Inigoes Post Office — St. Inigoes, Maryland; FF-AR-07-091; 2/12/2007	Wilkesboro Business Mail Entry Unit — Wilkesboro, North Carolina; FF-AR-07-127; 3/26/2007
Sacramento Business Mail Entry Unit — West Sacramento, California; FF-AR-07-097; 2/16/2007	St. Louis Main Office Finance Unit — St. Louis, Missouri; FF-AR-07-107; 3/28/2007	Willmantic Business Mail Entry Unit — Willmantic, Connecticut; FF-AR-07-072; 1/23/2007
Saltsburg Post Office — Saltsburg, Pennsylvania; FF-AR-07-089; 2/12/2007	St. Petersburg Business Mail Entry Unit — St. Petersburg, Florida; FF-AR-07-079; 1/26/2007	Wisconsin Business Mail Entry Unit — Wisconsin Rapids, Wisconsin; FF-AR-07-084; 2/2/2007
San Francisco Stamp Distribution Office — San Francisco, California; FF-AR-07-058; 1/11/2007	Swansea Business Mail Entry Unit — Swansea, Massachusetts; FF-AR-07-114; 3/23/2007	Worth Business Mail Entry Unit — Worth, Illinois; FF-AR-07-106; 3/1/2007
San Jose Business Mail Entry Unit — San Jose, California; FF-AR-07-098; 2/16/2007	Tulsa Downtown Station — Tulsa, Oklahoma; FF-AR-07-039; 12/18/2006	Yankton Business Mail Entry Unit — Yankton, South Dakota; FF-AR-07-135; 3/30/2007
Santa Ana Stamp Distribution Office — Santa Ana, California; FF-AR-07-070; 1/22/2007	Walnut Business Mail Entry Unit — Walnut, California; FF-AR-07-032; 12/13/2006	York Business Mail Entry Unit — York, Pennsylvania; FF-AR-07-115; 3/19/2007
	Waters Post Office — Waters, Michigan; FF-AR-07-035; 12/13/2006	

## INFORMATION SYSTEMS

Enterprise Payment Switch Solution Phase II: Preparations for Security Testing; IS-AR-07-007; 2/23/2007	Mainframe Service Continuity Planning and Testing at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers; IS-AR-07-002 11/16/2006	Security Assessment Audit of Telephone Lines and Modems (PhoneSweep) at the International Business Operations Center in Jamaica, New York; IS-CS-07-001; 10/30/2006
Fiscal Year 2006 Information Systems General Controls Capping Report; IS-AR-07-009; 2/26/2007	National Customer Management System Encryption; IS-AR-07-006; 12/26/2006	Security Vulnerability Assessment of Selected Servers and Databases that Support the Change of Address Program; IS-CS-07-002; 1/4/2007
Human Capital Enterprise SAP Change Management Process; IS-AR-07-001; 10/18/2006	Physical Security Controls at the Eagan Minnesota; San Mateo, California; and St. Louis, Missouri Information Technology and Accounting Service Centers; IS-AR-07-004; 12/19/2006	Security Vulnerability Assessment of Legacy Applications at the Eagan Host Computing Services, Eagan, Minnesota; IS-AR-07-003; 12/7/2006
Information for the Federal Bridge Certification Authority; IS-WP-07-001; 10/2/2006		Postal Service's Efforts to Protect Sensitive Information; IS-AR-07-008; 2/26/2007

## INSPECTION SERVICE & FACILITIES

Follow-up Review of the Postal Service's Enforcement of Export Controls; SA-MA-07-001; 3/29/2007	Letter to Senator Grassley on Transition Savings; SA-OT-07-001; 12/15/2006	Qualitative Assessment Review of the Postal Inspection Service's Washington Division; QAR-QA-07-002; 12/5/2006
Handling of a Potentially Explosive Ordnance at the Dallas Bulk Mail Center; SA-AR-07-001; 3/29/2007	Postal Service Security Controls and Processes for the Capital Metro Area; SA-AR-07-002; 3/30/2007	Sale of the Philadelphia Main Post Office; CA-MA-07-002; 2/8/2007
	Qualitative Assessment Review of the Postal Inspection Service's Miami Division; QAR-QA-07-001; 12/6/2006	

## Appendix B

## FINDINGS OF QUESTIONED COSTS

For the period October 1, 2006 — March 31, 2007

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

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

Description	Number of Reports	Questioned Costs	Unsupported Costs Included in Questioned Costs
Reports for which no management decision was made at the beginning of the reporting period	21	\$71,519,830	\$4,719,495
Reports requiring management decision that were issued during the reporting period	44	\$305,085,052	\$24,192,391
<b>TOTAL</b>	<b>65</b>	<b>\$376,604,882</b>	<b>\$28,911,886</b>
Reports for which a management decision was made during the reporting period (i+ii)	39	\$215,257,835	\$26,058,050
(i) Dollar Value of disallowed cost		\$9,551,985	\$1,399,031
(ii) Dollar value of cost not disallowed		\$205,705,850	\$24,659,019
Reports for which no management decision was made by the end of the reporting period; Negotiations are ongoing	26	\$161,347,047	\$2,853,836
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	4	\$9,544,179	—
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	10	\$54,190,098	\$2,702,465

**Note 1 - Reports for which no management decision was made within 6 months of issuance:**

Subject	Report/Case Number	Report Date	Questioned Costs	Unsupported Costs Included in Questioned Costs
Report on Audit of Settlement Proposal Under Contract Number 102591-03-Q-0454 Submitted by Hasler Incorporated	CA-CAR-06-027	7/5/2006	\$2,470,818	—
Participation on an Integrated Process Team for the Flats Sequencing System Preproduction Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company	CA-CAR-06-030	8/22/2006	\$6,314,373	—
Postal Service's Grievance-Arbitration Service Centers	HM-AR-06-006	8/29/2006	\$356,510	—
Vehicle Management — National Trailer Lease Requirements — Capital Metro Area	NL-AR-06-013	9/29/2006	\$402,478	—
<b>TOTAL</b>			<b>\$9,544,179</b>	<b>—</b>

## Appendix B

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

Subject	Report/Case Number	Report Date	Questioned Costs	Unsupported Costs Included in Questioned Costs
Contract Audit — Bell and Howell Mail and Messaging Technologies	CA-CAR-03-002	10/16/2002	\$343,759	—
Contract Audit - D. L. Kaufman, Incorporated	CA-CAR-03-011	2/11/2003	\$4,028,935	—
Audit of Termination for Convenience Price Adjustment Claim Submitted by Abcon Associates, Incorporated	CA-CAR-04-022	6/16/2004	\$4,478,385	\$2,702,465
Vehicle Management — Delivery Vehicles — Buy versus Lease	NL-AR-04-005	9/30/2004	\$42,751,032	—
Audit of Equitable Price Adjustment Claim Submitted by Advanced Construction Technologies, Ltd. Under Contract Number 362575-00-B-0399	CA-CAR-05-020	6/15/2005	\$1,780,367	—
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company, Under Solicitation Number 3BMHRD-03-Z5541	CA-CAR-05-021	6/27/2005	\$131,899	—
Audit of Termination for Convenience Settlement Proposal Under Contract Number 3AAERD-03-P-6080 Submitted by Government Telecommunications, Incorporated	CA-CAR-06-003	11/8/2005	\$547,466	—
Audit of Fiscal Year 2001 Incurred Cost of New Breed Corporations	CA-CAR-06-006	12/9/2005	\$7,767	—
Audit of Fiscal Year 2002 Incurred Cost of New Breed Corporations	CA-CAR-06-007	12/9/2005	\$89,576	—
Audit of Firm Fixed Price Proposal for the Ventilation and Filtration System at Morgan Station Submitted by Accu-Sort Systems, Incorporated	CA-CAR-06-015	3/29/2006	\$30,912	—
<b>TOTAL</b>			<b>\$54,190,098</b>	<b>\$2,702,465</b>



## Appendix C

**RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

For the period October 1, 2006 — March 31, 2007

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

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

Description	Number of Reports	Dollar Value
Reports for which no management decision was made at the beginning of the reporting period	7	\$65,365,806
Reports issued during the reporting period	9	\$132,938,118
<b>TOTALS</b>	<b>16</b>	<b>\$198,303,924</b>
Reports for which a management decision was made during the report period	9	\$139,376,134
(i) Value of recommendations agreed to by management		\$130,403,185
(ii) Value of recommendations that were not agreed to by management		\$8,972,949
Reports for which no management decision was made by the end of the reporting period	7	\$58,927,790
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	2	\$7,035,251
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	4	\$51,030,405

**Note 1 - Reports for which no management decision was made within 6 months of issuance:**

Subject	Report Number	Report Date	Recommend Funds Put to Better Use
Postal Service's Grievance-Arbitration Service Centers	HM-AR-06-006	8/29/2006	\$5,521,081
Vehicle Management — National Trailer Lease Requirements — Capital Metro Area	NL-AR-06-013	9/29/2006	\$1,514,170
<b>TOTAL</b>			<b>\$7,035,251</b>

**Note 2 - Reports for which no management decision was made within 1 year of issuance:**

Subject	Report Number	Report Date	Recommend Funds Put to Better Use
Vehicle Management — Delivery Vehicles — Buy versus Lease	NL-AR-04-005	9/30/2004	\$40,296,954
Bulk Mail Center Highway Transportation Routes — Pacific Area	NL-AR-05-012	9/21/2005	\$3,123,562
Delivery Vehicle Utilization — General Services Administration Leased Vehicles	DR-AR-05-018	9/29/2005	\$5,374,077
Surface Transportation — Bulk Mail Center Highway Transportation Routes — Western Area	NL-AR-06-001	2/14/2006	\$2,235,812
<b>TOTAL</b>			<b>\$51,030,405</b>

## REPORTED NON-MONETARY BENEFITS

For the period October 1, 2006 — March 31, 2007

Many of our audit reports identify areas for improvement that result in non-monetary benefits to the Postal Service. These benefits include improvements to service, protection of assets, and improvements in the reliability of data. FY 2007 is the first year we are reporting these benefits to the Postal Service.

	Type of Measure	Value or Amount
<b>IMPROVED SERVICE</b>		
Recommendations that address the Postal Service's efforts to improve the quality and accessibility of its products and services	Number of Recommendations	34
Number of customer service audits conducted	Number of Audits	6
<b>SAFEGUARDING ASSETS</b>		
<b>Assets or Accountable Items at Risk:</b>		
Inadequate internal controls put the value of assets or accountable items (for example cash and stamps) at risk of loss	Dollar Value	\$112,114,758
<b>Physical Safety and Security:</b>		
Inadequate physical protection or safety practices put the value of physical assets (plant, computer equipment, and vehicles) at risk of loss and increase potential lost employee work time	Dollar Value	\$82,294
Recommendations that address the safety and security of Postal Service employees and/or the work environment	Number of Recommendations	16
Number of employee/facility safety and security audits conducted	Number of Audits	2
<b>Information Technology Security:</b>		
Inadequate controls/protection put the value of data, IT assets (software, networks), and employee work time at risk of loss	Dollar Value	\$2,164,487
Number of data security/IT security audits conducted	Number of Audits	12
<b>GOODWILL / BRANDING</b>		
An "adverse impact" on goodwill is an actual event/problem that harms the Postal Service's reputation or a potential problem that could negatively impact the Postal Service "brand name"	Number of Issues Identified	7

## Appendix E

**REPORTS WITH SIGNIFICANT RECOMMENDATIONS PENDING CORRECTIVE ACTIONS**

For the period through March 31, 2007

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

**Office of Inspector General**

Issue Date	Number of Recommendations	Report Title	Report Number
2/22/2002	1	Review of the Facilities Management System for Windows	IS-AR-02-003
7/9/2002	3	Review of eBusiness Agreements	EM-AR-02-012
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
6/13/2003	1	Postal Inspection Service Tracking of Investigative Workhours and Activity	SA-AR-03-003
8/21/2003	1	Propriety of Postal Service Utility Payments	FT-AR-03-011
9/30/2003	2	General Controls at the Engineering Research and Development Center, Merrifield, Virginia	IS-AR-03-008
4/21/2004	1	Postal Inspection Service's Postal Police Officers	SA-AR-04-001
9/24/2004	1	Efficiency of the New York International Service Center	NO-AR-04-009
9/30/2004	1	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
10/25/2004	1	Reports Distribution	IS-AR-05-001
1/25/2005	2	Mail Transport Equipment Service Center Network - Network Realignment — Pittsburgh, Detroit, Cleveland. (Audit Note: \$33 million monetary benefit identified during audit and not reported in the SARC.)	NL-AR-05-001
3/30/2005	1	Efficiency Review of the Akron, Ohio, Processing and Distribution Center	NO-AR-05-009
4/21/2005	2	Vehicle Management - National Trailer Lease — Unresolved Audit Recommendations	NL-MA-05-001
6/17/2005	1	Efficiency of the Los Angeles International Service Center	NO-AR-05-011
7/22/2005	5	Complaints Regarding Personnel Issues in the Caribbean District	HM-AR-05-009
8/11/2005	1	Action Taken By Pacific Area Regarding Complaints of a Hostile Work Environment in the Sacramento District	HM-AR-05-010
9/28/2005	3	Commercial Air Network Operations	NL-AR-05-015
12/22/2005	1	Intelligent Mail Data Acquisition System	DA-AR-06-001
12/23/2005	2	Security Over Sensitive Customer Data on Automated Postal Center Kiosks	IS-MA-06-001
2/10/2006	1	Flat Remote Encoding System for Automated Flat Sorting Machine 100	DA-AR-06-003
2/10/2006	5	Security Vulnerability Assessment and Audit of Automated Postal Center Systems	IS-AR-06-003
2/14/2006	3	Surface Transportation — Bulk Mail Center Highway Transportation Routes — Western Area	NL-AR-06-001
2/22/2006	1	Efficiency Review of the Washington Bulk Mail Center	NO-AR-06-003
3/22/2006	1	J.T. Weeker (Chicago) International Service Center - Inbound International Mail	FT-AR-06-013
3/28/2006	1	Mail Transport Equipment Service Center Network — Highway Transportation Routes — Memphis	NL-AR-06-005

<b>Issue Date</b>	<b>Number of Recommendations</b>	<b>Report Title</b>	<b>Report Number</b>
3/31/2006	1	Postal Service's Share of Health Insurance Premiums for Retired Employees	FT-AR-06-016
5/5/2006	1	Follow up at the Engineering Research and Development Center, Merrifield, Virginia	IS-AR-06-010
5/19/2006	2	Postal Service's Injury Compensation Programs' Controversion and Challenge Process in Selected Areas	HM-AR-06-004
5/25/2006	2	Router and Switch Controls at Selected Postal Service Information Technology Centers	IS-AR-06-011
6/29/2006	2	Hurricane Katrina — The Effectiveness of the Postal Service Transportation and Logistics Network	NL-AR-06-006
7/20/2006	2	Mail Transport Equipment Service Center Network — Proposed Change to Quality Inspection and Payment Authorization Controls	NL-AR-06-007
7/25/2006	3	Surface Transportation — Processing and Distribution Center Transportation Routes — Great Lakes Area	NL-AR-06-008
8/9/2006	1	Overdrawn Express Mail Corporate Accounts	DR-AR-06-007
8/18/2006	2	Mail Transport Equipment Service Center Network — Highway Transportation Routes — Atlanta	NL-AR-06-009
8/29/2006	9	Postal Service's Grievance — Arbitration Service Centers	HM-AR-06-006
9/12/2006	1	Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center	NO-AR-06-006
9/18/2006	3	Mail Transport Equipment Service Center Network — Highway Transportation Routes — Greensboro	NL-AR-06-010
9/21/2006	3	Surface Transportation — Processing and Distribution Center Transportation Routes — Pacific Area	NL-AR-06-011
9/26/2006	3	Pasadena, California, Processing and Distribution Center Consolidation	EN-AR-06-001
9/27/2006	2	Enterprise Payment Switch Solution Phase 1: Requirements and Design	IS-AR-06-017
9/27/2006	1	Information System Access Controls at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers	IS-AR-06-018
9/28/2006	2	Mail Transport Equipment Service Center Network — Highway Transportation Routes - Dallas	NL-AR-06-012
9/29/2006	3	Delivery and Retail Standard Operating Procedures — Great Lakes Area	DR-MA-06-008
9/29/2006	3	Postal Service's Schedule Awards Program in the New York Metro Area — Report I	HM-AR-06-007
9/29/2006	4	Vehicle Management — National Trailer Lease Requirements — Capital Metro Area	NL-AR-06-013
9/29/2006	1	Mail Transport Equipment — Transportation of Over the Road Containers	NL-AR-06-014
9/30/2006	1	Biohazard Detection System	DA-AR-06-006
10/16/2006	4	Delivery and Retail Standard Operating Procedures — Capital Metro Area	DR-MA-07-001
11/9/2006	4	Sioux City, Iowa, Processing and Distribution Facility Consolidation	EN-AR-07-001
12/4/2006	1	Audit Report for Flats Sequencing System Production Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company	CA-CAR-07-003
12/5/2006	4	Service Implications of Area Mail Processing Consolidations	EN-AR-07-002
12/7/2006	1	Security Vulnerability Assessment of Legacy Applications at the Eagan Host Computing Services, Eagan, Minnesota	IS-AR-07-003
12/11/2006	1	Postal Service Contact Center Phase 1: Customer Service	MS-AR-07-001
12/22/2006	2	Audit Report — Air Networks — Airport Mail Center Operations - Atlanta	NL-AR-07-001
12/26/2006	2	National Customer Management System Encryption	IS-AR-07-006
1/26/2007	2	Management of the Flats Recognition Improvement Program	DA-AR-07-002

<b>Issue Date</b>	<b>Number of Recommendations</b>	<b>Report Title</b>	<b>Report Number</b>
2/9/2007	2	Timeliness of Mail Processing at the Los Angeles, California, Processing and Distribution Center	NO-AR-07-001
2/23/2007	1	Enterprise Payment Switch Solution Phase II: Preparations for Security Testing	IS-AR-07-007
3/15/2007	3	Address Management System Information — Northeast Area	DR-AR-07-001
3/23/2007	2	Surface Transportation - Processing and Distribution Center Transportation Routes — Eastern Area	NL-AR-07-002
3/26/2007	1	Fiscal Year 2006 Postal Service Financial Statements Audit — San Mateo Information Technology and Accounting Service Center	FT-AR-07-010
3/29/2007	2	Audit of Cellular Services	IS-AR-07-010
3/30/2007	4	Address Management System Information - Southeast Area	DR-AR-07-002
3/30/2007	5	Postal Service Security Controls and Processes for the Capital Metro Area	SA-AR-07-002
3/30/2007	1	Steubenville — Youngstown, Ohio, Outgoing Mail Consolidation	NO-AR-07-003
3/30/2007	2	Postal Vehicle Service Transportation Routes — Memphis Processing and Distribution Center	NL-AR-07-003
3/31/2007	8	Stamps on Consignment Program	DR-AR-07-003

## Appendix F

### SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period October 1, 2006 — March 31, 2007

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

The OIG has no significant management decisions in audit resolution as of March 31, 2007.

## Appendix G

### INVESTIGATIVE STATISTICS<sup>1</sup>

For the period October 1, 2006 — March 31, 2007

Investigations Completed	3,820
Arrests/Information/Indictments	412
Convictions/Pretrial Diversions <sup>2</sup>	141
Administrative Actions Taken	1,776
Cost Avoidance	\$79,336,879
Fines, Restitution, and Recoveries	\$128,149,410
Amount to Postal Service <sup>3</sup>	\$22,191,944

<sup>1</sup> Statistics include joint investigations with other law enforcement agencies.

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

<sup>3</sup> Amount included in Fines, Restitution, and Recoveries.

## Appendix H

**SUMMARY OF U.S. POSTAL INSPECTION SERVICE ACTIONS UNDER 39 U.S.C. § 3013**

For the period October 1, 2006 — March 31, 2007

The Postal Reorganization Act requires the Postmaster General to furnish information, on a semiannual basis, on the investigative activities of the Postal Service by the U.S. Postal Inspection Service. 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 OIG rather than to the 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 Inspection Service investigative activities; use of subpoena power; and any additional information the OIG may require.

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

Type of Scheme	Complaints Filed	Consent Agreements	FROs	Cease & Desist Orders
Advance Fee	1	—	1	1
Contests/Sweepstakes	1	1	—	2
Coupon Fraud	7	2	—	2
False billings	6	3	3	8
Internet Auction	4	1	—	2
Lotteries (Foreign and Domestic)	2	—	—	—
Medical	—	—	—	3
Merchandise:				
Failure to furnish	1	1	—	1
Failure to pay	16	6	—	7
Misrepresentation	1	1	—	1
Miscellaneous	5	4	—	5
Telemarketing	2	1	—	1
Work at home	13	12	7	14
<b>TOTAL</b>	<b>59</b>	<b>32</b>	<b>11</b>	<b>47</b>

**Subpoenas**

Case #	Date Issued	Scheme
07-001	12/21/2006	False Representation
07-002	3/21/2007	Lottery scheme

**Financial Reporting on Inspection Service Investigative Activities FY 2007 (October 2006 — March 2007)**

TYPE	Semiannual Report
Personnel	\$145,568,136
Nonpersonnel	\$50,913,111
<b>Total</b>	<b>\$196,481,247</b>
Capital Obligations	\$6,144,293

**Other Administrative Actions**

Administrative Action Requests	94
Temporary Restraining Orders Requested	—
Temporary Restraining Orders issued	—
Cases Using Direct Purchase Authority	—
Civil Penalties (Section 3012) Imposed	\$40,000
Test Purchases	—
Withholding Mail Orders Issued	56
Voluntary Discontinuances	14

## CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period October 1, 2006 — March 31, 2007

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

### Inspector General

Requestor	Allegation/Concern	Our Major Findings	Closure Date
Representative, Virginia	Impropriety in OIG internal investigation of employee misconduct.	We conducted quality assurance reviews and concluded managers acted in good faith; noted investigation concluded there was no evidence to support the misconduct allegations.	10/18/2006

### Investigations

Requestor	Allegation/Concern	Our Major Findings	Closure Date
Office of the Vice President	Allegations of harassment and unsafe work conditions resulting in an on-the-job vehicle accident.	We reviewed, did not substantiate allegations. Individual was found to be at fault for the vehicle accident.	11/6/2006
Representative, North Carolina	Whistleblower retaliation.	We investigated, found employee made a protected communication and management had taken adverse action. However, the adverse action was not a result of the protected communication.	1/4/2007
Senator, Texas	Postal Service and Inspection Service personnel covered up incidents of employee exposure to asbestos.	We were unable to proceed, due to lack of specific information that would allow us to evaluate and possibly investigate such incidents.	10/27/2006
Senator, Texas	Allegations of discrimination, hostile work environment, and harassment.	We reviewed, found employee had a pending equal employment opportunity complaint. No additional work necessary.	12/8/2006
Representative, Texas	Allegations of misconduct and possible whistleblower reprisal.	We verified employee filed a grievance with the American Postal Workers Union. As union is pursuing, the OIG deferred to the union.	10/16/2006
Representative, West Virginia	Management directed First-Class Mail be discarded and caused an intentional delay in Standard A (formerly Third Class) Mail.	We investigated but did not substantiate allegations. Management took steps to prevent First-Class Mail from being inadvertently discarded.	1/25/2007
Representative, Minnesota	Intentional delay of "red-tagged" political mail so it would not arrive in time to influence the September 12 Minnesota primary election.	We investigated, found no evidence of intentional delay of mail.	10/31/2006
Senator, Virginia	Mail fraud allegations, which Inspection Service failed to properly investigate.	We investigated, did not substantiate allegation. Inspection Service handled case appropriately.	1/19/2007
Representative, Illinois	Letter Carrier intoxicated while on duty, causing mail delivery problems.	Our investigation revealed the Letter Carrier was intoxicated while on duty; referred to management.	1/30/2007
Representative, New York	Status/response regarding OIG investigation and removal from duty pending outcome.	We confirmed our investigation, but could not comment on status or disciplinary action.	12/8/2006
Representative, California	Dissatisfied with the way the Inspection Service handled allegations of mail theft.	We reviewed, did not discover any misconduct on the part of the Inspection Service.	1/4/2007
Representative, California	Letter Carrier intentionally submitted a Change of Address Order (COA) without knowledge or consent of recipients.	We investigated, confirmed the COA had been corrected and mail thereafter was being properly delivered. We advised management of our findings.	3/7/2007
Representative, Arkansas	Management falsified documentation, or impeded efforts to file an on-the-job injury claim (form CA-2), and created a hostile work environment.	We investigated, found no basis for misconduct allegation. However, we did identify a deficiency in formal injury compensation training for personnel serving in acting status as first line supervisors. We notified management and plan additional contact to ensure the matter is fully addressed.	2/23/2007



Representative, West Virginia	Employee misconduct/intentional delay of mail.	We investigated; found no basis for misconduct allegation. We determined that the root cause was a local government address change process, coupled with mailers' use of outdated addresses.	3/22/2007
Senator, Nevada	Postal vehicle was driven recklessly; driver made racial slur, verbal threat, and displayed prescription medication.	We investigated, found employee had already been terminated from Postal Service and conducted no further work.	1/19/2007
Representative, Texas	Request for information on an active investigation of discarded or intentionally not delivered mail. Complainants questioned OIG conduct of the investigation.	Our investigation found more than 1500 pieces of undelivered mail and other delivery problems. We shared findings with Postal management, who put several Letter Carriers on Emergency Placement.	1/29/2007
Representative, Texas	Employee misconduct/mail tampering involving notations on private organization ballot envelopes.	We reviewed employee misconduct allegation; did not find clear violation of postal or criminal laws or regulations.	2/21/2007
Representative, Georgia	Intentional delay of First-Class Mail.	We investigated, found no evidence to substantiate.	2/23/2007
Representative, Louisiana	Letter Carrier cashed Social Security checks of mail recipient on his route.	We investigated, found employee did cash checks. We reported our findings to management for any appropriate action.	2/22/2007
Senator, New York	Status/Response regarding OIG investigation and removal from duty pending outcome.	We investigated and provided our findings to management.	2/26/2007

## Audits

Requestor	Allegation/Concern	Our Findings	Closure Date
Representative, Pennsylvania	Review recent changes in mail processing operations in the Philadelphia Metropolitan Performance Cluster that have affected employees at the Southeastern P&DC.	We conducted fieldwork at the Southeastern and Lehigh Valley P&DCs, part of the Philadelphia Metropolitan Performance Cluster. We examined changes in mail processing and their impact on mail handling requirements, employees, and costs. We substantiated two concerns about processing and partially substantiated one. Management plans to take corrective action.	12/8/2006
2 Senators & 1 Representative, Iowa	Requested OIG audit of the proposed Sioux City consolidation.	Issues were addressed in Audit Report.	11/13/2006
Representative, California	Delayed mail at the Los Angeles, California, P&DC.	Issues were addressed in Audit Report.	3/1/2007
Senator, Montana	Review of the feasibility study to evaluate the movement of a portion of mail processing work from Helena to Great Falls.	The Western Area reviewed the Helena study and determined the study should be discontinued due to impacts to service and minimal cost savings. Postal Service Headquarters reviewed that decision and has concurred.	1/22/2007
Representative, California	Beverly Hills, California, Post Office has failed to provide reasonable and timely postal services to residents and businesses, partly due to an ineffective management style.	District-wide issues were addressed in recent audit report on delayed mail conditions in Southern California, and management has made some changes at the Beverly Hills Station.	3/16/2007

## General Counsel

Requestor	Allegation/Concern	Our Findings	Closure Date
Executive Office of the President	Harassment and retaliation by management following complainant's whistleblower communication about employment of convicted felons.	OIG investigated, finding a <i>prima facie</i> case of reprisal following a protected communication (whistleblowing).	11/17/2006
Senator, Texas	Work-related illness due to exposure to dust and chemicals used on mail processing equipment in a Dallas facility.	We did not substantiate claim due to lack of information, but noted management efforts to address the issues.	2/23/2007
Governors	Allegations of misconduct and possible whistleblower retaliation.	In the previous SARC period, we conducted two investigations, finding a <i>prima facie</i> case of whistleblower reprisal.	10/10/2006
Senator, Texas	Management interference with employee's selection for a new position.	We conducted a review, but noted that the employee was actively pursuing the complaint through the equal employment opportunity process.	3/29/2007
Senator, Texas	Allegations of managerial harassment and discrimination at a Texas P&DC.	Employee pursuing complaint through the equal employment opportunity process and the grievance arbitration process.	11/24/2006

## Referrals

Requestor	Allegation/Concern	Referred To	Closure Date
Representative, Florida	Some mail, including Standard Mail, is being diverted, stolen, or misappropriated.	Inspection Service	3/1/2007
Representative, Texas	A private organization intends to conduct a raffle through the mail.	Inspection Service	2/22/2007
Senator, New Hampshire	Improper denial of Equal Employment Opportunity complaint.	Equal Employment Opportunity Commission	3/5/2007

## SUPPLEMENTAL INFORMATION

**FREEDOM OF INFORMATION ACT**

For the period of October 1, 2006 — March 31, 2007.

The Freedom of Information Act (FOIA) Office for the Postal Service Office of Inspector General operates independently of, but frequently coordinates with, its counterparts at the Postal Service and the Inspection Service. The FOIA Office receives requests for records from the public, the media, and Postal Service employees. The Freedom of Information Act, according to the Department of Justice, “generally provides that any person has a right, enforceable in court, to obtain access to federal agency records, except to the extent that such records (or portions of them) are protected from public disclosure by one of nine exemptions.”

**Activities**

<b>Requests</b>	<b>Number of Requests</b>
Carryover from prior period	12
Received during period	143
<b>Total on hand during the period</b>	<b>155</b>

<b>OIG actions</b>	<b>Number of Requests</b>
<b>Processed during the period</b>	<b>139</b>
Requests released in full	11
Requests partially granted	46
Requests not granted	19
Requests referred to another agency	43
No records	18
Not proper FOIA requests	—
Withdrawn	2

<b>Balance</b>	<b>Number of Requests</b>
Balance at the end of the period (pending)	16

<b>Processing Days</b>	<b>Number of Days</b>
Median processing days to respond to a FOIA request	12

## WORKPLACE ENVIRONMENT

For the period October 1, 2006 – March 31, 2007

The OIG's Workplace Environment team receives referrals involving workplace environment and operational issues from multiple sources, which include the Hotline, Congress, the Board of Governors (BOG), and management. Complaints reviewed by the team include sexual harassment; discrimination; harassment and intimidation; nepotism; mail delivery and processing; and workplace safety issues. Workplace Environment closely coordinates efforts with Postal Service management to ensure employees have a stress- and adversity-free work environment to the extent possible. The team continues to review internal complaints received from OIG employees. This process provides OIG employees another avenue to report their concerns, in addition to the equal employment opportunity avenues.

<b>Referrals</b>	<b>Total</b>
Carryover from prior period	36
Complaints received from OIG Hotline	321
Congressional/BOG/Postal Service management	6
Internal	12
Other	3
<b>Total on hand during this period</b>	<b>378</b>
<b>Workplace Environment Actions</b>	<b>Total</b>
Complaints closed during the period	350
Referred to management	57
Referred to OIG Office of Investigations	21
Referred to OIG Office of Audit	—
Summary of findings reported to Congress/BOG/Postal Service management	6
Conducted limited inquiry into allegations/issues	182
Referred to database for statistical analysis and possible systemic reviews	84
<b>Referrals pending at the end of the period</b>	<b>28</b>

## GLOSSARY

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

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

**APC** – Automated Postal Center, a kiosk that dispenses postage and provides several mailing services. APCs 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.

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

**BMEU** – See Business mail entry unit.

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

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

**Carrier Sequence Barcode Sorter (CSBCS)** – This is a small, high-speed barcode sorter machine designed specifically for decentralized processing in associate offices. It has a throughput of about 19,000 pieces per workhour.

**CPU** – CPUs are contractor-owned and operated facilities, under contract to the Postal Service to provide selected postal services such as accepting mail and selling postage, supplies, and Postal Service money orders to the public. CPUs are usually located in a store or other place of business.

**Delivery Barcode Sorter (DBCS)** – This is a multi-level, high-speed barcode sorting machine located in mail processing facilities. DBCS throughput is about 39,000 pieces per workhour.

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

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

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

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

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

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

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

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

**FY** – Fiscal Year.

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

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

**IMPAC** – The International Merchant Purchase Authorization Cards (IMPAC) are how the Postal Service acquires goods and services through contracts.

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

**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.

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

**PAEA** – The Postal Accountability and Enhancement Act is the new postal law passed by Congress in December 2006.

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

**Postal Regulatory 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.

**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.

**SSPC** – Self-Service Postal Centers are unstaffed Postal Service vending machines that provide postage stamps and other retail products and services.

**Standard Mail** – A class of mail that includes advertisements, circulars, newsletters, magazines, small parcels, and merchandise.

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

**Verification** – Process to check a mailing presented by a mailer to determine proper preparation and postage payment.

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

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

**Work at home scheme** – Schemes, such as envelope stuffing, that falsely purport to provide home employment.

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

**OFFICE OF INSPECTOR GENERAL**

# **Report Fraud, Theft, and Misconduct in the Postal Service**

**CONTACT THE HOTLINE AT:**

**1.888.USPS.OIG**

**1.888.877.7644**

**Fax: 1.866.756.6741**

**or [www.uspsoig.gov](http://www.uspsoig.gov)**

TTY (HEARING IMPAIRED)

1.866.OIG.TEXT

1.866.644.8398





PROMOTING INTEGRITY AND ACCOUNTABILITY