

April 1, 2003 – September 30, 2003



OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress





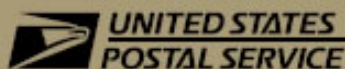
Report
Fraud, Waste, Abuse
and
Mismanagement

HOTLINE

1-888-USPS-OIG

(1-888-877-7644)

ALL CALLS ARE CONFIDENTIAL





A Message from the Inspector General

Twenty-five years ago, Congress passed the Inspector General Act, which formally recognized the need for independent voices for integrity, efficiency, and effectiveness within the federal government. Today, 57 offices of inspector general, including our own, uphold the principles of the Act by ensuring efficiency and integrity in the programs and operations of the agencies they oversee. I am pleased to be a part of this important tradition as I present my first Semiannual Report as Inspector General of the U.S. Postal Service.

As I begin my term, I look forward to working with an institution that has been a vital part of the American landscape for over 200 years. With over 750,000 career employees, the Postal Service is a massive organization with complex operations and advanced technology. Although the Postal Service faces a very challenging time in its history, it continues to provide essential services to both businesses and the American public. The challenges the Postal Service faces present challenges for our office, as well. In order to better meet these challenges and add value to postal operations, we will be implementing a number of changes in the coming months. One of these changes is the recent re-organization of our audit function to mirror the Postal Service's most critical issue areas.

We stand committed to providing timely, accurate, and useful fact-based audits and investigations to help the Postal Service achieve its goals and succeed in a rapidly-changing environment. We also stand ready to supplement the suggestions in the Transformation Plan and the President's Commission on the Postal Service in our efforts to improve efficiency and effectiveness.

I look forward to working with the Board of Governors and Postmaster General John Potter as they formulate and execute their vision and strategies for the future. I also look forward to forming an alliance with Chief Postal Inspector Lee Heath to carve out strategies to better combat misconduct and fraud.

This, our fourteenth Semiannual Report, sets forth the significant activities and accomplishments of this office from April 1, 2003, through September 30, 2003. It details our efforts to combat fraud, waste, abuse, and mismanagement within the Postal Service; and fulfills our reporting requirement under the Inspector General Act.

In this reporting period, the Office of Inspector General issued 273 audit reports and 23 management advisory reports and other products. These efforts resulted in over \$250 million in questioned costs, unrecoverable costs, funds put to better use, and potential additional revenue. In addition, we completed 145 investigations resulting in 19 arrests, 16 indictments, 13 convictions; and over \$5 million in fines, restitutions, and recoveries, of which over \$1.6 million was returned to the Postal Service.

I am appreciative of the support and enthusiasm I have received from the Postal Service during my first few months as Inspector General. I am confident that together, we can achieve our common goal: to ensure that the Postal Service continues to serve as a vital and important communication link binding the nation together.

Sincerely,

David C. Williams
September 30, 2003



Table of Contents

EXECUTIVE SUMMARY.....	5
MAJOR MANAGEMENT ISSUES FACING THE POSTAL SERVICE	7
PERFORMANCE REVIEWS.....	13
◆ Accepting and Processing Reviews	13
◆ Transportation and Delivery Reviews	14
◆ Marketing Reviews	16
FINANCIAL MANAGEMENT REVIEWS	17
◆ Financial Opinion Audits	17
◆ Facility Protective Reviews	18
◆ Financial-Related Reviews and Investigations.....	18
◆ Contracting and Facilities Reviews.....	20
TECHNOLOGY REVIEWS	23
◆ Developmental Reviews.....	23
◆ Information Systems Reviews	24
◆ eCommerce Reviews	25
◆ Technical Crimes Unit Activities	26
LABOR MANAGEMENT REVIEWS	29
◆ Workplace Environment Reviews.....	29
◆ Human Resource Process Reviews	30
◆ Special Inquiries Team Activities	31
◆ Health Care Reviews	31
OVERSIGHT OF THE INSPECTION SERVICE	33
◆ Oversight Reviews	33
CUSTOMER SERVICE	35
◆ External Communications	35
GOALS AND STRATEGIES	41
ORGANIZATIONAL STRUCTURE	43
APPENDICES	45
Appendix A – Reports Issued to Postal Management.....	45
Appendix B – Findings of Questioned Costs	55
Appendix C – Recommendations That Funds Be Put to Better Use	57
Appendix D – Reports with Significant Recommendations Pending Corrective Actions	58
Appendix E – Investigative Statistics	61
Appendix F – Summary of Postal Service Investigative Activities Under Title 39 USC § 3013.....	62
Appendix G – Closed Congressional and Board of Governors’ Inquiries	65



EXECUTIVE SUMMARY

This Executive Summary provides a synopsis of the work reported from April 1, 2003, to September 30, 2003. This Semiannual Report addresses the major issues facing the Postal Service and the work performed by the OIG that helps improve postal operations. In this reporting period, the OIG issued 273 audit reports and 23 management advisory reports and other products. These efforts resulted in over \$250 million in questioned costs, unrecoverable costs, funds put to better use, and potential additional revenue. In addition, the OIG completed 145 investigations resulting in 19 arrests, 16 indictments, 13 convictions; and over \$5 million in fines, restitutions, and recoveries, of which over \$1.6 million was returned to the Postal Service.

The OIG is responsible for conducting audits of Postal Service programs and operations. In addition, the OIG conducts investigations to prevent and detect fraud, waste, abuse, and mismanagement affecting the Postal Service. Audits and investigations play a vital role in helping the Postal Service make improvements.

In this, the fourteenth Semiannual Report, the OIG's work has been categorized into seven subject areas: performance, financial management, technology, labor management, oversight of the Postal Inspection Service, customer service, and organizational structure. These areas include OIG work addressing the following nine major management issues facing the Postal Service:

- ◆ growing revenue, controlling costs, and assuring accountability;
- ◆ maintaining customer confidence;
- ◆ ensuring physical security and safeguarding the mail;
- ◆ managing acquisitions and contracts;
- ◆ controlling workers' compensation costs;
- ◆ leveraging technology;
- ◆ improving the quality of information for decision making and safeguarding the integrity and availability of information;

- ◆ resolving workforce and workplace issues; and
- ◆ balancing public service and commercial enterprise.

This report often refers to "questioned costs" and other audit-related terms. See the chart in the margin on the next page for a brief description of such terms.

The following highlights the accomplishments of the OIG under the specific subject areas:

(1) Performance focuses on the critical core business processes needed to succeed in a competitive environment. The OIG conducted 14 reviews in this area, including projects that will help save the Postal Service over \$180 million in current and future years. Some examples included:

- ◆ Disclosing that the Postal Service's spare parts inventory exceeded demand by a projected \$131 million, or 50 percent of the inventory.
- ◆ Revealing that the Postal Service could save approximately \$30.5 million by canceling unnecessary trips between mail facilities.
- ◆ Identifying that a Postal Service merchandise retail store did not perform as intended, and cost the Postal Service \$8.3 million, or almost \$1.2 million a year, since the store's inception in 1996.

(2) Financial Management incorporates financial opinion work, financial-related reviews, and contracting and facilities reviews. The OIG completed 258 audits and reviews that identified over \$69.9 million in questioned and unsupported costs in this area. In addition, the OIG completed 109 investigations, which resulted in 11 convictions, 9 indictments, and \$2.3 million in fines, recoveries, and restitutions, of which nearly \$1.6 million was directed to the Postal Service. Some examples of OIG work in this area included:

- ◆ Completing an investigation that resulted in the conviction of a former postal clerk for misappropriation of postal funds. The individual was sentenced to 3 years probation and ordered to pay restitution to the Postal Service.



Definitions

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

Unsupported Costs - A cost that is not supported by adequate documentation.

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

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

Potential Additional Revenue - Amounts from revenue generating functions such as retail sales, rent, leases, or fees that were underpaid or not realized.

- ◆ Working with the Defense Contract Audit Agency to complete 14 audits of contracts that resulted in over \$69.9 million in questioned costs.
- ◆ Conducting an investigation that resulted in a contractor agreeing to pay \$2 million to the government, \$1.6 million of which will go to the Postal Service, to settle allegations that the contractor knowingly provided the Postal Service with defective mail sorting equipment.

(3) **Technology** encompasses reviews of developmental systems, computer security, and electronic commerce; and Technical Crimes Unit activities. The OIG performed 14 reviews in this area. Some of the more significant OIG activities included:

- ◆ Establishing that certain Areas underutilized the Mailing Evaluation, Readability, and Lookup Instrument (MERLIN). If utilization rates continue to remain below target, the Postal Service could lose a substantial portion of the projected additional revenue and incur higher costs to process mail.
- ◆ Recommending improvements to strengthen and enhance the security of the Postal Service's travel reimbursement system.
- ◆ Recommending improvements in the security and reliability of a postal engineering and development facility's site and computer environment.

(4) **Labor Management** focuses on issues related to workplace environment, human resources, and health care. During this reporting period, the OIG conducted 5 reviews and 26 inquiries in this area, which included:

- ◆ Identifying a former Postal Service employee who received medical treatment for nonwork-related injuries totaling approximately \$350,000.
- ◆ Disclosing unsafe working conditions at a Connecticut postal facility. These conditions were potential violations of government safety and health requirements and increased the risk of injury and illness to Postal Service employees and customers.

- ◆ Participating in a joint investigation that revealed a physician was submitting fraudulent workers' compensation claims for services not provided. The physician's license was suspended pending the outcome of judicial proceedings.

(5) **Oversight of the Inspection Service** During this reporting period, the OIG completed 5 oversight reviews, which included:

- ◆ Revealing the Inspection Service's control over firearms could be improved.
- ◆ Finding that because the Inspection Service did not prepare a zero-based budget, it could not be determined if requirements have been properly identified or developed for its \$487.5 million FY 2003 budget. In addition, justifications supporting \$25.1 million of non-personnel budget line items totaling \$36.8 million were not adequate.

(6) **Customer Service** focuses on OIG efforts to provide customer service, including support functions to enhance service to internal customers and Hotline operations.

(7) **Organizational Structure** displays the OIG's headquarters and field structure. This reporting period, the OIG:

- ◆ Reorganized to better align and focus OIG operations on identifying improvement of Postal Service operations.
- ◆ Initiated a strategic alliance with the Inspection Service to maximize investigative efforts focused on deterring and detecting fraud and mismanagement.
- ◆ Reallocated mission support funds to directly fund more direct mission activities.

MAJOR MANAGEMENT ISSUES FACING THE POSTAL SERVICE

The Postal Service continues to face significant challenges. In light of declines in First-Class Mail revenue, it is identifying and implementing long-term strategies to balance its growing universal service network with its need to remain a viable commercial enterprise. The Postal Service believes that at this pivotal time in its over 200-year history, every American's right to send and receive mail is at stake.

The Postal Service details its challenges, and strategies to address them, in its April 2002 Transformation Plan. Implementation of the plan continues, as described in the recently released FY 2004-2008 strategic plan. In the strategic plan, the Postmaster General noted that the recent enactment of the Postal Civil Service Retirement System Funding Act of 2003 will enable the Postal Service to reduce debt levels and hold rates steady until 2006. However, the strategic plan acknowledges, and the OIG believes, that the gap between revenues, as well as expenses due to record declines in First-Class Mail volume and growth in costs, pose serious implications for the long-term financial health of the Postal Service.

The Administration and Congress also recognize the significant challenges facing the Postal Service. In December 2002, President Bush established the President's Commission on the United States Postal Service to propose a vision for the future of the Postal Service and to recommend legislative and administrative reforms needed to ensure the viability of postal services. The Commission issued its final report on July 31, 2003. In Congress, Postal Service oversight has been raised to the full committee level. In the House, a bipartisan Special Panel on Postal Reform and Oversight has been established. In the face of these challenges, the Postal Service needs to intensify its effort to identify and implement strategies to balance its growing universal service network with its need to remain a viable commercial enterprise. And, as recognized in its strategic plan, the Postal Service must be ready to respond to the Commission's recommendations and Congress' actions

to enact these recommendations into law.

To assist Congress, the Governors, and postal management as they address these challenges, the OIG has identified the following major management issues:

- ◆ growing revenue, controlling costs, and assuring accountability;
- ◆ maintaining customer confidence;
- ◆ ensuring physical security and safeguarding the mail;
- ◆ managing acquisitions and contracts;
- ◆ controlling workers' compensation costs;
- ◆ leveraging technology;
- ◆ improving the quality of information for decision making and safeguarding the integrity and availability of information;
- ◆ resolving workforce and workplace issues; and
- ◆ balancing public service and commercial enterprise.

We will continue to address these issues through our audits and investigations.

GROWING REVENUE, CONTROLLING COSTS, AND ASSURING ACCOUNTABILITY

Unlike most federal agencies, the Postal Service relies primarily on its revenues, not appropriations, to fund its operations. Without adequate revenues, the Postal Service would have to reduce services, raise rates, or seek taxpayer subsidies. Thus, each year the Postal Service needs to meet the challenge of increasing its revenue to cover increasing costs or seek new ways to reduce costs.

Recent financial data continues to show that the Postal Service's financial situation is improving. For FY 2003, the Postal Service expects a net income of approximately \$4 billion, compared to a net loss of \$676 million in FY 2002. The Postal Service attributes most of its projected net income to legislation passed in April 2003 that reduced Postal Service payments to the Civil Service Retirement System (CSRS) by about \$6 billion over the next two years. It was estimated that unless adjusted, the Postal Service would pay over \$105 billion more than was needed to fund CSRS retirement benefits. However, the Postal



Service also attributes the positive net income to its continued cost reduction efforts, including the reengineering and automating of its field accounting activities, which resulted in the closing of 85 district accounting offices and residual work combined into its three Accounting Service Centers, and postal rate increases that took effect in June 2002. In addition, the Postal Service reduced its outstanding debt by \$3.8 billion at the end of FY 2003 to approximately \$7.3 billion, a direct result of the retirement fund legislation noted earlier. The legislation requires the Postal Service to reduce its debt in FY 2004 as well.

Legislation reducing the amount of retirement fund contributions and cost controls have significantly helped the Postal Service's financial position in FY 2003. The legislation provides that the CSRS cost savings must be specifically used for liquidating outstanding debt and maintaining current postage rates during FYs 2003 and 2004, and maintaining current postage rates through FY 2005. In any fiscal year after FY 2005, the legislation requires that the over-funded amount be considered an operating expense of the Postal Service and, until otherwise provided by law, held in escrow. Additionally, the same legislation also transferred from the United States Treasury to the Postal Service the responsibility for funding the costs of retirement benefits that current and former Postal Service employees have earned through military service. This has created a direct cost transfer of \$27 billion (retroactive to FY 1971) to the Postal Service. Because this change departs from fundamental public policy, the legislation provides an opportunity for the Postal Service, the Department of the Treasury, and the Office of Personnel Management to submit proposals "detailing whether and to what extent the Department of the Treasury or the Postal Service should be responsible for the funding of benefits attributable to the military service of current and former employees of the Postal Service." These proposals are now under consideration.

Postal Service operations also continue to be impacted because of the anthrax attacks that occurred in the fall of 2001. Although the Administration and Congress responded by

providing the Postal Service over \$760 million in appropriations to secure mail and protect the health and safety of employees and customers, the Postal Service is still seeking approximately \$800 million more in FY 2005 appropriations to pay for costs associated with the detection and/or prevention of another bioterrorism attack through the mail.

Finally, in a report issued in July 2003 by the President's Commission on the United States Postal Service, it was recommended that the Postal Service voluntarily comply with applicable Securities and Exchange Commission financial reporting requirements for public corporations. The Commission noted that the Postal Service should be setting the standard for financial transparency by which all other federal entities are judged. The Commission added that while the Postal Service does, in many respects, conduct financial reporting over and above what is required today of federal agencies, it remains behind the level of disclosure required of its corporate peers. It has been estimated that the cost of compliance with the Securities and Exchange Commission requirements could reach millions of dollars. The costs include both internal costs (hiring legal and accounting personnel knowledgeable of the applicable requirements) and external costs (required review of the Securities and Exchange Commission filings by an independent certified public accountant).

It is crucial that the Postal Service continue its efforts to increase productivity and control costs, and, more importantly, sustain mail service in the long term. The Postal Service must also continue to improve its financial operations to ensure it is accountable to the public and is providing the best possible service at the lowest cost. To address this issue, effective October 1, 2003, the Postal Service replaced the general ledger, implemented a monthly reporting cycle and realigned its internal reporting year with the government fiscal year. However, these efforts must be augmented with other efforts, such as cost reduction, new revenue generation, and productivity gains.

MAINTAINING CUSTOMER CONFIDENCE

The Postal Service views its access to the American household as a unique asset it can

leverage as it faces increasing competition. To remain competitive, the Postal Service must be customer-focused and deliver the mail in a timely and accurate manner and at affordable rates. Moreover, the Postal Service needs to adapt its services and network to address changing customer needs and a changing mailing public. In today's marketplace, customers have more choices about how they conduct postal transactions, transmit messages, and deliver merchandise. The Postal Service is developing a more flexible and integrated distribution and transportation network that is aligned with customer and operational needs. Increasing customer confidence will be the key to maintaining current business and growing new business.

To effectively transition to a changing customer base, the Postal Service must continue to develop and provide products and services that retain relevance and value for customers with changing needs, identify efficient transportation and delivery modes, effectively schedule staff, and maximize technological options.

ENSURING PHYSICAL SECURITY AND SAFEGUARDING THE MAIL

With nearly 38,000 facilities and approximately 200 billion pieces of mail delivered each year, the Postal Service faces the enormous challenge of moving the mail efficiently and economically while effectively safeguarding postal employees, customers, and the mail. Historically, the Postal Service has dealt with numerous disasters, both natural and man-made, which have interfered with mail delivery. The October 2001 anthrax attacks through the mail exposed a new danger and led to a renewed emphasis on the security of the nation's postal system. The OIG has reviewed the Postal Service's response to the bioterrorist attacks on the mail and plans to conduct future audits of the Postal Service's response to the biohazard attacks.

The Postal Service has acted to ensure the continued physical security and safety of the mail and sought new methods to detect biohazardous materials and sanitize the mail. The technological solutions include procuring new equipment and changing processes that could impact the efficiency of mail processing and staffing requirements. Regardless of technology

or any other improvement or expenditures, the threat of terrorists using the mail to carry out an attack can be reduced, but not eliminated. To better protect its employees and customers, the OIG believes the Postal Service must also reassess its facility designs, especially the ventilation systems; maintenance practices; and emergency response and evacuation procedures. Additionally, it must continually monitor its spending criteria to ensure that funding is available for critical life/safety projects.

MANAGING ACQUISITIONS AND CONTRACTS

The Postal Service manages contracts with commitment values totaling over \$19.5 billion annually for its goods, non-transportation services, and facilities-related services. The Postal Service's challenge in this area is to balance efficient contracting practices with effective controls to prevent fraud, waste, and abuse. Over the past several years, the Postal Service has implemented the supply chain management philosophy and progressed toward adopting purchasing practices consistent with best commercial practices. Also, as outlined in the Transformation Plan and recommended by the President's Commission on the United States Postal Service, the Postal Service plans to continue to revise its purchasing regulations to reflect commercial best practices and move away from stricter government regulations. While this practice allows for certain efficiencies and cost savings, adequate controls and cost control measures must be established and enforced to decrease the risk of loss in the procurement area. The Postal Service must ensure that its supply chain management contracting practices are consistent with applicable laws and regulations, and increase its efforts to ensure that postal contracts contain sufficient language to pursue action against contractors as necessary. It must also streamline purchasing practices to achieve the significant planned cost reductions.

The OIG has proposed numerous revisions to the Postal Service purchasing manual, including strengthening the examination of records clause, requiring contractors to have approved accounting systems, and increasing the use of suspension and debarment authority. While many of the other changes the OIG has

proposed to the purchasing manual to prevent or reduce fraud have been adopted, the OIG remains concerned that these weaknesses in current postal processing procedures have not been adequately addressed. Unless these areas are addressed, the Postal Service will remain unnecessarily exposed to fraud, waste, and abuse in its purchasing operations. In September 2003, the Postal Service agreed with the OIG's recommendations and agreed to take steps to implement these changes.

CONTROLLING WORKERS' COMPENSATION COSTS

The Postal Service was the largest participant in the Federal Workers' Compensation Program and accounted for approximately \$760 million, or over one-third, of the \$2.2 billion in total federal workers' compensation cash outlays from claims for reporting year 2002. The Postal Service's workers' compensation cash outlays from claims have risen dramatically, increasing by approximately 35 percent over the last 4 years. This is a considerable cost for an agency that pays these costs out of operating revenues. Many factors have contributed to these increased costs, including the rising age of the Postal Service workforce; higher costs for medical equipment, medications, and medical treatments; overpayments and duplicate payments by the program administrator; and increased incidents of fraud by doctors and hospitals.

LEVERAGING TECHNOLOGY

The Postal Service depends greatly on technology to help process the mail in the most productive manner. Further, as the Postal Service addresses biohazard threats, it is identifying and deploying technology that best fits its operational requirements, is compatible with existing systems, and improves the security and safety of its processing operations.

The Postal Service is working to leverage technology to improve its service, productivity, and profitability. While it depends on technology to deliver more than 660 million pieces of mail daily to over 141 million addresses, the Postal Service must continue to adapt to each new wave of technology quickly to maintain its competitive position in the market. To address changing customer needs, the Postal Service has

committed resources to help ensure better data management, track mail piece information, and improve communication between the Postal Service and its customers. Additionally, the Postal Service has undertaken an initiative to upgrade its distributed computing environment by replacing obsolete technology and transforming its infrastructure by simplification, standardization, and modernization.

The large size and diversity of the Postal Service's customer base presents technological challenges and demands that solutions be simple, easy to use, and competitive. To be successful, the Postal Service should also ensure that the corresponding cost savings projected from technology investments are realized by efficiently redeploying the resources replaced by the new technology. Decisions on technology investments should continue to be scrutinized more closely and be based on information that is current, accurate, and reliable. The Postal Service must also continue to address data integrity of its systems to ensure accurate and informed decision making.

IMPROVING THE QUALITY OF INFORMATION FOR DECISION MAKING AND SAFEGUARDING THE INTEGRITY AND AVAILABILITY OF INFORMATION

Accurate measurement of mail delivery is key to improving and sustaining service performance. Reliable and objective data are also keys to effective decision making. In addition, this data must be properly safeguarded to ensure that it is not vulnerable to manipulation by unauthorized individuals such as computer hackers or terrorist organizations.

Data justifying the need for major capital expenditures must be reliable so that postal management can decide whether to invest in the project. In addition, reliable data are needed to assess whether the project's estimated and actual return on investment is reasonable and has been realized. In one instance, the OIG found that the Postal Service did not consistently track cost data to assess whether expected return on investment was achieved.

Furthermore, data supporting results achieved must be objective so that stakeholders, including postal management, Congress,

and the public, receive the information they need to make appropriate decisions related to their needs. The OIG has found that the Postal Service's annual performance plan could have provided more comparable, specific, and detailed information to measure how well they achieved organizational goals.

Changes in technology and the business environment emphasize the need for providing timely, accessible, relevant, and accurate data to Postal Service decision makers. Similarly, an effective system of accounting, financial, and information controls is necessary for measuring financial performance. The general ledger system is the core of financial reporting systems. The Postal Service recognized limitations in its general ledger system, and, beginning October 1, 2003, moved to a commercial off-the-shelf system that will improve support capabilities, adapt to changing business processes, and support financial reporting.

Also, given the importance of data quality in setting postal rates and requests to Congress for appropriations for ongoing costs related to the October 2001 anthrax attacks, the Postal Service must continue demonstrating to Congress, the Postal Rate Commission, stakeholders, and the public that it is making progress in improving the quality of its revenue, cost, and service measurements.

Critical information needs to be not just reliable, but also "safe." Computers and electronic data are vital to the critical operations of the Postal Service. The same factors that benefit operations—speed and accessibility—also make it possible for individuals and organizations to interfere with or eavesdrop on operations, possibly for purposes of fraud or sabotage. For example, terrorist organizations could use computer networks to attack the federal infrastructure. Attacks that have already occurred on both government and private industry websites reveal the damage a computer security breach can inflict on brand integrity and an organization's revenue stream.

The OIG's work on computer security continues to identify vulnerabilities in the security of computer applications and equipment. These vulnerabilities are being addressed by postal management. However, there remains a continuing need to emphasize computer security

throughout the Postal Service. Furthermore, the Postal Service's Internet initiatives reinforced the need for increased security awareness and compliance. Success in this area will depend on the level of protection afforded sites such as the Postal Service's website and the programs operating on it. In addition, the Postal Service needs to continually protect customer information and guarantee customer privacy.

RESOLVING WORKFORCE AND WORKPLACE ISSUES

The Postal Service currently has more than 830,000 full and part-time employees and, for FY 2002, their personnel compensation and benefits costs totaled over \$51.5 billion. This accounts for more than three-quarters of the Postal Service's total operating expenses. Consequently, improving the work environment and labor relations is key to maximizing the Postal Service's operational and financial performance. In an increasingly competitive environment, improving labor relations is essential if the Postal Service is to provide universal service at reasonable rates. However, past attempts to improve labor relations have not been as successful as planned.

Future efforts to improve in these areas will only succeed if the Postal Service can effectively partner with its employees and engage them in a shared vision of success. This vision must include eliminating any confrontational environment on the workroom floor and giving employees the freedom to raise concerns without fear of retaliation. As the Postal Service pursues efforts to partner with employees, it must also develop programs for recruiting, training, communicating, compensating, and rewarding employees consistent with the Postal Service's vision for the future. In this regard, the Postal Service needs to establish an effective way to link employees' pay to their performance.

BALANCING PUBLIC SERVICE AND COMMERCIAL ENTERPRISE

The Postal Reorganization Act of 1970 requires the Postal Service to operate in a business-like manner supported by its own revenues. As a public agency, it is charged with binding the nation together with universal mail service at affordable rates. Its government

status carries certain advantages, such as a monopoly on letter mail, exclusive access to customers' mailboxes, and a tax-free status. The universal service obligation requires a significant, costly infrastructure to deliver postal services, but unlike private corporations, the Postal Service is bound by statutory constraints that limit its ability to quickly adjust rates to respond to changing costs, negotiate with customers and employees, develop and price new products, close unprofitable outlets, and generate and invest profits. The Postal Service performs a wide range of significant law enforcement duties for the protection of the public, even in cases that have no direct impact on the Postal Service. To continue to meet its mission of providing timely, reliable mail delivery to all households, the Postal Service must continually seek, develop and implement strategies to reduce costs, improve service, and generate revenue.

The Transformation Plan outlines strategies to address concerns raised by Congress, the General Accounting Office, and others. The Plan identifies short-term actions to take under its existing authority and outlines long-term strategies that require congressional action. Since the Plan was issued in April 2002, the Postal Service has earmarked cost reductions of about \$5 billion by 2006, and is pursuing several initiatives.

According to the Postmaster General, postal managers and employees have improved safety and performance; indicators demonstrate that employee attitudes are improving; and independent surveys report very high levels of customer satisfaction.

Despite these achievements, without significant change to the existing legislative and regulatory structure, the Postal Service will face increasing difficulties in meeting its statutory mission. As recognized in the President's Commission report, the dual role of the Postal Service in balancing its public service obligation with its need to remain commercially viable has become more challenging. These challenges are increased due to heightened competition in the delivery and communication industries, especially with electronic communication steadily eroding First-Class Mail volume. Congress is currently considering options for legislative reform as recommended by the President's Commission and others.

Until its statutory framework is changed, the Postal Service must continue to work within existing law to increase its accountability in all aspects of operations to achieve profitability in the near future. The Postal Service must also continue to ensure that new products and services are self-sustaining and relate to its core business.



PERFORMANCE REVIEWS

To deliver world-class service, businesses and government agencies must excel in performing their core business processes. For the Postal Service, these core business processes and systems encompass accepting, processing, transporting, and delivering the mail, as well as marketing postal products and services. The OIG has audit teams specializing in these areas. During the past 6 months, the OIG completed 14 reviews of the Postal Service's performance of core business processes, some of which are highlighted below. The reviews identified opportunities to save over \$180 million during current and future years.

ACCEPTING AND PROCESSING REVIEWS

The Postal Service accepts more than 200 billion pieces of mail per year in a variety of ways, including mail collected from approximately 295,000 collection points, as well as residential and business collection mailboxes. Express Mail, First-Class Mail, Priority Mail, periodicals, and Standard Mail are sorted at more than 440 mail processing facilities. In order to ensure timely and accurate delivery of mail at affordable rates, accepting and processing operations must improve work inefficiencies, reduce costs, increase effectiveness, and improve service. In this regard, the Postal Service continues to explore ways to apply new technology to mail processing operations and to transform the Postal Service legacy network into a flexible processing and distribution system.

During the past 6 months, the OIG conducted work in the areas of accepting and processing, some examples of which are highlighted below:

REDUCTION OF WORK-HOURS NEEDED FOR BUSINESS MAIL ENTRY UNITS

In partnership with Postal Service management, the OIG performed two audits of work performed by Postal Service employees in business mail entry units located in the Pacific Area. The audits revealed that work-hours were excessive and significant reductions were needed. Although Postal Service policies require the

efficient use of work-hours, postal management did not periodically evaluate staffing needs to improve productivity.

During the course of these audits, postal management agreed to aggressively reduce work-hours in business mail entry units by 46,800 hours by the end of FY 2006. The OIG calculated the financial impact of this reduction in work-hours could produce an estimated cost avoidance of over \$16 million over a 10-year period. In both audits, the OIG obtained rapid concurrence from postal management to reduce hours as planned and periodically reevaluate staffing needs. Postal management's actions taken or planned should correct the issues identified in the reports. (AO-AR-03-001 and AO-AR-03-002)

POSTAL SERVICE COULD SAVE MONEY BY IMPROVING INVENTORY MANAGEMENT

The OIG audited spare parts inventory management at maintenance stockrooms to determine whether inventory stock levels were appropriate. The audit disclosed that as of November 2002, spare parts inventory levels in the stockrooms exceeded demand by a projected \$131 million, or 50 percent of the inventory. The OIG found that if the Postal Service had better managed this inventory, the \$131 million could have been used more efficiently.

The OIG recommended that Postal Service management establish controls over reorder procedures, require management approval for excess quantities, develop a report to track reorder trends, conduct annual reviews, program the inventory management system to provide analysis reports, identify excess parts, use excess parts before purchasing any new parts, and direct maintenance personnel to return excess parts to the Topeka Material Distribution Center for use by other stockrooms.

In addition, the OIG recommended that management develop guidelines and establish requirements for designating parts as critical; require maintenance personnel to annually review parts for the proper critical designation; and reprogram the field inventory system to automatically calculate levels for critical parts needed. Postal management agreed with all of the recommendations, and actions taken or



planned should correct the issues identified in the report. (AC-AR-03-007)

ENHANCED CARRIER ROUTE STANDARD MAIL WORKSHARING DISCOUNTS

As a result of a congressional inquiry at the San Antonio Processing and Distribution Center, the OIG audited Enhanced Carrier Route Standard Mail worksharing discounts. The audit disclosed that Enhanced Carrier Route Standard Mail covered all of its volume variable costs in FY 2001. However, the OIG found that the Postal Service's delivery point sequencing of Enhanced Carrier Route letter mail with destination delivery unit discounts resulted in transportation and handling inefficiencies and that internal controls over the acceptance of Enhanced Carrier Route Standard Mail needed improvement.

The OIG recommended that postal management develop a rate case proposal to eliminate destination entry discounts for letters destinating at delivery units that receive delivery point sequenced mail processed on delivery barcode sorters. Postal management disagreed with this recommendation, but stated it has been reviewing the issue and expects to complete the review before the next Omnibus Rate Case. The OIG also found that internal controls over the acceptance of Enhanced Carrier Route Standard Mail needed improvement and considers postal management's planned actions responsive to the intent of the recommendation. (AC-AR-03-006)

ENFORCEMENT OF EXPORT CONTROLS COULD BE STRENGTHENED

In response to a request from an interagency group of inspectors general reviewing the enforcement of export controls government-wide, the OIG reviewed the Postal Service's role in enforcing export controls. The OIG evaluated the Postal Service's procedures, policies, regulations, and laws regarding export enforcement and found that the process for inspecting outbound mail could be strengthened. Export Administration regulations state that officials of the Postal Service, the Customs Service, and the Department of Commerce, Office of Export Enforcement, can inspect items declared for

export. However, Postal Service policy does not allow officials to randomly open and examine the contents of mail declared for export. Postal Service and Customs Service officials are working together to establish a program to inspect outbound mail, but the OIG concluded that additional coordination efforts were needed between the Postal Service and the Department of Commerce, Office of Export Enforcement.

The OIG made two recommendations to strengthen the Postal Service's enforcement of export controls. Postal management's comments are responsive to the OIG's recommendations, and actions taken and planned should correct the issues identified in the report.

(AO-MA-03-001 (R))

TRANSPORTATION AND DELIVERY REVIEWS

Transportation and delivery of mail are vital parts of the Postal Service's mission of binding the nation together by providing prompt, reliable, efficient, and universal mail delivery at affordable rates. The Postal Service spends approximately \$30 billion to transport and deliver mail to 38,000 facilities and to 141 million addresses.

To transport and deliver the mail, the Postal Service utilizes contractors and a fleet of over 208,000 owned vehicles and employs a combination of air, surface, rail, and water modes. In addition, the Postal Service has an agreement with Federal Express to transport Express, Priority, and First-Class Mail. Over 350,000 carriers deliver over 200 billion pieces of mail—an average of about 1,420 pieces of mail for every household and business.

The Postal Service is challenged to increase efficiency in the transportation and delivery area because mail volume has not grown sufficiently in recent years to support the extension of the delivery network needed to cover the growth in the number of delivery points, which grows by approximately 1.7 million each year. During the past 6 months, the OIG issued 6 transportation and delivery-related products, which identified over \$31 million in funds put to better use and over \$1 million in unrecoverable costs. Some of this work is highlighted as follows:



An OIG audit found that spare parts inventory levels in stockrooms exceeded demand by a projected \$131 million. If the Postal Service had better managed this inventory, the money could have been used more efficiently.

POSTAL SERVICE COULD SAVE MILLIONS BY CANCELING UNNECESSARY HIGHWAY CONTRACT TRIPS

At the request of the vice president, Network Operations Management, the OIG completed four audits of Highway Network Scheduling. The purpose of these audits was to identify highway contract trips that could be eliminated to reduce highway transportation costs. The reviews complemented the Postal Service's own breakthrough productivity initiatives in highway transportation, and reflected a strong cooperative effort between Postal Service Headquarters, the various Postal Service Areas, and the OIG. The audits revealed the Postal Service could save approximately \$30.5 million by canceling unnecessary trips between mail processing facilities. Specifically, management in the Southwest, Western, Southeast, and Eastern Areas could terminate 601 unnecessary contracted trips without negatively affecting service by consolidating low mail volume trips. Postal Service managers agreed to eliminate 383 trips, but disagreed with elimination of the remaining 218 trips, stating this would reduce operational flexibility. However, postal management agreed to reassess these remaining trips and will cancel trips as necessary. (TD-AR-03-010, TD-AR-03-013, TD-AR-03-014, and TD-AR-03-015)

NATIONAL ANALYSIS OF VOYAGER CARD CONTROL WEAKNESSES

The OIG initiated an audit of the Postal Service's Voyager Card program as a result of concerns over the Voyager Card controls. Postal Service employees use the Voyager Card like a credit card to fuel and maintain Postal Service vehicles. The audit revealed that from September 2000 until March 2002, the Postal Service incurred more than \$1.1 million in unnecessary costs because employees used the Voyager Card to purchase food and premium fuel. Postal Service policy prohibits these types of purchases.

Of the \$203 million in transactions the OIG examined, the audit also identified at least \$42 million in questionable charges for miscellaneous purchases and multiple fuel purchases for the same vehicle on the same day as well as other

charges for fuel purchases exceeding tank capacity and exceeding the individual daily purchase limit. The OIG also determined that managers and supervisors did not properly reconcile Voyager Card transactions and that guidance provided to users did not properly address segregation of duties for card reconciliation. Finally, the OIG identified control weaknesses related to Voyager Card personal identification number use at two Postal Service districts visited. The OIG recommended Postal Service officials provide nationwide guidance, policy, training, support, and oversight necessary to protect the program from improper, fraudulent, or questionable purchases. Management agreed with the recommendation but did not specifically address actions they would take to correct issues the OIG identified. Postal management did not agree with the conclusion that the Postal Service spent \$1.1 million on improper purchases and that they could save \$1 million if the purchases were avoided. The OIG and the Postal Service are working together to resolve these issues. (TD-AR-03-012)

EARLY REPORTING TIMES FOR CARRIERS DEEMED INEFFECTIVE

In response to a request from the Postmaster General, the OIG audited Capital Metro Area carrier productivity to determine whether letter carrier operations were effective and to identify opportunities for cost savings. The audit revealed that in delivery units where letter carriers reported at 7:00 a.m., 80 percent of the unit's mail was not consistently distributed by the clerks to the carriers' cases and available to them before they reported to work. This occurred because postal management changed letter carriers' reporting times from 8:00 a.m. to 7:00 a.m. without coordinating these new mail dispatch and delivery unit arrival times with processing and distribution centers.

Local supervisors explained the postmaster verbally instructed them to make the change because the postmaster wanted letter carriers to complete their routes before dark or 5:00 p.m. The OIG noted early reporting times wasted carriers' office time in the mornings and exposed the district to potentially unnecessary overtime costs in the evenings. Finally, the OIG audit showed supervisors were not using the Delivery Operations Information System to manage their



Voyager Cards are used like credit cards to fuel and maintain postal vehicles. An OIG audit revealed that from September 2000 to March 2002, the Postal Service incurred more than \$1.1 million in unnecessary costs because of employee misuse of the cards.

carrier schedules. As a result, the postal supervisors could not evaluate letter carrier scheduling or take corrective action. Postal management was responsive to the OIG's recommendations and has planned actions to address the major issues identified in the report. (TD-AR-03-011)

MARKETING REVIEWS

The Postal Service operates in a globally competitive environment and its ability to maintain or increase its market share of the \$900 billion mailing industry is essential to providing universal service at affordable rates. The marketing function's core focus is to follow six strategies set forth in support of the Transformation Plan. These strategies are to: (1) increase revenue, (2) increase customer retention, (3) service customers through appropriate channels, (4) use data to drive decisions and make all plans measurable, (5) use pricing flexibility as a strategic tool, and (6) create excitement. Some of the OIG's work in this area is highlighted below:

POSTAL SERVICE-RELATED MERCHANDISE STORE NOT PERFORMING AS WELL AS INTENDED

An OIG audit of a Postal Service-related merchandise retail store revealed the store did not perform as intended nor has it increased profit for the Postal Service. Based on the OIG's calculations, the retail portion of the store is operating at a loss. The OIG's audit disclosed the retail portion of the store has cost the Postal Service \$8.3 million since its inception in 1996, an average of almost \$1.2 million a year. Furthermore, the retail store did not comply with the Postal Service's current objectives to only sell merchandise directly related to traditional business operations. The OIG estimated that if the Postal Service renewed and extended the current lease for an additional 2 years, it would continue to lose money over this period. Postal management agreed with the OIG's recommendation to not renew the retail store lease. However, postal management disagrees with the OIG's calculations and believes that the store has actually generated positive net income. Postal Service managers agreed with the OIG's

recommendation to closely monitor inventory levels at the store through its closing and to develop a plan to transfer or dispose of any merchandise prior to closing. (OE-AR-03-005)

POSTAL SERVICE'S ALTERNATIVES TO MAIL RECOVERY CENTER AUCTIONS DEEMED PROPER AND JUSTIFIED

The OIG initiated this review following an audit of mail recovery center public auctions through an Internet site. The OIG found the Postal Service's goal was to increase operational efficiency, maximize revenue, and reduce costs by exploring alternative venues to sell undeliverable mail items. The audit revealed the Postal Service used proper and justified business practices for a pilot test by awarding the contract to a specialized contractor. The OIG determined the Postal Service increased its exposure and increased revenue prospects for selling undeliverable mail items by having multiple venues for disposal.

However, the audit also disclosed the Postal Service did not maintain proper oversight of revenue accounts. Due to the lack of integrity of revenue data, the OIG could not conclude whether the pilot test was cost-effective when compared to previous methods used to dispose of undeliverable mail items. Although not in the original scope, the OIG found the contracting officer's representative did not always involve the contracting officer in the decision making process and the Postal Service had inadequate oversight of contract performance.

Postal management agreed with all four contract performance recommendations made by the OIG but disagreed that there was a lack of communication between the contracting officer's representative and the contracting officer. Postal management has either planned or already taken corrective action to address the issues identified. (OE-AR-03-004)

FINANCIAL MANAGEMENT REVIEWS

The Postal Service continues to respond to one of the most challenging financial periods in its history by focusing its plan on reducing costs, increasing efficiency, and improving service. This effort resulted in the Postal Service ending FY 2002 with a loss that was almost \$700 million below original projections, despite the effects of the recession and the terrorist attacks. The actions the Postal Service took in FY 2002 laid a foundation for savings in 2003 and beyond, setting the stage for achievement of the Transformation Plan goal to reduce costs by \$5 billion by the end of FY 2006. As evidence, the Postal Service's projected net income of about \$600 million in FY 2003 will be exceeded largely due to the Postal Civil Service Retirement System Funding Reform Act of 2003. Overall, it is estimated that the total positive impact on net income because of the Act could be \$3.3 billion in FY 2003.

The Postal Service relies on strong financial management controls to maximize revenue and minimize costs. In the past 6 months, the OIG has completed 258 financial management reviews and 109 investigations. These efforts identified over \$69 million in questioned and unsupported costs. These projects add value to the Postal Service by identifying opportunities for cost savings and improving financial management, contracting, and facilities practices; and detecting and deterring fraud, waste, abuse, and mismanagement.

FINANCIAL OPINION AUDITS

The Postal Reorganization Act of 1970 requires an annual audit of the Postal Service's financial statements. The OIG conducts audits in support of the Board of Governors independent public accountant's overall opinion on those statements. These audits assess the integrity and reliability of the financial information contained in the Postal Service's financial statements. The Information Technology and Accounting Service Centers in Eagan, Minnesota; St. Louis, Missouri; San Mateo, California; and at Postal Service Headquarters in Washington, DC, oversee the collection of over

\$66 billion in revenue and the recording and expense of a similar amount each year. The OIG conducted audits at these Accounting Service Centers and headquarters and identified the following areas for improvement:

- ◆ At the request of the U.S. Office of Personnel Management, the OIG reported on withholdings and contributions for health benefits, life insurance, retirement, and employee headcount data. Generally, the OIG was able to verify employee withholdings, employer contributions, life insurance, and retirement. However, the OIG identified one reportable issue regarding an incorrect insurance election that remained incorrect for approximately 3 months. The OIG report was provided for information only and required no management action. (FT-AR-03-012)
- ◆ During the OIG's audit of the FY 2003 Postal Service Financial Statements at the St. Louis Information Technology and Accounting Service Center, of 6,468 lease schedules analyzed, the OIG found 1,405 instances, totaling \$3.5 million, in which facilities service office personnel who entered real estate tax payment data were also authorized to approve tax payments of \$10,000 or less per annum. Postal management agreed with the OIG's recommendation and took immediate action by issuing a policy memorandum requiring a second individual, other than the preparer, to approve all lease real estate tax payments.

The OIG also identified six schedules related to lease payments in which the preparer was also the approver. However, this is a significant improvement from findings noted in prior audits. The OIG contacted the individuals responsible for these schedules and reiterated the need for segregation of duties over lease payment schedules. The OIG commends the Postal Service for the corrective actions taken and makes no further recommendations at this time for segregation of duties related to lease payments. (FT-AR-03-013)



FY 2003 FINANCIAL INSTALLATION AUDITS

The OIG conducted audits at 200 Postal Service facilities, and generally, financial information was reasonably and fairly represented in the accounting records, and internal controls were in place and effective. However, at 179 facilities, the OIG identified minor problems concerning non-compliance with Postal Service instructions and minor internal control weaknesses. At two facilities, the OIG found financial transactions were not reasonably and fairly represented, and internal controls were not in place and effective, resulting in a shortage of over \$59,800 in the retail floor stock at one of these facilities. The OIG issued individual reports to address these issues and will provide a summary report to postal management with recommendations to address systemic issues. (For specific reports see Appendix A, pages 45-54)

FACILITY PROTECTIVE REVIEWS

The OIG has instituted a Facility Protective Review program to provide critical coverage to small Postal Service facilities. The benefits of the program include: providing a systematic method for identifying and reviewing problems at local offices; suggesting valuable and timely feedback to local and headquarters-level management; and identifying nationwide audits by developing trends of problems at local facilities. Areas of coverage during the protective audits include asset accountability, employee and customer service, information systems security, and compliance with laws and regulations. In the past 6 months, the OIG completed 15 facility protective reviews and found that internal controls were generally in place and effective. However, at those facilities, the OIG found minor issues relating to accountability, mail operations, employee and customer service, revenue protection, expense minimization, information system security, oversight, and compliance with laws and regulations. For example, the OIG identified discrepancies between reported account balances and actual stamp stock and cash on hand; employee safety concerns related in and around storage and work areas; insufficient training on handling of hazardous materials; untimely information system access reviews; and inadequate control over building keys.



The OIG seized this vehicle during an investigation into the misuse of the eVoyager card program.

FINANCIAL-RELATED REVIEWS AND INVESTIGATIONS

COMBATING PURCHASING- RELATED FRAUD

The OIG has initiated several efforts to focus investigations in the following major postal expenditure areas: procurement of equipment and services, transportation, and facilities. Specifically, the OIG has focused its investigative efforts in the areas of frauds associated with IMPAC cards, eVoyager cards, transportation contracts, the bulk fuel program, and common area maintenance agreements. In this reporting period, OIG work in this area included:

- ◆ An investigation resulting in the conviction of a former postal clerk for misappropriation of postal funds through the improper use of an IMPAC card. The subject was sentenced to 3 years probation and ordered to pay over \$3,000 in restitution to the Postal Service.
- ◆ Two investigations concerning the misuse of the eVoyager card program. The first of these investigations resulted in the removal of a postal employee and the recovery of \$2,800. The second investigation deals with the production and use of counterfeit Postal Service eVoyager cards. Five individuals have been arrested in this case and related investigations are continuing.
- ◆ Investigations concerning transportation contracts that have resulted in the termination of a highway contract for falsified documents. The scheme was discovered and the contractor was terminated prior to the payments being made. In another case, a highway contractor, who had been convicted for defrauding the Postal Service, was debarred for 3 years. The subject agreed to make restitution to the Postal Service of nearly \$2,300. The OIG and the Inspection Service worked this investigation jointly.

OIG INVESTIGATIVE EFFORTS PROTECT POSTAL SERVICE FROM FALSE CLAIMS

The OIG assists the Postal Service in combating fraudulent claims by working with the Postal Service Law Department and United

States Attorney Offices to conduct investigations into tort and indemnity claims filed against the Postal Service.

As a result of one recent investigation, an Oklahoma postal customer was sentenced to 10 months in jail and ordered to pay over \$5,000 in restitution to the Postal Service for submitting false indemnity claims. The customer submitted claims for over \$10,000, supported by altered sales receipts, for international mail that was reported as damaged, missing its contents, or undelivered.

FY 2003 OBSERVATIONS OF STATISTICAL TESTS FOR THE COST AND REVENUE ANALYSIS

The OIG performed cost and revenue analysis audits in 21 districts and found that, generally, the tests were conducted in accordance with Postal Service procedures. However, employees did not always adhere to policies for sampling, equipment use, and data entry in 13 districts. The OIG issued individual reports to address these issues and will issue a summary report providing postal management with recommendations to address systemic issues. (For specific reports see Appendix A, pages 51-52)

UTILITY PAYMENTS NOT ALWAYS TIMELY OR PROPERLY MADE

An OIG audit disclosed that utilities, paid at district accounting offices, generally were paid accurately in accordance with Postal Service policies and procedures. However, one district accounting office did not always make timely payments, and another office paid unnecessary state and local taxes. As a result, the Postal Service incurred unnecessary late fees totaling over \$36,700 and inappropriately paid about \$91,000 in state and local taxes. The OIG recommended the Postal Service improve the timeliness of utility payments, collect unnecessary payments of state and local taxes, and modify policies to reduce the likelihood and enhance collection of improper payments. Although postal management disagreed with two of the eight recommendations, the actions taken or planned should address the issues identified in the report, including evaluating the propriety of collecting the unnecessarily paid state and local taxes of \$91,000.

In a cooperative effort, the district account-

ing office provided assistance to the OIG to identify the \$91,000 in unnecessary utility taxes paid. Upon the report's issuance, the Postal Service took immediate action to collect the improperly paid sales taxes. As a result, the state of Maryland agreed to refund the Postal Service over \$82,000 in improperly paid taxes. The reduction in the amount reflects the disallowance of improperly paid taxes beyond the applicable statutes of limitation.

(FT-AR-03-011)

IMPROVEMENTS NEEDED FOR POSTAL SERVICE'S GOVERNMENT PERFORMANCE AND RESULTS ACT REPORTING

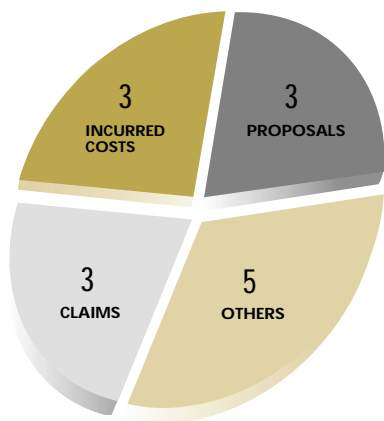
An OIG audit disclosed the Postal Service complied with the Government Performance and Results Act by providing plans that met the Act's requirements. However, the Postal Service could have improved its public accountability and the usefulness of the Fiscal Year 2003 Annual Performance Plan by providing more comparable, specific, and detailed information to measure organizational goal achievement. The OIG recommended and postal management agreed to make every effort to provide references, when appropriate, to documents used in the development of act-related reports, and to consider incorporating additional goals, objectives, indicators, and targets, especially for those related to the Transformation Plan initiatives; however, they will limit the number of strategic goals in order to focus on key goals.

In addition, although postal management agreed to provide a detailed explanation in future documents when indicators and targets were changed or eliminated, postal management believed additional labor relations indicators were unnecessary at the strategic level at this time. The OIG noted in its report that it was not the intent of its recommendation for postal management to add, without consideration, indicators and targets to past or future published documents. Rather, it was the OIG's intent to bring to postal management's attention the importance that labor relations issues have to all the stakeholders. The OIG noted that postal management, as deemed appropriate, should consider for inclusion labor relations goals, targets, and indicators to provide public accountability and to demonstrate the Postal Service's



The OIG assists the Postal Service in combating fraudulent claims.

Types and Number of Contract Audits Completed



The OIG completed 14 audits of contracts valued at over \$511.7 million.

continued commitment to improving the major management issues. The Postal Service has taken positive steps by having transformation initiatives to address labor relations issues. In addition, postal management has stated that it is considering changes or additions to the goals, objectives, indicators, and targets, especially as a result of transformation initiatives. (FT-AR-03-010)

CONTRACTING AND FACILITIES REVIEWS

The Postal Service manages nearly \$19.5 billion annually in contracts for essential goods, non-transportation services, and facilities-related services. Consequently, this makes the Postal Service one of the largest civilian contracting agencies in government. During the second half of FY 2003, Postal Service purchases included over \$570 million in noncompetitive contracts and more than \$181 million in purchase credit card transactions. The Postal Service is also one of America's largest owners, developers, and managers of real estate, committing over \$274 million for repair, renovation, and construction of new facilities, and paying over \$569 million in rent for the second half of FY 2003.

The OIG is responsible for contract audits designed to assist Postal Service contracting officers in determining fair and reasonable contract prices as well as providing them with reviews of contractor financial systems. In the past 6 months, the OIG completed 17 reviews of contracting and facilities-related issues with the assistance of a contract audit agency. Also, the OIG has many open criminal investigations targeting fraud and corruption in these areas. Highlights of some contracting and facilities reviews follow below:

CONTRACT AUDITS IDENTIFY OVER \$69.9 MILLION IN QUESTIONED AND UNSUPPORTED COSTS

In the past 6 months, the OIG worked with the Defense Contract Audit Agency and completed 14 audits of contracts valued at over \$511.7 million. These audits resulted in over \$69.9 million in questioned and unsupported costs. The contract audits primarily include: incurred cost audits that evaluated the reason-

ableness of costs incurred by contractors; proposal audits that evaluated the reasonableness of contractor cost estimates; and claim audits that evaluated whether claims submitted by contractors were accurate, valid, and properly supported. These audits are summarized in the graph in the margin and focus on whether contractors':

- ◆ proposed and incurred costs were allowable and reasonable; and
- ◆ pricing data were accurate, complete, and current.

The following is a summary of 3 significant contract audits completed in the last 6 months:

- ◆ An audit of a contractor's \$329 million firm fixed price proposal for a biohazard detection system program revealed the proposal was not acceptable as a basis for negotiation of a fair and reasonable price. The total amount included \$266 million for the basic portion and \$63 million for the options. The audit disclosed questioned costs of nearly \$61 million, which included unsupported costs of approximately \$8.4 million. Additionally, direct material costs based on engineering estimates were questioned because the contractor was unable to provide supporting documentation, and proposed material costs normally included in overhead costs were questioned in their entirety. Labor hours were also questioned based on results of the technical evaluation. Unsupported costs were the result of the contractor not providing auditable documentation to support certain proposed costs based on engineering estimates. Therefore, the OIG recommended that a downward savings clause be included in the contract. (CA-CAR-03-15)
- ◆ A review of a contractor's equitable adjustment in the amount of \$726,903 disclosed questioned costs of approximately \$703,000. Following audit inquiries, the contractor withdrew proposed general and administrative costs and profits and fees in their entirety, stating that subsequent work added to the contract nullified these costs. However, the contractor's total questioned costs were offset by \$16,418 due to the contractor's underestimation of other proposed costs. (CA-CAR-03-014)

- ◆ An audit of a contractor's revised fixed price proposal of approximately \$32 million disclosed questioned costs of about \$7 million. Questioned costs were primarily proposed profit applied to inter-company costs within the direct material unit costs. These proposed costs represented a pyramiding of profit because the summary proposal contained a separate line item for proposed profit. The OIG considered the proposal acceptable as a basis for the negotiation of a fair and reasonable contract price. However, the OIG believes the nearly \$7 million of questioned costs also should be considered in the negotiation process. (IR-CAR-03-006)

CHANGES NEEDED TO COMMON AREA MAINTENANCE CHARGES

An OIG audit found procedures and internal controls for common area maintenance charges needed strengthening. The OIG found that lease agreements did not contain necessary common area maintenance language and a standard common area maintenance definition or clause did not exist. In addition, the OIG found that common area maintenance charges were not tracked or reviewed. As a result, the Postal Service could be subject to overcharges by lessors. During the audit, Postal Service management began developing a standard common area maintenance clause. They were also receptive to establishing procedures to track leases with common area maintenance clauses and to obtaining independent audits of common area maintenance charges. The OIG recommended that postal management enforce compliance with existing policies and procedures for common area maintenance costs, establish and implement a standard common area maintenance definition and clause, establish and implement a system to track common area maintenance charges, and establish and implement procedures for audits. Postal management generally agreed with OIG's recommendations. (CA-AR-03-002)

MANAGEMENT OF FACILITY LEASE PROGRAM

The OIG's review of 72 leases totaling over \$14.1 million in annual rent disclosed that the Postal Service was generally initiating and

renewing its leases in accordance with policies and procedures. Additionally, the OIG found no issues when reviewing 11 leases, totaling over \$2.9 million in annual rent, which were terminated before expiration. However, facilities personnel did not always identify and document the condition of facilities before lease renewal. As a result, the Postal Service did not always have sufficient information available to effectively negotiate leases or resolve maintenance issues. Postal management agreed with the recommendations to use the new facility condition checklist to identify and document the condition of facilities prior to lease renewal and to communicate this information to facilities personnel. Postal management also agreed to enforce the requirement to send the lessor a letter of outstanding maintenance items when the lessor is responsible for maintenance, and to document outstanding maintenance items before assuming maintenance responsibility from the lessor. Postal management's comments are responsive to the OIG's recommendations, and actions taken or planned should correct the issues identified in the report. (CA-MA-03-009)

OIG CONTRACTOR INVESTIGATIONS TARGET FRAUD AND CORRUPTION

The OIG conducts investigations relating to the Postal Service's contracting and facilities areas. These investigations target contractors who have attempted to defraud the Postal Service by submitting false invoices, performing poor work, or using substandard construction material. These investigations help ensure that the financial interests of the Postal Service are protected. In some instances, these investigations result in significant recoveries and improve the safety of employees and customers. During the past 6 months, the OIG has reported significant activities in this area, some of which are highlighted below:

- ◆ As a result of an OIG investigation, a California manufacturer agreed to pay \$2 million to the government, \$1.6 million of which will go to the Postal Service, to settle allegations that the contractor knowingly provided the Postal Service with defective mail sorting equipment. The investigation was initiated

based on a “whistleblower” lawsuit alleging that the manufacturer failed to perform required product inspections and fabricated documents to make it appear that the inspections had been performed. During the OIG investigation, it was also determined that the defective products posed potential safety hazards. As a result, the Postal Service issued a nationwide safety alert to all post offices and safety managers.

- ◆ An OIG investigation resulted in the indictment of a postal supervisor and an auto repair shop owner on charges of conspiracy to commit bribery and conspiracy to submit false claims. This case was initiated based on a referral from the Postal Inspection Service regarding irregularities on contracts for repair and maintenance of postal vehicles. The indictment alleged that the postal employee, a delivery service supervisor, allowed false claims to be submitted for vehicle repairs, including inflated labor charges, charges for repairing and replacing suspect items, and bills for services not performed. The auto repair shop owner has pled guilty and is awaiting sentencing. The Postal Service halted retirement proceedings for the indicted supervisor until it can be
- determined whether it is owed any money resulting from his alleged actions.
- ◆ A Delaware couple presented false claims to the Postal Service for miles that had not been driven on a Highway Contract Route, defrauding the Postal Service of over \$56,000. The couple made full restitution and agreed to refrain from bidding on or participating in any postal mail transportation contracts for 3 years. Consistent with that agreement, the Postal Service debarred the couple from doing business with the Postal Service.
- ◆ As a result of an OIG investigation, a Postal Service subcontractor pled guilty to a criminal information charging mail fraud and false statements. The subcontractor was hired to clean and decontaminate a New York Processing & Distribution Center after anthrax was discovered there. The subcontractor created bogus training certifications that falsely represented its employees as having the training needed to clean and decontaminate the facility. Because the employees did not actually have the required training, the resulting claims of \$1.6 million that were submitted were in violation of the contract.

TECHNOLOGY REVIEWS

The Postal Service recognizes that technology is key to productivity and affordability. Through technology, the Postal Service handles more than 660 million pieces of mail every day and maintains its network of nearly 38,000 post offices and facilities. Its technology strategy is to provide convenient and secure access to all customers on a daily basis through increasingly sophisticated retail systems, expansion in new electronic access channels, and electronic linkages that integrate customer and postal processes. In addition, the Postal Service is using modern technology, such as USPS.com, Signature Confirmation™, and MoversGuide Online.com. These initiatives will improve and build on its existing services and relationships with customers and continue meeting traditional customer demands.

The September 11, 2001, terrorist attacks demonstrated how the nation's infrastructure may be vulnerable to attacks. Computer systems are a critical component of every aspect of postal operations and must be protected from potential cyber-terrorism to prevent disruption in service. Technology investments need to be scrutinized not only to minimize the risk of compromise, but also to ensure that sound business decisions are made. This is particularly important as the Postal Service reviews several technologies to identify an efficient, effective, and safe method to detect and prevent biohazards.

OIG reviews have covered developmental systems, information systems, electronic commerce, and computer intrusion detection activities. In the past 6 months, the OIG performed 14 reviews in the technology area, some of which are highlighted below:

DEVELOPMENTAL REVIEWS

The Postal Service develops business systems and mail processing equipment to improve performance, enhance service, and reduce operating costs. The typical development process begins with the identification of a business need. After the business need has been identified, a solution is developed, followed by the proof of concept and first article tests and

final deployment. The OIG understands the importance of reviewing these systems as they are developed and has completed four audits of major projects currently under development during the reporting period. Three of these reviews are highlighted below:

MERLIN UNDERUTILIZED IN SOUTHEAST AND SOUTHWEST AREAS

At the request of the Board of Governors, the OIG conducted a limited review of Mailing Evaluation, Readability, and Lookup Instrument (MERLIN) operations. MERLIN is an automated system designed for use by acceptance units to accept and verify discounted mailings. The goals of the MERLIN program are to automate acceptance, make verifications consistent, and improve the quality of the mailstream. MERLIN simultaneously verifies presort makeup, barcode readability and accuracy, tray label accuracy, meter identification and dates, piece counts, and mailpiece characteristics. However, the OIG audit determined MERLIN was underutilized in the Southeast and Southwest Areas.

The OIG found these sites were verifying less than the required 17 percent of mailings under 10,000 pieces. If utilization rates continued to remain below target, the Postal Service could lose a substantial portion of the projected additional revenue and incur higher costs to process mail. The audit also revealed improvements were needed for communicating policies and procedures to guide business mail entry unit personnel in avoiding some computer software issues, preparing weekly utilization reports, and performing site readiness reviews.

The OIG determined that local training provided to MERLIN operators needed to be more consistent. Specifically, there were discrepancies in the type of training materials used, type of training records maintained, and course content covered. These discrepancies may negatively impact the quality, effectiveness, and completeness of local training. The OIG made seven recommendations to improve utilization, communications, and local training for the MERLIN program. Postal management agreed with all seven recommendations and all actions were completed or planned prior to completion of the audit. (DA-AR-03-006)



RELIABILITY AND TESTING ISSUES CONCERNING WIDE FIELD VIEW CAMERA SYSTEM

An OIG review of the new Wide Field View Camera System identified two areas of concern. First, the camera system experienced reliability issues during the field First Article Test. Specifically, there were ten occurrences of camera offline conditions and two computer installation failures. During the test period, if the vendor performed extensive corrective maintenance, the test may have been terminated. Thus, the vendor did not attempt to resolve the reliability issues at that time in order to complete the field First Article Test.

Subsequently, in order to pinpoint why the reliability issues occurred, Engineering postponed the national deployment of the Wide Field of View Camera System. The vendor determined camera offline conditions occurred due to human and software errors. In addition, the vendor could not determine why some computers failed after installation. As a result, the vendor created an updated software version to correct the reliability issues. Engineering officials stated postal management plans to follow the Software Development Life Cycle test procedures to ensure reliability issues will be resolved in updated software versions. If the Wide Field of View Camera System is deployed without correcting these issues and documenting results, productivity in mail processing facilities may decrease.

The OIG recommended that Engineering officials continue to monitor and report on the Wide Field of View Camera System's reliability issues. Postal management agreed with the OIG's recommendation and actions taken or planned should correct the issues identified. Subsequently, all issues were resolved and the Postal Service is now realizing the benefits projected, especially an improved read rate. (DA-AR-03-005)

DELIVERY BAR CODE SORTER MACHINE NOT USED MOST EFFECTIVELY

The OIG reviewed the Delivery Bar Code Sorter – Expanded Capability to determine the adequacy of testing and evaluate machine use. The Delivery Bar Code Sorter – Expanded

Capability machine allows bulky letter mail, which is primarily processed manually, to be sorted on the Delivery Bar Code Sorter machines. The Postal Service's business decision to continue the Delivery Bar Code Sorter – Expanded Capability program without fully addressing the First Article Test failures did not ensure that the program could effectively process bulky mail without damaging the mail.

When the machine did not pass First Article Tests, postal management revalidated performance through a demonstration and eliminated contractual requirements. In addition, the review found that many sites processed small percentages of bulky mail and used Delivery Bar Code Sorter machines to process regular automation mail. If this continues, the efficiencies and savings of processing bulky mail on the machine may not be realized. The concerns identified could also affect future Postal Service initiatives.

The OIG recommended postal management direct the Test Evaluation and Quality group to evaluate the testing process and results and ensure that all testing of the Delivery Bar Code Sorter Input Output Subsystem – Expanded Capability is conducted under the direction and approval of the group. The OIG also recommended that postal management determine whether the actual performance of the Delivery Bar Code Sorter – Expanded Capability for processing bulky mail meets the savings projected in the Decision Analysis Report. Postal management agreed with both recommendations and actions taken or planned should correct the issues identified in the report. The Postal Service indicated that volumes processed on the machines, including bulky and automation compatible letter mail, will produce the level of savings contained in the Decision Analysis Report. (DA-AR-03-007)

INFORMATION SYSTEMS REVIEWS

The Postal Service relies on a complex computer infrastructure to accomplish and streamline operations, manage one of the largest civilian workforces in the world, and move billions of pieces of mail each year. The Postal Service has initiated several information technology projects to enhance efficiency and increase

revenue. The Postal Service must continue to ensure computer security is maintained and improved to reduce the risk of fraud, inappropriate disclosure of sensitive data, unauthorized disclosure of customer information, and disruption of critical operations and services. The most significant reviews are highlighted below:

WEAKNESSES FOUND IN ELECTRONIC TRAVEL VOUCHER SYSTEM

The OIG conducted a network vulnerability assessment of the electronic travel reimbursement system used by the Postal Service, which was implemented in 2001. Although the OIG determined the systems to be well managed, potential network vulnerabilities in the reimbursement system were identified that merit improvements to strengthen security over the system. Detailed results of the network assessment were provided to postal management and to system administrators in a separate technical report. This technical report did not provide recommendations for corrective action. Rather, the report was intended to provide system administrators with the technical information necessary to establish priorities to initiate corrective action.

Postal Service management generally agreed with five recommendations in the report. Although management disagreed with one recommendation, they took action which was responsive to the intent of the recommendation and should correct the issue identified. (IS-CS-03-002 and IS-AR-03-006)

CONTROL WEAKNESSES IDENTIFIED AT AN ENGINEERING RESEARCH AND DEVELOPMENT CENTER

The OIG conducted an audit of a Postal Service Engineering Research and Development Center to determine whether controls at the center were adequate to safeguard the integrity of resources and ensure continuity of operations. The OIG also conducted a vulnerability assessment of network and computer systems at the center. The audit identified control weaknesses in the overall security at the maintenance facility and in four of the six general and management control areas tested. The OIG considered the lack of a formal, centralized

structure for information systems security management as the cause of many of the control weaknesses identified.

The OIG made 17 recommendations to improve the security and reliability of the engineering facility's site and computer environment. Postal management agreed with 15 recommendations and disagreed in part with 2 recommendations. However, Postal management's actions taken or planned for all 17 recommendations should resolve the issues identified in the report. (IS-AR-03-008)

OPERATING SYSTEM CONTROL WEAKNESSES IDENTIFIED AT THE POSTAL SERVICE NATIONAL CUSTOMER SUPPORT CENTER

An OIG audit revealed weaknesses in three of seven operating system control areas tested at a Postal Service Customer Support Center. The OIG provided eight recommendations to strengthen overall controls of the operating system environment and to ensure compliance with Postal Service requirements. Postal management agreed with all of the recommendations and has initiatives in progress, completed, or planned to address the issues identified.

In addition, the audit verified the status of postal management's corrective action in response to 16 recommendations made by the OIG in a previous review of security access controls at the center. As a result of the follow-up review, the OIG recommended closure on 12 of the 16 recommendations made from its previous review. All of the four remaining follow-up recommendations were subsequently closed. (IS-AR-03-005)

eCOMMERCE REVIEWS

The Postal Service continues to provide customers with new online products and services to enhance their personal and professional lives. In addition, the Postal Service continues to improve the performance and usability of its web presence to ensure secure access and protect customer privacy. The Postal Service has also eliminated or consolidated initiatives that do not fully support the core products and contribute to revenue. Ongoing OIG efforts during this period focused on online mailing services, online change of address and adequacy



The OIG identified network vulnerabilities in the Postal Service's travel voucher system.

of validation process, epayments, and alternatives to using Internet auctions for mail recovery purposes.

NETPOST SERVICES PROGRAM FALLS SHORT OF ORIGINAL FINANCIAL PROJECTIONS

The OIG audited the financial performance of the NetPost Services program, which consists of four components: Mailing Online, CardStore, Premium Postcards, and Certified Mail. The audit disclosed that the program has fallen short of the original financial projections contained in the Decision Analysis Report. In addition, in revising its original projections, the Postal Service used limited actual performance data instead of incorporating updated market research data, including data on the impact of the Postal Service's partnership under its Direct Mail program with a competitor of the NetPost Services program. Projections incorporating current market data would have been more credible and have allowed the Postal Service to better assess the program's viability. Further, although the volume assumptions have changed significantly and the Postal Service has revised these projections, the Postal Service has not prepared and submitted to the Board of Governors a modified Decision Analysis Report. The audit also disclosed that the quarterly Investment Highlights report, the tool that the Postal Service uses to communicate the status of projects to the Board of Governors, does not include key performance measures and results.

After the end of the OIG's fieldwork, but prior to report issuance, the Postal Service informed the OIG that it was not extending the Mailing Online experiment and would not file for permanent service. Furthermore, the Postal Service entered into a partnership with a private entity that would own and operate the Mailing Online component of the NetPost Services program.

Postal management disagreed with the OIG's recommendations to update market research data on hybrid mail and to include this data when revising the program's financial projections and to assess the impact of the program on the Postal Service's partnership with a competitor. Postal management partially disagreed with the recommendations to assess the viability

of the NetPost Services program to determine whether continued investment in the program is in the best interest of the Postal Service, and, if so, to prepare and submit a Decision Analysis Report Modification Request to the Board of Governors; and to identify key performance measures for the NetPost Services program and require that these measures be reported to the Board of Governors. Postal management stated that it monitored the Mailing Online project by reviewing the profit and loss statements, briefings to the Board's Strategic Planning Committee and reporting indicators in the Investment Highlights.

Although postal management has recently announced changes in the Mailing Online component of the NetPost Services program, it has not provided details of the changes or plans for the program's other three components. Without additional information on the changes to the entire NetPost Services program, the OIG could not determine whether postal management actions will resolve the issues identified in the report. The OIG will continue to monitor how recent changes may impact the NetPost Services program. (OE-AR-03-007)

TECHNICAL CRIMES UNIT ACTIVITIES

The OIG investigates criminal violations of state and federal laws enacted to protect the authenticity, privacy, integrity, and availability of electronically stored and transmitted information. eCommerce ventures make the protection of postal information systems critical to the financial viability of the Postal Service. Because such ventures involve connectivity between postal systems and eCommerce partners, the OIG conducts investigations of attacks on the security of those systems in order to maintain the integrity of eCommerce information. The OIG informs postal management and eCommerce partners regarding emerging threats to information systems and assists them in identifying and eliminating potential vulnerabilities. These efforts include assisting the Postal Service in developing security policies, information systems, and eCommerce procedures that conform to the best practices in industry and government.

The OIG Technical Crimes Unit has one

investigative team of technology specialists who conduct forensic examinations and computer investigations in support of OIG investigations, and another team of technical services specialists who conduct site surveys to evaluate the possibility of radio communications and covert surveillance.

During this reporting period, the OIG Technical Crimes Unit supported 84 OIG investigations and provided computer forensics and technical services to assist the Postal Service and other government agencies. Some efforts are highlighted below:

- ◆ Worked with the Postal Service Critical Incident Response Team (CIRT), to respond to incidents of potential computer compromises. In one incident, the CIRT and the Technical Crimes Unit identified and obtained a confession from an individual who compromised a Postal Service server, gained unauthorized access, and was attempting to crack all the encrypted passwords on the computer system.
- ◆ Seized suspects' computers for forensic analysis and interviewed an individual suspected of being a member of a hacking group that compromised the Postal Rate Commission's website.
- ◆ Assisted in the installation and monitoring of numerous vehicle tracing devices, electronic audio interceptions, and covert video surveillance devices.
- ◆ Assisted in search warrants for several investigations of health care providers suspected of defrauding the government and conducted forensic analysis on computer hard drives.



The OIG's Technical Crimes Unit assists in investigations by seizing suspects' computers for forensics analysis.



LABOR MANAGEMENT REVIEWS

The Postal Service has characterized improving labor management relations as one of the most important challenges in achieving its mission in the 21st century. A key Postal Service strategy in the labor management area is to provide a safe, fair, and inclusive workplace for motivated employees who are given the tools, training, and support to do their jobs effectively and efficiently. With more than 830,000 full and part-time employees working at over 38,000 facilities nationwide, the Postal Service recognizes that it will remain a labor-intensive organization for the foreseeable future, and success will depend on improving the postal culture to create a more highly skilled, motivated, and productive workforce. Additionally, in light of terrorist attacks, including attacks involving the transport of anthrax through the mail, the Postal Service must take every precaution to ensure the safety and well being of its employees.

The OIG supports the Postal Service in its overall goal to develop a motivated and productive workforce. The labor management area includes workplace environment, human resources, and health care. While the OIG has worked diligently with the Postal Service and Congress to address these areas of concern, reviewing labor management areas continues to be one of the OIG's greatest challenges. In this regard, the OIG has received over 4,000 individual labor management complaints since 1997. During this reporting period, the OIG completed 5 reviews and closed 26 inquiries in the labor management area. In addition, the OIG conducted 18 health care fraud investigations and 10 reprisal investigations and inquiries in this area.

WORKPLACE ENVIRONMENT REVIEWS

The Postal Service has identified signs of workplace stress in many of its facilities and is developing comprehensive steps to improve the workplace environment, including improving relations between managers and employees and aligning human resources with business requirements. During this reporting period, the OIG has conducted 2 audits and 156 inquiries into

complaints of a hostile work environment or other health and safety issues, some of which are highlighted below:

POTENTIALLY UNSAFE CONDITIONS AT THE GROTON, CONNECTICUT MAIN POST OFFICE

An OIG audit in response to employee allegations confirmed the existence of potentially unsafe working conditions at the Groton, Connecticut, Main Post Office. Specifically, the OIG found evidence of leaking roof water, potential hazards from electrical shock and fire, damaged ceiling tiles, questionable bacteria, blocked access to an electrical service area, mold in delivery vehicles, improper maintenance of asbestos floor tiles, and chemicals stored improperly and without documentation. These conditions are potential violations of government safety and health requirements and increase the risk of injury and illness to Postal Service employees and customers.

The OIG recommended that postal management inspect the roof of the Groton, Connecticut, Main Post Office as soon as possible to determine whether it requires improvement or replacement; assess the existing electrical system and make any necessary improvements; replace all damaged or missing ceiling tiles; and ensure that repair and safety needs are resolved in a timely manner. The OIG also recommended that postal management ensure that delivery vehicles are cleaned monthly, as required by Postal Service policy; that periodic asbestos inspections are performed as required by the Environmental Protection Agency and the Postal Service; and that the Groton, Connecticut, Main Post Office complies fully with Occupational Safety and Health Administration standards and Postal Service policies for the maintenance of building materials that contain asbestos.

Postal management agreed with the OIG's recommendations, and actions taken or planned should correct the issues identified in the report. Postal management did not agree that the OIG's corresponding video and fact sheet reflected the true conditions at the post office and that the video was an appropriate vehicle for the audit report. They also stated that the decision to



renew the lease on the facility was a proper business decision. Postal management indicated that while the building does have maintenance issues typical of an older facility, these issues are being addressed, and the facility does provide safe conditions for employees and customers. The OIG believes the decision to renew the lease might have been proper from an economic standpoint, but the safety of employees and customers should be paramount. (LH-AR-03-010)

GRIEVANCE ARBITRATION PROCESS COULD BE IMPROVED

The OIG audited the Postal Service's efforts to resolve grievances at the lowest possible step of the grievance arbitration procedures. The audit found the Postal Service did not fully implement most of the recommendations and suggestions made by the OIG in past audits addressing this issue. The Postal Service explained that it is difficult to unilaterally implement policies and procedures because all such changes must be negotiated with the labor unions according to the collective bargaining process. The audit also found the Postal Service and the four major unions also did not fully implement recommendations made by independent organizations, including the General Accounting Office. However, they had made efforts to improve the labor-management relationship and the overall grievance arbitration process, including reducing the arbitration backlog in FY 2003. The Postal Service and the major unions have also worked together in developing the Contract Interpretation and the Joint Contract Interpretation manuals.

Although the Postal Service did not have cost data on all costs related to labor management issues, and as a result, could not identify areas for potential cost savings, the OIG estimated the Postal Service could incur about \$1.1 billion in FYs 1999 through 2003 for costs related to labor management issues. The OIG also found that postal management and union officials did not always follow the grievance arbitration procedures required by the national agreements to resolve labor-management issues.

The OIG made six recommendations to management and encouraged union participation to improve the grievance arbitration process and labor management relations. While

postal management disagreed with the OIG's recommendation to modify the Grievance and Arbitration Tracking System to capture key costs associated with labor management problems, subsequent discussions on the issue have resulted in actions taken or planned that will satisfy the recommendation. Postal management agreed with several other recommendations including the need to explore the potential benefits of implementing best practices the OIG identified, as well as the continuance of their joint efforts with the unions to improve labor-management relations. Actions taken or planned should correct some of the issues identified in the report. (LH-AR-03-012)

HUMAN RESOURCE PROCESS REVIEWS

Postal Service managers are responsible for preserving and protecting official records and privacy information. In addition, managers must avoid conflicts of interest, which could affect both the public's trust and confidence in Postal Service human resource processes. Postal Service managers are also responsible for complying with existing policies and procedures regarding sexual harassment, overtime, leave, compensation and benefits, and training. An example of work conducted in this area is highlighted below:

CAPPING REPORT ON SEXUAL HARASSMENT PREVENTION MEASURES

The OIG audited sexual harassment prevention measures in 18 district offices and found their sexual harassment policies and procedures were adequate, most of the employees found responsible for sexual harassment or inappropriate actions or comments were appropriately disciplined or corrective action was taken, and most managers and supervisors found responsible for sexual harassment or inappropriate comments and actions were considered for exclusion from the Pay for Performance Program. The OIG also found the districts effectively addressed more than half of the sexual harassment complaints reviewed.

Subsequent to report issuance, postal management agreed with the OIG's recommendation to ensure that managers and supervisors address sexual harassment complaints and inap-

appropriate actions and comments of a sexual nature, and also agreed with the OIG's recommendation to document detailed evidence of actions taken to address all complaints. (LH-AR-03-011)

SPECIAL INQUIRIES TEAM ACTIVITIES

The OIG Special Inquiries Team is responsible for reviewing allegations involving Postal Service executives for misconduct, including retaliation against individuals who have previously provided the OIG with information about possible fraud, abuse, and mismanagement.

During this reporting period, the Special Inquiries Team investigated 10 allegations of reprisal, including:

- ◆ An investigation of a reprisal allegation from a complainant who alleged postal management removed her from a postmaster position for reporting fraud, waste, and abuse in her district to the Postmaster General. The investigation did not substantiate the allegation.
- ◆ An investigation of a reprisal allegation from a retired Postal Service physician who alleged that his contract was not renewed by the Postal Service and he was forced to retire because he provided information to an OIG special agent concerning alleged illegal activity by a contracted nurse. The investigation did not substantiate the allegation.

HEALTH CARE REVIEWS

Controlling workers' compensation costs continues to be key to the Postal Service's financial well being because it is self-insured and makes payments out of operating funds, which directly affects the Postal Service's net income. In FY 2003, the Postal Service paid the Department of Labor over \$847 million for workers' compensation charges, a \$62 million increase over the \$785 million in FY 2002.

The OIG assists in protecting the health and welfare of the Postal Service's workforce by conducting audits and investigations to prevent and detect fraud, waste, abuse, and mismanagement related to Postal Service health care program costs. Involvement in health care fraud investigations is vital to controlling costs related

to Postal Service health care premiums. To enhance these efforts, the OIG has partnered with the Department of Labor Office of Inspector General to conduct joint investigations of workers' compensation programs. On December 7, 2002, the OIG assumed responsibility for all new allegations of employee workers' compensation fraud within the Capital Metro area. This new area of responsibility is in addition to the OIG's jurisdiction over investigations of fraud committed by health care providers.

The OIG investigates allegations of fraud involving health care providers who are paid by, or on behalf of, the Postal Service for medical services rendered to Postal Service employees related to:

- ◆ **Federal Employees' Compensation Act.** This act is administered by the Department of Labor with costs charged back to the Postal Service.
- ◆ **Postal Service-contracted doctors and facilities.** Approximately 1,500 physicians and facilities are contracted and paid directly by the Postal Service to provide medical services to its employees.
- ◆ **Federal Employees Health Benefits Program.** The Postal Service pays 80 percent of over 830,000 full and part-time employees' insurance premiums.

In the past 6 months, the OIG completed 18 investigations and 9 proactive investigative initiatives in this area, which resulted in 2 convictions. The investigations identified federal and state violations of money laundering, conspiracy, racketeering, grand theft, and mail fraud by licensed or unlicensed health care providers. In addition, the OIG conducted two reviews of health care-related issues. Some of the OIG's more significant investigations and reviews are highlighted below:

SOUTHEAST AREA PAID OUT APPROXIMATELY \$350,000 FOR NONWORK-RELATED INJURIES

An OIG audit disclosed that officials in two districts located in the Southeast Area were proactive in managing cases of employees on the periodic roll. The audit found injury compensation officials in both districts periodically coordinated with the Office of Workers'

Compensation Programs to initiate actions to resolve case issues. However, one of the districts had difficulty in getting responses from the Office of Workers' Compensation Programs on the medical status of employees. In addition, the Postal Service may be paying medical charges for nonwork-related injuries for employees separated from employment with the Postal Service. In one district, the OIG determined that a separated employee received medical treatment for nonwork-related injuries totaling approximately \$350,000. The OIG plans to conduct a follow-up audit on this particular issue.

(HK-AR-03-003)

SAN DIEGO PHYSICIAN INDICTED FOR WORKERS' COMPENSATION FRAUD

As a result of a joint investigation by the OIG, the Department of Labor, and the California Department of Insurance, a San Diego physician was indicted on 23 counts for allegedly committing workers' compensation related fraud and perjury. The investigation revealed that the physician was submitting fraudulent

workers' compensation claims for services he had not provided. The physician received over \$22,000 in payments for medical services charged to Postal Service claimants. A San Diego Superior Court judge has suspended the physician's medical license pending the outcome of the judicial proceedings.

POSTAL UNION OFFICIAL PART OF CORRUPTION SCHEME

As part of a multi-agency task force case, the OIG investigated a corruption scheme in which a postal union official, now retired, allegedly conspired to solicit and receive kick-backs from health care providers in return for referring postal employees for medical treatment related to occupational injuries sustained in the performance of duty. To date, four individuals have been indicted; two have pled guilty; and two are scheduled for trial in November. One has been sentenced to 6 months home detention and 3 years probation and was ordered to pay restitution of nearly \$36,000 to the Department of Labor.



OVERSIGHT OF THE INSPECTION SERVICE

OVERSIGHT REVIEWS

The Inspector General Act, as amended, provides for the OIG to conduct, supervise, coordinate, and provide policy direction for the programs and operations of the Postal Service, including the Inspection Service. The Inspector General Act also gives the OIG “oversight responsibility for all activities of the Inspection Service, including any internal investigations performed by the Inspection Service.”

The OIG provides information and analyses to the Governors, Congress, and postal management regarding Inspection Service operations. During the last 6 months, the OIG completed 5 oversight reviews, as well as numerous monitoring activities, which are highlighted below:

POSTAL INSPECTION SERVICE BUDGETING PROCESS COULD BE IMPROVED

An OIG review of the Postal Inspection Service’s budgeting process found the Postal Inspection Service did not prepare a zero-based budget. The FY 2003 budget was based upon historical projections and management input. Therefore, it could not be determined if requirements had been properly identified or developed for its \$487.5 million FY 2003 budget. The OIG audit also revealed that justifications supporting \$25.1 million of non-personnel budget line items totaling \$36.8 million were not adequate. In some cases, no justifications were provided. This may have occurred because the Postal Inspection Service did not provide budget officials with adequate guidance or training for developing justifications. However, the Postal Inspection Service provided adequate justifications for \$23.8 million for eight Postal Inspection Service programs such as security, equipment, and database development.

In addition, the OIG audit determined that the eight programs were consistent with the Postal Inspection Service’s FY 2003 Annual Performance Plan. It also found the Postal Inspection Service’s Finance and Administrative Ser-

vices group tracked and monitored variances between actual and planned expenditures for their \$76.3 million non-personnel budget. The OIG did not review personnel costs or staffing because this area was being concurrently reviewed as part of another OIG audit. Postal Inspection Service management neither agreed nor disagreed with the OIG’s recommendation to establish a process to implement a zero-based budget program. However, the OIG viewed this recommendation as unresolved and plans to pursue it through formal audit resolution process. (SA-AR-03-005)

CONTROLS OVER FIREARMS COULD BE IMPROVED

The OIG issued two interim audit reports of the Postal Inspection Service’s controls over firearms. The initial interim audit concerned whether firearms reported as lost, stolen, or missing were accurately transferred from the old database to the new database system. The audit revealed the inventory data in the current database and the old database did not reconcile. Postal management stated they were aware of the variances between the old and new inventory systems, but they used data in the new database to respond to a General Accounting Office study without revealing the discrepancies.

Additionally, a physical inventory conducted in November and December 2002 did not report any discrepancies, although nine firearms listed as on hand were listed in the National Crime Information Center database as lost, stolen, or missing. The OIG recommended that postal management conduct a complete physical inventory and reconciliation of data, notify the General Accounting Office of the inventory errors, and report the most current information to the National Crime Information Center.

The OIG’s second interim audit report concerned whether the firearms purchased nationally in 1987 from Sturm, Ruger and Company, Inc., were accurately accounted for through a reconciliation of the national inventory. The audit disclosed that seven of the firearms not listed in the Postal Inspection Service inventory were reported as lost, stolen, or missing to the National Crime Information Center by the Postal Inspection Service. In addition, one of the seven firearms, reported in the National



Crime Information Center by the Postal Inspection Service in 1999, was transferred in 1995 to and is currently on hand at the United States Probation Department. Further, four firearms not in the national inventory were returned to the company for credit. The Postal Inspection Service could not provide any data to support the location of five firearms, and four firearms identified as “Returned to Manufacturer” in the current National Asset Tracking System database were not returned to the company. The importance of accountability over firearms cannot be overemphasized, considering that loss may pose serious risks to the public.

The OIG recommended Postal Inspection Service management ensure that accountability of the firearms and the associated records, as identified by the OIG as inadequate, are corrected. The OIG also made a recommendation concerning the adequacy of internal controls for firearms documentation in the Postal Inspection Service National Asset Tracking System. Although postal management neither agreed nor disagreed with the recommendations in both of these interim audit reports, actions taken or planned are responsive to the intent of the recommendations and should correct the issues identified in the reports. (SA-AR-03-002 and SA-AR-03-006)

REVIEW OF COMPLAINTS REGARDING THE INSPECTION SERVICE

The OIG’s oversight of the Inspection Service provides customers, employees, and other interested persons with an avenue to address concerns regarding the Inspection Service. At the same time, the OIG provides the Inspection Service with an unbiased review of accusations that, if left unresolved, could harm its reputation as a professional law enforcement agency and reduce the public’s confidence in the Postal Service.

INSPECTION SERVICE INTERNAL INVESTIGATIONS

The OIG conducts investigations of misconduct by senior Inspection Service personnel and monitors the conduct of internal investigations of other Inspection Service employees. These investigations are conducted when allegations of employee misconduct affect the performance of duties or when managers have information of employee misconduct.

The OIG receives information regarding Inspection Service internal investigations, including conclusions reached and recommended actions. Inspection Service internal investigations for this period included allegations of sexual misconduct, physical assault, and obstructing an internal investigation.

CUSTOMER SERVICE

EXTERNAL COMMUNICATIONS

The OIG is responsible for keeping members of Congress and the Postal Service Board of Governors fully and currently informed. The OIG keeps Congress informed by issuing Semiannual Reports to Congress, testifying at Oversight and other hearings, and briefing members and their staff on issues related to the Postal Service. The OIG regularly provides synopses of audit and management advisory reports to Congressional committees and subcommittees with oversight interest in the Postal Service. Additionally, the OIG keeps the Governors informed through regular briefings at Board meetings, activity reports from the Inspector General, and responses to requests for information.

CONGRESSIONAL TESTIMONY

Each year, since the OIG's inception, the Inspector General has testified before Congress on various matters. While the OIG did not provide testimony or written statements to Congress during this reporting period, in the past the OIG has provided testimony and statements highlighting significant work and identifying opportunities for the Postal Service to improve accountability and public trust. These testimonies and statements can be found in their entirety on the OIG's website at <http://www.uspsoig.gov>.

RESPONDING TO REQUESTS FROM CONGRESS AND THE POSTAL SERVICE GOVERNORS

The OIG provides accurate and timely responses to requests from Congress and the Postal Service Governors. The OIG responds to some of these requests by conducting audits or investigations. However, the OIG does not generally perform audits or investigations when an inquiry involves a non-systemic issue that may be resolved through existing administrative or judicial processes, such as the equal employment opportunity complaint process, contractual grievance-arbitration procedures, or the Merit Systems Protection Board. The OIG may conduct independent audits or investigations related to systemic issues affecting Postal Service

programs and operations to help ensure their economy, efficiency, and integrity.

During this 6-month reporting period, the OIG responded to 29 Congressional and Governors' inquiries. Appendix G of this report lists the OIG responses to these inquiries by subject area. Some examples of OIG work in response to Congressional and Governors' requests are highlighted below:

- ◆ The OIG received an allegation regarding whether Inspection Service employees should get scheduled overtime, holiday pay, night differential, and Sunday pay, as provided for in Title 5 of the United States Code (USC), and whether Inspection Service employees should get reimbursed for one-half of the premium for professional liability insurance, as provided for in Public Law 104-208. The OIG's review disclosed that neither the Title 5 provisions regarding special pay nor the law regarding professional liability insurance applies to the Inspection Service. Postal inspectors who work in excess of 10 hours a day, even if scheduled in advance, are not entitled to overtime. However, inspectors do receive Law Enforcement Availability Pay.
- ◆ The OIG reviewed allegations of harassment by Postal Service supervisors in a Great Lakes Area facility and found a hostile work environment might have existed for some employees due to communication failures between postal management and the employees. As a result of the review, and to address employees' concerns, Postal Service district management implemented various actions, including conducting a climate assessment to determine concerns employees might have about their work place, holding town hall meetings, and providing communication training for supervisors.
- ◆ The OIG received allegations concerning a North Carolina post office, including allegations of a hostile work environment created by postal management's failure to communicate with employees and safety and health issues in some areas of the facility. The OIG did not substantiate the allegation that a hostile work environment existed. However, the realignment



of certain positions and subsequent transfer of some employees caused some stress and depression as alleged. Postal Service district management addressed those concerns by meeting with employees.

The review substantiated allegations of health and safety hazards. The ventilation in the mailroom was inadequate for the number of people working in that area, and the heating and lighting were inadequate in the customer service area. Postal Service's management relocated the employees and services to an area that was properly ventilated and adequately cooled, purchased and installed additional lighting, and placed space heaters in the customer service area.

- ◆ The OIG reviewed allegations at a Northeast Area Bulk Mail Center regarding, among other things, supervisory personnel submitting false statements to the Postal Service and the Department of Labor Office of Workers' Compensation Programs. The OIG found that some of the statements submitted by a senior manager were inaccurate. As a result of the OIG's review, Postal Service district management provided training for the senior manager on how to properly challenge workers' compensation claims.

OIG HOTLINE PROVIDES A VITAL AND CONFIDENTIAL COMMUNICATIONS LINK

The OIG Hotline provides a vital and confidential communications link between the OIG and individuals who contact the Hotline to report allegations of fraud, waste, abuse, and mismanagement.

Responding to Hotline Inquiries

The Hotline receives complaints from employees, customers, and the general public concerning alleged violations of laws, rules, or regulations; mismanagement; waste of funds; abuse of authority; and danger to public health and safety. Complaints and allegations received by the Hotline are analyzed to identify systemic issues affecting the Postal Service, and are referred for appropriate action. The OIG also considers Hotline contacts when planning audits and projects.

During this reporting period, the Hotline received almost 9,100 contacts, some of which were addressed by the OIG in audits and investigations on issues such as waste, fraud, abuse, mismanagement, deficient postal operations, personnel matters, and other concerns. In addition:

- ◆ Twenty-four percent were addressed by the Inspection Service and involved criminal issues such as mail theft, assaults and threats, and workers' compensation fraud;
- ◆ Twenty percent were addressed by the Postal Service's Office of Consumer Advocate involving complaints related to customer service issues, particularly mail delivery;
- ◆ Fifty percent were related to miscellaneous requests for information such as ZIP Codes, postage meters, and other Postal Service-related matters; and
- ◆ Nearly 6 percent of Hotline contacts were assigned to OIG staff for further review for fraud, waste, abuse, and mismanagement.

Some examples of OIG Hotline work are highlighted here:

- ◆ Based on contacts from postal employees alleging that a postal manager created a hostile work environment, Postal Service management contracted for a climate assessment that identified numerous employee concerns specifically related to this manager. Based on the assessment results, the manager was removed from a managerial role and is no longer a supervisor.
- ◆ Post office employees in Kansas alleged that two supervisors created a hostile work environment, and the OIG substantiated the allegations against one of those supervisors. District management conducted three climate assessments to identify employee concerns and to ensure those concerns were being addressed. The final assessment revealed the climate at this post office has improved. Additionally, district management is taking steps to improve workplace communication by conducting communication work groups that include both employees and supervisors.

- ◆ A joint investigation with the Department of Labor Office of Inspector General revealed a significant number of questionable billing transactions for the Office of Workers' Compensation Program in the Chicago District. The investigation was initiated based on a Hotline allegation received from the Injury Compensation Manager for the Northern Illinois District. During this reporting period, over \$16,000 was recovered, bringing the total amount recovered in the case to over \$122,000.

The OIG Hotline is staffed from 7 a.m. to 5 p.m., Eastern Standard Time, Monday through Friday (except federal holidays). Calls can be received 24 hours a day, 7 days a week. Threats and any other potentially violent work situations are routed immediately to the Postal Police Control Center for action 24 hours a day either by an OIG Hotline analyst or through a caller-directed menu system. OIG Hotline contact information is provided in the margin to the right.

PROPOSED LEGISLATION, REGULATIONS, AND POLICIES

As required by the Inspector General Act, the OIG monitors existing and proposed legislation and regulations to advise Congress and the Governors of the impact of such legislation and regulations on Postal Service programs and operations. This reporting period, the OIG commented on the following regulation and policies.

REGULATION

39 CFR Part 230 - Rules governing compliance with subpoenas, summonses, and court orders by postal employees within the Office of Inspector General where the Postal Service, the United States, or any other federal agency is not a party.

The Postal Service amended the Code of Federal Regulations to establish the rules to govern Postal Service OIG compliance with subpoenas, summonses, and court orders where the Postal Service, the United States, or any other federal agency is not a party. These new regulations ensure the OIG's control over OIG documents. The practical advantage for the OIG

employee is that someone in the OIG who knows the work of the agency will decide whether the employee needs to produce documents or appear in court.

POSTAL SERVICE POLICIES

Comments Regarding Postal Service Whistleblower Reprisal Policy

The OIG worked with the Postal Service to strengthen procedures to protect Postal Service employees who allege reprisal after they blow the whistle on fraud, waste, and abuse. The Postal Service intends to give the procedures to unions and management associations for their review soon, and to publish the procedures early next year.

Comments Regarding USPS Purchasing Manual, Version 3, August 22, 2003

While many of the changes the OIG has proposed to the Purchasing Manual to prevent or reduce fraud have been adopted, the OIG remains concerned that three weaknesses in current postal purchasing procedures need to be addressed. Unless these areas are addressed, the OIG believes the Postal Service will remain unnecessarily exposed to fraud, waste, and abuse in its purchasing operations. The three areas are:

Adequate contractor accounting systems. As long as the Postal Service continues to award cost type contracts, it must ensure that major contractors receiving such contracts have adequate accounting systems in place to ensure the Postal Service is not improperly charged for non-postal costs. Adequate contractor accounting systems are clearly a requirement of other federal, state and local procurement models, and are consistent with the internal control structure now required by federal law for all publicly traded corporations. OIG audits have identified problems in important postal contracts that were caused by postal contractors' failure to establish such accounting systems. In some cases the failure to establish these systems made the contractors' claims virtually un-auditable, thereby creating an unacceptable risk for the Postal Service.

Suspension and debarment of contractors for fraud. Suspension and debarment are the primary federal mechanisms to protect the

OIG HOTLINE

- ◆ Toll-Free, 1-888-USPS-OIG (1-888-877-7644)
- ◆ TTY (Hearing Impaired) 1-866-OIG-TEXT (1-866-644-8398)
- ◆ To write to the OIG Hotline: ATTN: OIG Hotline 1735 North Lynn Street Arlington, VA 22209-2020
- ◆ To e-mail the OIG Hotline: hotline@usps.oig.gov
- ◆ To fax information toll-free: 1-866-756-6741

contracting process from fraudulent contractors. The OIG believes it is essential that the Postal Service follow the procedures of other federal agencies in suspending and debaring contractors for fraud. These procedures provide greater protection than the postal procedures, and have withstood repeated court challenges. While the proposed revisions make certain improvements, they still do not provide adequate protection for the Postal Service. The procedures set forth in the proposed revisions are more cumbersome and time consuming than are necessary and reflect a role for the Judicial Officer, which is inconsistent with the stated Postal Service goal to make purchasing decisions in a more expeditious and business like manner. The OIG believes that the Postal Service will remain unnecessarily exposed to fraudulent contractors unless further revisions are made.

Critical contract clauses. The OIG believes two mandatory contract clauses (for contracts over \$100,000) must be set forth in the Postal Service's Purchasing Manual. First, contractors must be required to certify critical information regarding business ethics and integrity and past performance. Such information is routinely required by other federal, state, and local agencies and will allow postal contracting officials to make a more informed determination of contractor responsibility and capability. Second, postal contracts should have an adequate access to records clause that will allow Postal Service officials, including the OIG, to have access to important contractor books and records. The OIG has identified instances where postal officials have waived this requirement, or have agreed to significant modifications of the clause that would result in the compromise of the OIG's ability to conduct audits in accordance with good business practices and professional standards.

The OIG believes that, unless the three matters set forth above are successfully resolved, weaknesses will remain in postal purchasing procedures. In response to the OIG's continued advocacy for the above matters, the Postal Service Vice President for Supply Management concurred with the OIG's position and directed his staff to work toward the implementation of OIG proposals. On September 29, 2003, the

Manager, Supply Management Infrastructure confirmed that the purchasing staff and the OIG were in substantial agreement and stated that the staff:

- ◆ will work to determine how best to incorporate OIG suggestions regarding contractor accounting systems;
- ◆ is currently drafting new policies for suspension and debarment incorporating the OIG's suggested changes, including requiring the offeror to make certifications concerning whether they are currently suspended or debarred or under investigation regarding suspension or debarment, requiring "higher level" approval before awarding a contract to a contractor debarred by the General Services Administration; and
- ◆ will make the examination of records clause mandatory in all contracts, and require that any deviations only occur after consultation with Postal Service counsel and the OIG.

FREEDOM OF INFORMATION ACT REQUESTS

The OIG is committed to making all final audit and management advisory reports available to the public, except as necessary to protect the Postal Service's interest. The OIG website, <http://www.uspsoig.gov>, contains all releasable final audit and management reports.

Before posting a report on the website, the OIG reviews each report in accordance with the Freedom of Information Act, the Privacy Act, and the Postal Reorganization Act. The OIG may coordinate its review with Postal Service management and attorneys. In deciding what information to release, the OIG balances the public's right to access federal agency records with individual privacy rights as well as the Postal Service's need to safeguard certain protected information. As a result, OIG reports may be withheld in whole or in part to protect privacy as well as proprietary or confidential information. The OIG responds to many written requests for reports and other information under the Freedom of Information Act. As of July 15, 2002, the OIG began deciding all OIG-related Freedom of Information Act appeals to more

efficiently safeguard individual privacy and sensitive OIG information while ensuring maximum access. Freedom of Information Act appeals are handled by the OIG Legal Services Team and such authority is outlined under Title 39 Code of Federal Regulations § 230.5(e).

In this reporting period, the OIG processed 61 Freedom of Information Act requests.

INSPECTOR GENERAL SUBPOENAS

Pursuant to the Inspector General Act, the Inspector General is authorized to issue subpoenas for audits and investigations for which the OIG has jurisdiction. This includes authority to issue subpoenas in support of certain investigations of the Inspection Service. An Inspector General subpoena is a valuable audit and investigative tool. It enables the OIG to secure documentary information and evidence that, unlike grand jury subpoenas, can be readily used in civil and administrative proceedings, as well as criminal cases.

Inspector General subpoenas are not self-enforcing. If a subpoena is not complied with, OIG attorneys and special agents and Postal Inspectors first attempt to negotiate with the subpoena recipient to obtain the requested documents. If this is not successful, the OIG seeks enforcement in United States district court. The courts generally enforce the subpoena as long as the inquiry is within the authority of the agency,

the information sought is reasonably relevant to the agency's inquiry, and the demand is not unduly burdensome.

Since its inception, the OIG has been successful in enforcing every subpoena that has been challenged in court. Subpoena requests undergo a rigorous review process. The review is comprehensive in terms of scope of review, level of supervisory review, and signature authority. All subpoenas are processed at OIG headquarters and undergo thorough, progressive investigative and legal reviews. The subpoena process requires OIG special agents and Postal Inspectors to submit a written justification with their subpoena request. After supervisory review, the OIG legal staff evaluates each subpoena to ensure the subpoena can withstand a legal challenge. The General Counsel signs the subpoenas. This reporting period, the OIG issued 168 subpoenas.

During this reporting period, OIG Legal Services launched an electronic subpoena processing system. The system is for use by OIG investigative and legal staff. The system is designed to streamline the process of creating a subpoena request and submitting it for review and approval. Legal Services has had great success in processing subpoena requests expeditiously using this new system and plans to offer its use to the Postal Inspection Service in the near future.

FREEDOM OF INFORMATION ACT REQUESTS

For the period April 1, 2003, through September 30, 2003

OIG Actions	Number of Requests
Carryover from prior period	8
Received during the period	58
Total on hand during the period	66
Processed during the period	
Released	30
Withheld	9
Referred to Postal Service or other agency	17
Otherwise closed*	5
Total processed during the period	61
Balance at end of the period (Pending)	5

**Otherwise closed includes no responsive documents, improper requests, requests withdrawn, etc.*

FREEDOM OF INFORMATION ACT APPEALS

For the period April 1, 2003, through September 30, 2003

OIG Actions	Number of Appeals
Total appealed	5
Total upheld	4
Total denied	1



GOALS AND STRATEGIES

STRATEGIC GOALS

In March 2001, the OIG published a revised Five-Year Strategic Plan for FYs 2001-2005. Each aspect of this plan is in accordance with the President's management agenda and the principles of the Government Performance and Results Act. The OIG's strategic plan is outcome-oriented and focuses on the fundamental mission to increase the efficiency and effectiveness of Postal Service programs and operations, while eliminating and preventing fraud, waste, abuse, and mismanagement. This plan was designed to address the strategic direction and objectives outlined in the Postal Service's Strategic Plan for FYs 2001-2005, which reflected a growing uncertainty about the impact of emerging technologies, changing customer requirements, and competitors' actions on mail volume and postal revenues.

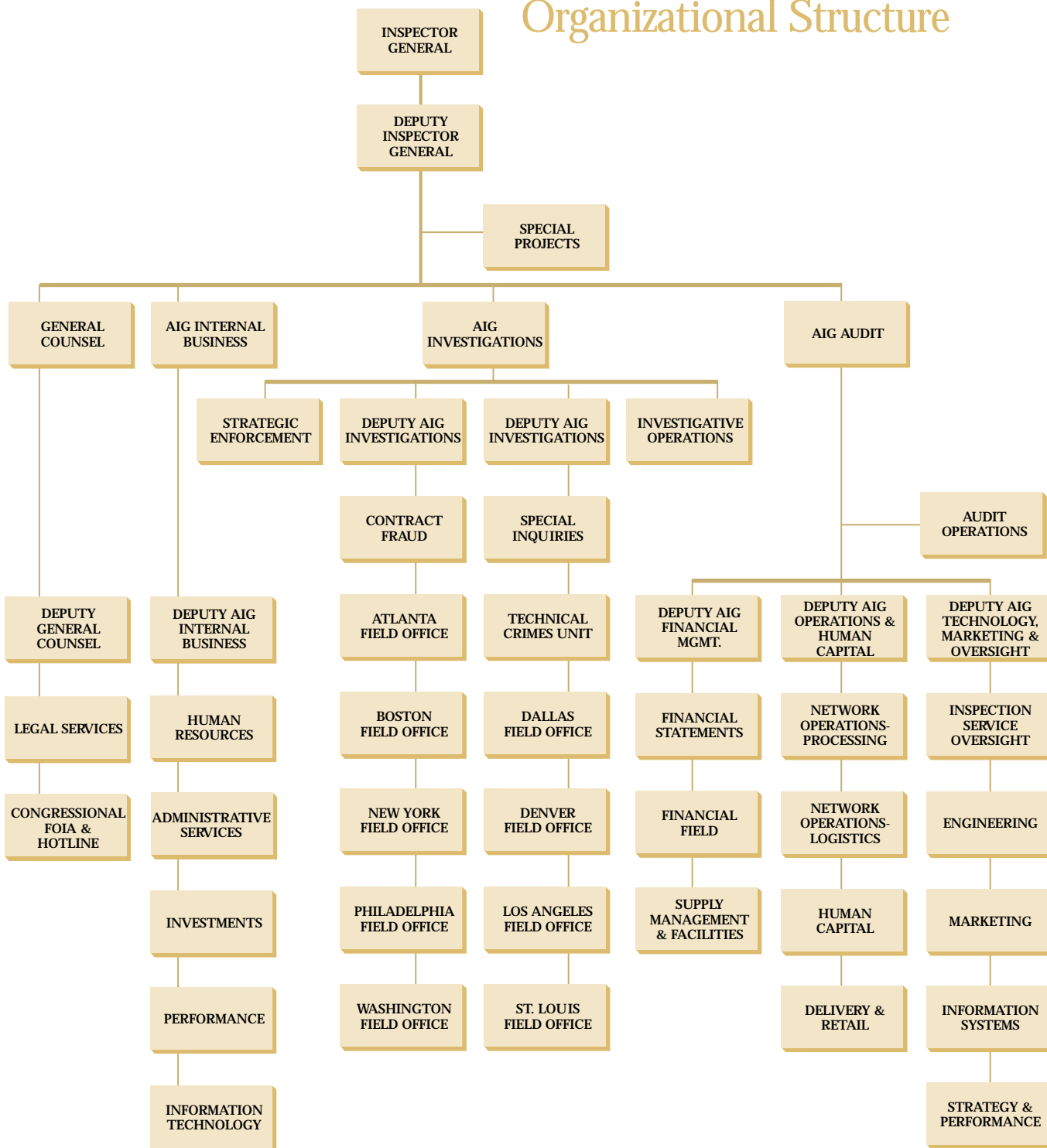
The OIG begins its strategic planning process by determining the major management issues facing the Postal Service. The OIG then assesses Postal Service operations and activities, broadly defines realistic goals, sets priorities in line with the Postal Service business vision, and develops effective strategies and action plans that align the OIG's activities to best help the Postal Service improve its effectiveness and efficiency. The OIG then measures progress in meeting those goals; and updates and revises goals, strategies, and performance measures to continually align its efforts with the changing business needs of the Postal Service.

The OIG's current strategic plan identified two goals: to provide timely, accurate, and useful information that contributes to the efficiency and effectiveness of the Postal Service; and to maximize resources and leverage cutting-edge technology in support of its mission. The OIG strategic plan will be updated during FY 2004 to reflect new organizational leadership and focus.





Office of Inspector General Organizational Structure





APPENDIX A

Reports Issued to Postal Service Management

For the period April 1, 2003, through September 30, 2003

OVERVIEW

Office of Inspector General

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

SUMMARY

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

Principal Area	Number of Reports Issued	Questioned Costs	Unsupported Costs ¹	Recommend Funds Put to Better Use	Unrecoverable Costs	Additional Potential Revenue
Performance	14	\$0	\$0	\$179,020,474	\$1,124,000	\$0
Financial Management	258	\$69,963,257	\$8,499,479	\$90,535	\$1,000	\$105,161
Technology	14	\$0	\$0	\$0	\$0	\$0
Labor Management	5	\$0	\$0	\$0	\$0	\$0
Oversight	5	\$0	\$0	\$0	\$0	\$0
Grand Total	296	\$69,963,257	\$8,499,479	\$179,111,009	\$1,125,000	\$105,161

Definitions

Questioned Costs -

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

Unsupported Costs -

A cost that is not supported by adequate documentation.

Funds Put to Better Use -

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

Unrecoverable Costs -

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

Potential Additional Revenue -

Amounts from revenue generating functions such as retail sales, rent, leases, or fees that were underpaid or not realized.

¹ Unsupported Costs are included with the amounts shown as Questioned Costs.

² Represents potential additional revenue.

³ Represents unrecoverable costs.



REPORT LISTING

The following is a list of each report grouped by core business processes and enabling functions.

PERFORMANCE

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
ACCEPTING AND PROCESSING						
AC-AR-03-006	Enhanced Carrier Route Standard Mail Worksharing Discounts	\$0	\$0	\$0	\$0	9/29/03
AC-AR-03-007	Inventory Management - Maintenance Stockrooms	\$0	\$0	\$131,148,139	\$0	9/30/03
AO-AR-03-001	Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District	\$0	\$0	\$9,256,376	\$0	7/31/03
AO-AR-03-002	Efficiency of Work Performed by Business Mail Entry Clerks at the San Francisco Business Mail Entry Unit	\$0	\$0	\$6,963,499	\$0	9/25/03
AO-MA-03-001 (R)	Enforcement of Export Controls	\$0	\$0	\$0	\$0	4/17/03
MARKETING						
OE-AR-03-004	Mail Recovery Center Auctions	\$0	\$0	\$0	\$0	5/13/03
OE-AR-03-005	Postal Service Postmark America Store	\$0	\$0	\$0	\$0	7/31/03
OE-MA-03-006	Follow-up Review of the Citizens' Stamp Advisory Committee	\$0	\$0	\$0	\$0	8/4/03
TRANSPORTATION AND DELIVERY						
TD-AR-03-010	Highway Network Scheduling - Southwest Area	\$0	\$0	\$5,989,082	\$0	7/11/03
TD-AR-03-011	City Carrier Productivity - Letter Carrier Delays in the Baltimore District	\$0	\$0	\$0	\$0	7/28/03
TD-AR-03-012	Voyager Card Control Weaknesses - National Analysis	\$0	\$0	\$1,011,600	\$1,124,000 ²	9/8/03
TD-AR-03-013	Highway Network Scheduling - Western Area	\$0	\$0	\$2,721,530	\$0	9/23/03
TD-AR-03-014	Highway Network Scheduling - Southeast Area	\$0	\$0	\$11,352,881	\$0	9/26/03
TD-AR-03-015	Highway Network Scheduling - Eastern Area	\$0	\$0	\$10,577,367	\$0	9/30/03
PERFORMANCE TOTALS		\$0	\$0	\$179,020,474	\$1,124,000	

FINANCIAL MANAGEMENT

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FISCAL YEAR 2003 FINANCIAL INSTALLATION AUDITS						
FF-AR-03-152	Memphis Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-154	Vincennes Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-157	Colleyville Self-Service Postal Center	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-158	Milwaukee Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-161	Fort Worth Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-163	Hammond Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-164	New Brunswick Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-165	Farmingdale Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-170	Fort McNair Station	\$0	\$0	\$0	\$0	4/10/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FF-AR-03-175	Fort Worth Stamp Distribution and District Accounting Offices	\$0	\$0	\$0	\$0	4/10/03
FF-AR-03-177	Irvine Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/10/03
FF-AR-03-171	Hollywood Self-Service Postal Center	\$0	\$0	\$0	\$0	4/11/03
FF-AR-03-166	New Ringgold Post Office	\$0	\$0	\$0	\$0	4/15/03
FF-AR-03-169	Valley Forge Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/15/03
FF-AR-03-172	Phoenix Main Window Office	\$0	\$0	\$0	\$0	4/15/03
FF-AR-03-173	Tontitown Post Office	\$0	\$0	\$0	\$0	4/15/03
FF-AR-03-180	Rydal Branch	\$0	\$0	\$0	\$0	4/17/03
FF-AR-03-097	Moneta Post Office	\$0	\$0	\$0	\$0	4/24/03
FF-AR-03-174	Ellinwood Post Office	\$0	\$0	\$0	\$0	4/24/03
FF-AR-03-176	Hollins College Branch	\$0	\$0	\$0	\$0	4/24/03
FF-AR-03-178	Piney Woods Post Office	\$0	\$0	\$0	\$0	4/24/03
FF-AR-03-192	Worth Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/24/03
FF-AR-03-130	Simi Valley Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/30/03
FF-AR-03-150	Garden Grove Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/30/03
FF-AR-03-205	Baton Rouge Business Mail Entry Unit	\$0	\$0	\$0	\$0	4/30/03
FF-AR-03-153	Lynchburg Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/2/03
FF-AR-03-160	Klander Self-Service Postal Center	\$0	\$0	\$0	\$0	5/2/03
FF-AR-03-185	Holland Branch Contract Postal Unit	\$0	\$0	\$0	\$0	5/2/03
FF-AR-03-183	Swedesboro Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/7/03
FF-AR-03-197	Fort Worth Post Office	\$0	\$0	\$0	\$0	5/7/03
FF-AR-03-200	Wilsonville Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/7/03
FF-AR-03-208	Seattle Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/8/03
FF-AR-03-213	Parkway Drug Contract Postal Unit	\$0	\$0	\$0	\$0	5/8/03
FF-AR-03-215	Fort Lauderdale Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/8/03
FF-AR-03-207	Los Angeles Main Post Office	\$0	\$0	\$0	\$0	5/13/03
FF-AR-03-182	John A. Farley Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/14/03
FF-AR-03-187	Omaha Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/14/03
FF-AR-03-188	Indianapolis Self-Service Postal Center #4	\$0	\$0	\$0	\$0	5/14/03
FF-AR-03-202	Yazoo City Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/14/03
FF-AR-03-204	Royal Oak Business Mail Entry Unit	\$0	\$0	\$0	\$1,000 ²	5/14/03
FF-AR-03-193	Lenoir Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/16/03
FF-AR-03-199	Columbus Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/16/03
FF-AR-03-201	Cleveland Main Office Window Service	\$0	\$0	\$0	\$0	5/16/03
FF-AR-03-212	Williamstown Post Office	\$0	\$0	\$0	\$1,200 ³	5/16/03
FF-AR-03-214	Downers Grove Post Office	\$0	\$0	\$0	\$0	5/16/03
FF-AR-03-226	Portland Main Post Office	\$0	\$0	\$0	\$0	5/16/03
FF-AR-03-224	Kent Main Post Office	\$0	\$0	\$0	\$0	5/20/03
FF-AR-03-242	Alameda Station	\$0	\$0	\$0	\$0	5/20/03
FF-AR-03-244	Reno Self-Service Postal Center	\$0	\$0	\$0	\$0	5/20/03
FF-AR-03-229	Fayetteville Self-Service Postal Center	\$0	\$0	\$0	\$0	5/21/03
FF-AR-03-206	Hatboro Main Post Office	\$0	\$0	\$0	\$0	5/21/03
FF-AR-03-209	Dyer Post Office	\$0	\$0	\$0	\$0	5/21/03
FF-AR-03-228	Hazleton Post Office	\$0	\$0	\$0	\$0	5/21/03
FF-AR-03-240	Cincinnati Self-Service Postal Center	\$0	\$0	\$0	\$0	5/21/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FF-AR-03-189	Salt Lake City Business Mail Entry Center #4	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-217	Mariners Harbor Post Office	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-218	Sun Valley Station	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-220	Scottsdale Self-Service Postal Center	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-221	Salt Lake City Main Post Office	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-233	West Caldwell Post Office	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-235	Southside Station	\$0	\$0	\$0	\$0	5/22/03
FF-AR-03-211	Hartford Main Post Office	\$0	\$0	\$0	\$0	5/23/03
FF-AR-03-222	Eagle Station	\$0	\$0	\$0	\$0	5/23/03
FF-AR-03-225	Gaines Post Office	\$0	\$0	\$0	\$0	5/23/03
FF-AR-03-232	Glendale Self-Service Postal Center	\$0	\$0	\$0	\$0	5/23/03
FF-AR-03-246	Annandale Business Mail Entry Unit Service	\$0	\$0	\$0	\$0	5/23/03
FF-AR-03-190	Indianapolis Main Office Window	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-223	Ford Pharmacy Contract Postal Unit	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-227	Tucson Davis Monthan Post Office	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-230	Brookfield Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-237	Reading Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-239	Pattonburg Post Office	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-243	Atlanta Stamp Distribution and District Accounting Offices	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-245	Illinois Institute of Technology Contract Postal Unit #50	\$0	\$0	\$0	\$0	5/28/03
FF-AR-03-231	McClellanville Post Office	\$0	\$0	\$0	\$0	5/29/03
FF-AR-03-234	Houston Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/29/03
FF-AR-03-236	Nashville Stamp Distribution Office and Tennessee District Accounting Office	\$0	\$0	\$0	\$0	5/29/03
FF-AR-03-241	White Plains Stamp Distribution Office and Westchester District Accounting Office	\$0	\$0	\$0	\$0	5/29/03
FF-AR-03-251	Brandon Business Mail Entry Unit	\$0	\$0	\$0	\$0	5/29/03
FF-AR-03-184	Santa Ana Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/5/03
FF-AR-03-186	Woodland Hills Post Office	\$0	\$0	\$0	\$0	6/5/03
FF-AR-03-247	Pleasantville Post Office	\$0	\$0	\$0	\$0	6/5/03
FF-AR-03-248	Riceboro Post Office	\$0	\$0	\$0	\$0	6/5/03
FF-AR-03-250	Jamestown Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/5/03
FF-AR-03-252	Cincinnati Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/10/03
FF-AR-03-263	Myrtle Beach Main Post Office	\$0	\$0	\$0	\$0	6/10/03
FF-AR-03-253	Naperville Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/18/03
FF-AR-03-258	Portal Post Office	\$0	\$0	\$0	\$0	6/18/03
FF-AR-03-260	Otoe Post Office	\$0	\$0	\$0	\$0	6/18/03
FF-AR-03-255	Newburgh Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/19/03
FF-AR-03-259	Hicksville Post Office	\$0	\$0	\$0	\$0	6/19/03
FF-AR-03-257	Worth Post Office	\$0	\$0	\$0	\$0	6/24/03
FF-AR-03-219	Chicago Cardiss Collins Postal Store	\$0	\$0	\$0	\$0	6/25/03
FF-AR-03-272	Columbia Falls Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/25/03
FF-AR-03-282	Jersey City Main Office	\$0	\$0	\$0	\$0	6/25/03
FF-AR-03-271	Pearland Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/26/03
FF-AR-03-273	Indianapolis Stamp Distribution Office	\$0	\$0	\$0	\$0	6/26/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FF-AR-03-274	Greenville Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/26/03
FF-AR-03-283	Denver Business Mail Entry Unit	\$0	\$0	\$0	\$0	6/26/03
FF-AR-03-261	Nevada Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/1/03
FF-AR-03-268	The Photory Contract Postal Unit	\$0	\$0	\$0	\$0	7/1/03
FF-AR-03-275	Cherokee Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/1/03
FF-AR-03-284	Mount Morris Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/1/03
FF-AR-03-285	Richmond Main Post Office Windows Operations	\$0	\$0	\$0	\$22,524 ³	7/1/03
FF-AR-03-277	Milwaukee Stamp Distribution Office	\$0	\$0	\$0	\$0	7/2/03
FF-AR-03-278	Manchester Stamp Distribution Office	\$0	\$0	\$0	\$0	7/2/03
FF-AR-03-280	Des Moines Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/2/03
FF-AR-03-254	Ocean Beach Station	\$0	\$0	\$0	\$0	7/3/03
FF-AR-03-256	Gustine Post Office	\$0	\$0	\$0	\$0	7/3/03
FF-AR-03-262	Folsom Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/3/03
FF-AR-03-238	Fenton Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/7/03
FF-AR-03-287	Denver Downtown Post Office	\$0	\$0	\$0	\$0	7/7/03
FF-AR-03-168	Waite Park Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/10/03
FF-AR-03-181	Wyaconda Post Office	\$0	\$0	\$0	\$0	7/10/03
FF-AR-03-203	Minneapolis Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/10/03
FF-AR-03-267	Clarkson Contract Postal Unit	\$0	\$0	\$0	\$0	7/10/03
FF-AR-03-279	Arcadia Post Office	\$0	\$0	\$0	\$0	7/10/03
FF-AR-03-286	Edison Post Office	\$0	\$0	\$0	\$0	7/10/03
FF-AR-03-281	Holly Post Office	\$0	\$0	\$0	\$0	7/11/03
FF-AR-03-288	Wallace Post Office	\$0	\$0	\$0	\$0	7/11/03
FF-AR-03-191	Ventura Main Post Office	\$0	\$0	\$0	\$0	7/15/03
FF-AR-03-196	Margaret L. Sellers Main Post Office	\$0	\$0	\$0	\$0	7/15/03
FF-AR-03-295	New York Main Office	\$0	\$0	\$0	\$38,476 ³	7/15/03
FF-AR-03-198	Mundelein Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/16/03
FF-AR-03-300	Cedar Elm Self-Service Postal Center	\$0	\$0	\$0	\$0	7/17/03
FF-AR-03-302	Huntington Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/17/03
FF-AR-03-292	Little Rock Stamp Distribution Office and Arkansas District Accounting Office	\$0	\$0	\$0	\$0	7/22/03
FF-AR-03-297	Stockton Self-Service Postal Center	\$0	\$0	\$0	\$0	7/22/03
FF-AR-03-299	Captain Video Contract Postal Unit	\$0	\$0	\$0	\$0	7/22/03
FF-AR-03-301	Farmingdale Post Office	\$0	\$0	\$0	\$0	7/22/03
FF-AR-03-308	South Hackensack Branch	\$0	\$0	\$0	\$0	7/24/03
FF-AR-03-304	Oklahoma City Self-Service Postal Center #78	\$0	\$0	\$0	\$0	7/25/03
FF-AR-03-311	Baxter Contract Postal Unit	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-313	Berea Business Mail Entry Unit	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-316	West Haven Contract Postal Unit	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-294	Festus Post Office	\$0	\$0	\$0	\$0	7/31/03
FF-AR-03-298	Winder Post Office	\$0	\$0	\$0	\$0	7/31/03
FF-AR-03-315	Oklahoma City Self-Service Postal Center #77	\$0	\$0	\$0	\$0	7/31/03
FF-AR-03-249	Wausau Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/1/03
FF-AR-03-290	Lake Saint George Contract Postal Unit	\$0	\$0	\$0	\$0	8/1/03
FF-AR-03-293	Green Bay Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/1/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FF-AR-03-296	Corpus Christi Self-Service Postal Center	\$0	\$0	\$0	\$0	8/1/03
FF-AR-03-303	Texarkana Self-Service Postal Center	\$0	\$0	\$0	\$0	8/1/03
FF-AR-03-310	Casper Downtown Station	\$0	\$0	\$0	\$0	8/1/03
FF-AR-03-305	Scranton Post Office	\$0	\$0	\$0	\$0	8/5/03
FF-AR-03-306	Station A	\$0	\$0	\$0	\$0	8/5/03
FF-AR-03-309	Phoenix Stamp Distribution Office and Arizona District Accounting Office	\$0	\$0	\$0	\$0	8/7/03
FF-AR-03-322	West Sacramento Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/7/03
FF-AR-03-323	Boise Stamp Distribution Office and Spokane District Accounting Office	\$0	\$0	\$0	\$0	8/7/03
FF-AR-03-314	Farr's Stationers Contract Postal Unit	\$0	\$0	\$0	\$0	8/8/03
FF-AR-03-338	Merrifield Post Office	\$0	\$0	\$0	\$19,449 ³	8/8/03
FF-AR-03-336	Las Vegas Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/12/03
FF-AR-03-317	Sycamore Post Office	\$0	\$0	\$0	\$0	8/13/03
FF-AR-03-332	Midtown Station	\$0	\$0	\$0	\$1,047 ³	8/13/03
FF-AR-03-333	Pittsburgh Stamp Distribution Office	\$0	\$0	\$0	\$0	8/13/03
FF-AR-03-307	Kayenta Post Office	\$0	\$0	\$0	\$0	8/14/03
FF-AR-03-312	Avon Park Main Office	\$0	\$0	\$0	\$0	8/14/03
FF-AR-03-342	Tampa Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/14/03
FF-AR-03-324	Eastside Station Post Office	\$0	\$0	\$0	\$0	8/12/03
FF-AR-03-325	Memphis Self-Service Postal Center #70	\$0	\$0	\$0	\$0	8/19/03
FF-AR-03-331	Oakland Stamp Distribution Office	\$0	\$0	\$0	\$0	8/19/03
FF-AR-03-335	Albuquerque Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/19/03
FF-AR-03-339	Charlotte Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/19/03
FF-AR-03-326	Decatur Self-Service Postal Center	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-327	Boring Post Office	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-329	Tahoe Valley Station	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-337	Boyd's Pharmacy Station #4 Contract Postal Unit	\$0	\$0	\$0	\$0	8/20/0
FF-AR-03-340	Duluth Self-Service Postal Center	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-344	Arispe Main Post Office	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-350	Nikiski Contract Postal Unit	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-351	Nenana Post Office	\$0	\$0	\$0	\$0	8/20/03
FF-AR-03-328	Valentine Agency Contract Postal Unit	\$0	\$0	\$0	\$0	8/21/03
FF-AR-03-330	Dubuque Main Post Office	\$0	\$0	\$0	\$1,980 ³	8/21/03
FF-AR-03-334	Warsaw Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/21/03
FF-AR-03-345	Leadville Post Office	\$0	\$0	\$0	\$0	8/21/03
FF-AR-03-348	Dulles Business Mail Entry Unit	\$0	\$0	\$0	\$0	8/21/03
FF-AR-03-346	Marion Post Office	\$0	\$0	\$0	\$4,865 ³	8/26/03
FF-AR-03-352	Houston Post Office	\$0	\$0	\$0	\$0	8/26/03
FF-AR-03-357	Avon Lake Post Office	\$0	\$0	\$0	\$2,220 ³	8/26/03
FF-AR-03-343	Carabella Post Office	\$0	\$0	\$0	\$0	9/2/03
FF-AR-03-354	Amherst Branch	\$0	\$0	\$0	\$0	9/2/03
FF-AR-03-356	Southern Maryland Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/2/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FF-AR-03-355	Mount Pleasant Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/4/03
FF-AR-03-353	Chimacum Main Post Office	\$0	\$0	\$0	\$0	9/5/03
FF-AR-03-358	Atlanta Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/5/03
FF-AR-03-363	Paauiilo Post Office	\$0	\$0	\$0	\$0	9/11/03
FF-AR-03-361	Wilmington Post Office	\$0	\$0	\$0	\$0	9/12/03
FF-AR-03-349	Escondido Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/23/03
FF-AR-03-360	Executive Office Products Contract Postal Unit	\$0	\$0	\$0	\$0	9/23/03
FF-AR-03-365	Hillcrest Station	\$0	\$0	\$0	\$0	9/23/03
FF-AR-03-347	Wilmington Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/24/03
FF-AR-03-366	Calumet Main Office	\$0	\$0	\$0	\$0	9/24/03
FF-AR-03-367	Columbus Main Office	\$0	\$0	\$0	\$0	9/24/03
FF-AR-03-371	Philadelphia Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/29/03
FF-AR-03-372	Honolulu Business Mail Entry Unit	\$0	\$0	\$0	\$0	9/29/03
FF-AR-03-359	Lansing Main Office Window	\$0	\$0	\$0	\$8,415 ³	9/30/03
FF-AR-03-364	Fox Creek Station	\$0	\$0	\$0	\$1,639 ³	9/30/03
FF-AR-03-368	Mira Vista Station	\$0	\$0	\$0	\$0	9/30/03
FF-AR-03-369	General Mail Facility Finance Station	\$0	\$0	\$0	\$3,346 ³	9/30/03
FF-AR-03-370	San Juan Stamp Distribution Office	\$0	\$0	\$0	\$0	9/30/03

FINANCIAL RELATED

FF-AR-03-167	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Albuquerque District	\$0	\$0	\$0	\$0	4/8/03
FF-AR-03-179	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Greater Indiana District	\$0	\$0	\$0	\$0	4/11/03
FF-AR-03-194	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - South Florida District	\$0	\$0	\$0	\$0	4/29/03
FF-AR-03-195	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Spokane District	\$0	\$0	\$0	\$0	4/29/03
FF-AR-03-210	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - South Georgia District	\$0	\$0	\$0	\$0	5/8/03
FF-AR-03-216	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - New Hampshire District	\$0	\$0	\$0	\$0	5/8/03
FF-AR-03-264	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Alabama District	\$0	\$0	\$0	\$0	6/18/03
FF-AR-03-265	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Louisiana District	\$0	\$0	\$0	\$0	6/18/03
FF-AR-03-266	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Boston District	\$0	\$0	\$0	\$0	6/18/03
FF-AR-03-269	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Arkansas District	\$0	\$0	\$0	\$0	6/23/03
FF-AR-03-270	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Mid-America District	\$0	\$0	\$0	\$0	6/23/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
FF-AR-03-276	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Columbus District	\$0	\$0	\$0	\$0	6/25/03
FF-AR-03-289	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Oklahoma District	\$0	\$0	\$0	\$0	7/9/03
FF-AR-03-291	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Dakotas District	\$0	\$0	\$0	\$0	7/9/03
FF-AR-03-318	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Triboro District	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-319	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Middlesex-Central District	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-320	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Maine District	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-321	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Western New York District	\$0	\$0	\$0	\$0	7/29/03
FF-AR-03-341	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Honolulu District	\$0	\$0	\$0	\$0	8/12/03
FF-AR-03-362	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Northern New Jersey District	\$0	\$0	\$0	\$0	9/11/03
FF-AR-03-373	Audit of Statistical Tests for Fiscal Year 2003 Cost and Revenue Analysis - Westchester District	\$0	\$0	\$0	\$0	9/30/03
FT-AR-03-009	Employee Accounts Receivable	\$0	\$0	\$0	\$0	5/12/03
FT-AR-03-010	Government Performance and Results Act Implementation at the United States Postal Service	\$0	\$0	\$0	\$0	6/20/03
FT-AR-03-011	Propriety of Postal Service Utility Payments	\$36,714	\$0	\$90,535	\$0	8/21/03
FT-AR-03-012	Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data	\$0	\$0	\$0	\$0	9/10/03
FT-AR-03-013	Segregation of Duties Over Real Estate Tax Payment Schedules for Leased Facilities	\$0	\$0	\$0	\$0	9/30/03
FISCAL YEAR 2003 PROTECTIVE REVIEWS						
PR-MA-03-001	Woburn Center Station	\$0	\$0	\$0	\$0	6/13/03
PR-MA-03-002	Woodside Plaza Station	\$0	\$0	\$0	\$0	6/19/03
PR-MA-03-003	Costa Mesa Main Post Office	\$0	\$0	\$0	\$0	7/25/03
PR-MA-03-004	Upper Marlboro Station	\$0	\$0	\$0	\$0	7/25/03
PR-MA-03-005	Hazelwood Station	\$0	\$0	\$0	\$0	8/13/03
PR-MA-03-006	Colora, Maryland Post Office	\$0	\$0	\$0	\$0	8/27/03
PR-MA-03-007	Stafford Post Office	\$0	\$0	\$0	\$0	8/29/03
PR-MA-03-008	Bel Air Post Office	\$0	\$0	\$0	\$0	9/4/03
PR-MA-03-009	Rome, Georgia Post Office	\$0	\$0	\$0	\$0	9/8/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
PR-MA-03-010	Bowie Post Office	\$0	\$0	\$0	\$0	9/10/03
PR-MA-03-011	Owings Mills Post Office	\$0	\$0	\$0	\$0	9/11/03
PR-MA-03-012	Southside Post Office	\$0	\$0	\$0	\$0	9/15/03
PR-MA-03-013	Chatsworth, Georgia Post Office	\$0	\$0	\$0	\$0	9/26/03
PR-MA-03-014	Azusa Post Office	\$0	\$0	\$0	\$0	9/29/03
PR-MA-03-015	Uncasville Post Office	\$0	\$0	\$0	\$0	9/30/03
CONTRACTING AND FACILITIES						
CA-AR-03-002	Common Area Maintenance Charges	\$0	\$0	\$0	\$0	7/15/03
CA-CAR-03-014	Evaluation of Equitable Adjustment	\$703,466	\$0	\$0	\$0	5/6/03
CA-CAR-03-015	Evaluation of Proposal	\$60,825,861	\$8,414,595	\$0	\$0	5/6/03
CA-CAR-03-016	Evaluation of Lease Costs	\$13,848	\$0	\$0	\$0	5/19/03
CA-MA-03-008	Supplier Certification	\$0	\$0	\$0	\$0	6/20/03
CA-MA-03-009	Management of Facility Lease Program	\$0	\$0	\$0	\$0	9/30/03
IR-CAR-03-001	Evaluation of System	\$0	\$0	\$0	\$0	6/20/03
IR-CAR-03-002	Evaluation of Incurred Costs	\$0	\$0	\$0	\$0	7/15/03
IR-CAR-03-003	Evaluation of Incurred Costs	\$811,589	\$0	\$0	\$0	7/15/03
IR-CAR-03-004	Evaluation of Incurred Costs	\$0	\$0	\$0	\$0	7/31/03
IR-CAR-03-005	Evaluation of Equitable Adjustment	\$0	\$0	\$0	\$0	8/12/03
IR-CAR-03-006	Evaluation of Proposal	\$7,289,600	\$0	\$0	\$0	8/12/03
IR-CAR-03-007	Evaluation of Incurred Costs	\$0	\$0	\$0	\$0	8/19/03
IR-CAR-03-008	Evaluation of Lease Operating Costs	\$87,947	\$84,884	\$0	\$0	9/22/03
IR-CAR-03-009	Evaluation of Interim Invoices	\$0	\$0	\$0	\$0	9/25/03
IR-CAR-03-010	Evaluation of Termination Settlement	\$95,663	\$0	\$0	\$0	9/26/03
IR-CAR-03-011	Evaluation of Equitable Adjustment	\$98,569	\$0	\$0	\$0	9/30/03
FINANCIAL MANAGEMENT TOTALS		\$ 69,963,257	\$8,499,479	\$90,535	\$106,161	

TECHNOLOGY

INFORMATION SYSTEMS						
IS-AR-03-005	General Controls	\$0	\$0	\$0	\$0	5/12/03
IS-AR-03-006	Server Security Testing	\$0	\$0	\$0	\$0	8/15/03
IS-AR-03-007	Mainframe Product Conversion and Implementation Process	\$0	\$0	\$0	\$0	8/15/03
IS-AR-03-008	General Controls	\$0	\$0	\$0	\$0	9/30/03
IS-CS-03-002	Server Security Testing	\$0	\$0	\$0	\$0	4/30/03
IS-CS-03-003	General Controls	\$0	\$0	\$0	\$0	9/29/03
OE-MA-03-004	Warehousing of New and Used Computer Equipment in Raleigh, North Carolina	\$0	\$0	\$0	\$0	4/9/03
ECOMMERCE						
OE-AR-03-006	Retail Data Mart System - Data Integrity and Expected Benefits	\$0	\$0	\$0	\$0	9/10/03
OE-AR-03-007	Financial Performance of eCommerce Initiatives - NetPost Services Program	\$0	\$0	\$0	\$0	9/30/03
OE-MA-03-005	Postal Service's Procedures to Validate Change-of-Address Orders	\$0	\$0	\$0	\$0	5/21/03

Report Number	Subject Title/ Project Type	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Other	Issue Date
DEVELOPMENTAL						
DA-AR-03-004	Follow-up on the Information Platform Program	\$0	\$0	\$0	\$0	5/7/03
DA-AR-03-005	Wide Field of View Camera Program	\$0	\$0	\$0	\$0	6/18/03
DA-AR-03-006	Operational Status of the Mailing Evaluation, Readability, and Lookup Instrument Program	\$0	\$0	\$0	\$0	9/9/03
DA-AR-03-007	Delivery Bar Code Sorter-Expanded Capability	\$0	\$0	\$0	\$0	9/30/03
TECHNOLOGY TOTALS		\$0	\$0	\$0	\$0	
LABOR MANAGEMENT						
HUMAN RESOURCE PROCESS REVIEWS						
HK-AR-03-002	Shared Service Center Injury Compensation Program	\$0	\$0	\$0	\$0	6/19/03
HK-AR-03-003	Southeast Area Employees on the Periodic Roll with No Wage Earning Capacity or Reemployment Determination	\$0	\$0	\$0	\$0	8/8/03
LH-AR-03-010	Review of Facility Conditions at the Groton, Connecticut, Main Post Office	\$0	\$0	\$0	\$0	6/30/03
LH-AR-03-011	Capping Report on the Postal Service's Sexual Harassment Prevention Measures in 18 District Offices	\$0	\$0	\$0	\$0	9/8/03
LH-AR-03-012	Postal Service and Union Labor Relations	\$0	\$0	\$0	\$0	9/30/03
LABOR MANAGEMENT TOTALS		\$0	\$0	\$0	\$0	
OVERSIGHT						
SA-AR-03-002	Postal Inspection Service Controls Over Firearms Inventory Reconciliation	\$0	\$0	\$0	\$0	5/15/03
SA-AR-03-003	Postal Inspection Service Tracking of Investigative Workhours and Activity	\$0	\$0	\$0	\$0	6/13/03
SA-AR-03-004	Postal Inspection Service Law Enforcement Staffing Requirements	\$0	\$0	\$0	\$0	8/4/03
SA-AR-03-005	Postal Inspection Service Resource Allocations for Fiscal Year 2003	\$0	\$0	\$0	\$0	8/20/03
SA-AR-03-006	Postal Inspection Service Controls Over Firearms - Reconciliation of Sturm, Ruger and Company, Inc. Firearms	\$0	\$0	\$0	\$0	5/15/03
OVERSIGHT TOTALS		\$0	\$0	\$0	\$0	
OIG TOTALS		\$69,963,257	\$8,499,479	\$179,111,009	\$1,230,161	

APPENDIX B

Findings of Questioned Costs

For the period April 1, 2003, through September 30, 2003

OFFICE OF INSPECTOR GENERAL AND INSPECTION SERVICE

Description	Number of Reports	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
A. Reports for which no management decision was made at the beginning of the reporting period	22	\$166,163,999	\$122,592,688
B. Reports requiring management decision that were issued during the reporting period	9	\$69,963,257	\$8,499,479
TOTALS	31	\$236,127,256	\$131,092,167
C. Reports for which a management decision was made during the reporting period (i+ii)*	11	\$147,594,054	\$118,772,005
(i) Dollar value of disallowed cost		\$22,921,867	\$765,400
(ii) Dollar value of cost not disallowed**		\$124,672,187	\$118,006,605
D. Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing.	20	\$88,533,202	\$12,320,162
E. Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)***	4	\$7,116,584	\$1,744,745
F. Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	8	\$11,490,075	\$2,075,938

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

Report Date	Report/Case Number	Project Type	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
10/16/2002	CA-CAR-03-002	Contract Audit	\$343,759	\$0
2/11/2003	CA-CAR-03-011	Contract Audit	\$4,028,935	\$0
2/26/2003	CA-CAR-03-012	Contract Audit	\$1,478,596	\$479,451
3/31/2003	HK-MA-03-002	Postal Service's Death Benefit Payments to the Decedent's Survivor(s)	\$1,265,294	\$1,265,294
OIG TOTAL			\$7,116,584	\$1,744,745

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

Report Date	Report/ Case Number	Project Type	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
2/29/2000	TR-AR-00-005	Southwest Area Expenditures for Extra Highway Trips Using Leased Equipment	\$848,000	\$0
5/17/2000	CA-AR-00-001	United States Postal Service Warranty Repair of Tractors	\$977,598	\$0
3/25/2002	CA-CAR-02-032	Contract Audit	\$772,214	\$0
5/9/2002	CA-CAR-02-041	Contract Audit	\$96,324	\$20,202
6/28/2002	CA-CAR-02-045	Contract Audit	\$1,053,263	\$134,340
8/2/2002	FT-MA-02-004	Terminated Station Contract	\$58,248	\$58,248
9/13/2002	CA-CAR-02-051	Contract Audit	\$620,681	\$187,271
OIG TOTAL			\$4,426,328	\$400,061
Report Date	Report/ Case Number	Project Type	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
11/17/1999	181-1294644-AC(1)	Contract Audit	\$7,063,747	\$1,675,877
INSPECTION SERVICE TOTAL			\$7,063,747	\$1,675,877
TOTAL			\$11,490,075	\$2,075,938

*Questioned costs of \$491,590 identified in Audit Report CA-CAR-02-026 have been removed from the beginning balance. These costs have been included in the \$811,589 of questioned costs identified in Audit Report IR-CAR-03-003 issued during this reporting period.

**These costs include \$117,828,789 in questioned costs for a contract proposal. Documentation was later provided to support the questioned costs and subsequently the contract was awarded to another vendor.

***The reported amount includes \$1,265,294 in questioned costs that are currently being resolved and actual amount cannot be determined at this time.

APPENDIX C

Recommendations That Funds Be Put to Better Use

For the period April 1, 2003, through September 30, 2003

OFFICE OF INSPECTOR GENERAL

Description	Number of Reports	Dollar Value
Reports for which no management decision was made at the beginning of the reporting period*	8	\$136,439,266
Reports requiring management decision that were issued during the reporting period	9	\$179,111,009
TOTALS	17	\$315,550,275

Reports for which a management decision was made during the report period	6	\$155,861,265
(i) Value of recommendations agreed to by management		\$153,329,340
(ii) Value of recommendations that management did not agree		\$2,531,925
Reports for which no management decision was made by the end of the reporting period.*	11	\$159,689,010
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	4	\$7,948,777
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	3	\$126,725,169

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

Report Date	Case Number	Subject	Recommend Funds Put to Better Use
1/29/2003	TD-MA-03-001	New York Metro Area Operational Use of Trailers	\$2,495,344
3/28/2003	TD-AR-03-007	Highway Network Scheduling - Capital Metro Area	1,144,218
3/28/2003	TD-AR-03-008	Highway Network Scheduling - New York Metro Area	287,981
3/31/2003	TD-AR-03-009	New York Metro Area Trailer Acquisition - Lease versus Buy	4,021,234
TOTAL			\$7,948,777

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

Report Date	Case Number	Subject	Recommend Funds Put to Better Use
3/29/2002	TD-AR-02-002	Trailer Lease Justification	\$82,349,739
9/29/2000	MK-AR-00-001	Review of Stamp Fulfillment Services Performance	28,457,395
7/27/2001	TR-AR-01-004	Bulk Fuel Purchase Plan	15,918,035
TOTAL			\$126,725,169

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

APPENDIX D

Reports with Significant Recommendations Pending Corrective Actions

For the period April 1, 2003, through September 30, 2003

This appendix lists reports containing significant recommendations pending final action by management.

OFFICE OF INSPECTOR GENERAL

Report Number	Report Title	Number of Recommendations	Issue Date
LM-MA-99-002	Effectiveness of USPS Grievance Arbitration Procedures	2	3/26/99
LR-MA-99-001	Grievance Arbitration Management Information	2	3/26/99
TR-AR-99-003	Emergency and Extra Trip Expenditures on Highway Routes	6	9/29/99
RP-MA-00-001	Indefinite Quantity Contracts	1	11/8/99
TR-AR-00-005	Southwest Area Expenditures for Extra Highway Trips Using Leased Equipment	3	2/29/00
CA-MA-00-001	Contract Audit Practices	6	3/31/00
DA-AR-00-002	Tray Management System	5	3/31/00
TR-AR-00-009	Extra Trips Expenditures within the Mid-Atlantic Area	2	7/27/00
AC-AR-00-004	Use of Robotic Tray Handling System	2	9/29/00
DA-AR-00-006	Point of Service ONE Stage II	2	9/29/00
MK-AR-00-001	Review of Stamp Fulfillment Services Performance Measures	1	9/29/00
OV-AR-00-005	Review of the United States Postal Inspection Service Budget Process	2	9/29/00
DA-AR-01-004	Postal One! Business Customer Support Systems Phase One	5	4/9/01
IS-AR-01-001	Network Security	1	4/18/01
OV-AR-01-002	Inspection Service Support to Postal Service Threat Assessment Teams	1	4/30/01
TR-LA-01-001	Review of a Transportation Agreement	2	6/26/01
TR-AR-01-004	Bulk Fuel Purchase Plan	5	7/27/01
TR-MA-01-002	Excise Taxes and Third Party Ground Handling Costs under a Transportation Agreement	1	8/8/01
TR-MA-01-003	Security Risks Associated with a Transportation Agreement	1	9/27/01
OV-AR-01-004	Postal Inspection Service Fraud Against Government Program	1	9/28/01
IS-AR-02-001	Fiscal Year 2001 Information System Controls	1	11/8/01
IS-AR-02-003	Review of the Facilities Management System for Windows	4	2/22/02
LH-MA-02-003	Review of Decontamination Activities at the Pentagon Station	2	3/12/02
TD-AR-02-002	Trailer Lease Justification	2	3/29/02
EM-AR-02-009	Public-Key Infrastructure Initiatives by the Postal Service	1	3/29/02
CQ-MA-02-002	Review of Contracts Associated with Biohazard Threat	1	3/29/02
IS-AR-02-007	Network General Controls	2	4/3/02
LH-AR-02-003	Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayment and Refundable Disbursements	2	5/8/02
OV-AR-02-003(R)	Postal Inspection Service Health Examination Program	3	7/30/02
EM-AR-02-012	Review of eBusiness Agreements	7	7/9/02
TD-MA-02-003	New York Metro Area Trailer Acquisition Requirements	2	7/10/02
LH-AR-02-004	Postal Service's Corporate Succession Planning Process	5	9/3/02
DA-AR-02-008	Postal Service's Efforts to Implement Prevention and Detection Technology	1	9/4/02
DA-MA-02-001	Biohazard Detection System	6	9/24/02
DA-MA-02-002	Biohazard Filtration System	3	9/24/02
FT-AR-02-015	Payments to a Utility Company	1	9/26/02
FT-AR-02-016	Advanced Annual Leave	1	9/26/02

Report Number	Report Title	Number of Recommendations	Issue Date
TD-AR-02-004	Voyager Card Control Weaknesses - Chicago	1	9/26/02
CA-AR-02-004	Undefinitized Contract Actions	1	9/30/02
FT-AR-02-017	Effectiveness of the Postal Service's Asset Locator Program	3	9/27/02
IS-AR-02-015	Fiscal Year 2002 Information System Controls	1	9/27/02
AC-MA-02-002	Review of Nonprofit Standard Mail	1	9/30/02
CA-AR-02-005	Use of Noncompetitive Contracting Process for Tabbing Systems Purchases	2	9/30/02
LH-AR-02-005	Associate Supervisor Program in the Great Lakes Area	2	9/30/02
TD-AR-02-005	Delivery Vehicle Gasoline	3	9/30/02
IS-AR-03-001	Network General Controls	6	10/24/02
TD-AR-03-001	New York Metro Area Trailer Acquisition - Safety and Length	2	10/28/02
FT-MA-03-001	Postal Service Payments to the Smithsonian Institution	2	11/19/02
TD-MA-03-001	New York Metro Area Operational Use of Trailers	2	1/29/03
FT-AR-03-008	Fiscal Year 2002 Postal Service Financial Statements Audit - St. Louis Information Technology and Accounting Service Center	2	1/30/03
LH-AR-03-003	Sexual Harassment Prevention Measures in the Northern Virginia and Richmond Districts - Capital Metro Operations	1	1/30/03
DA-AR-03-002	Postal Automated Redirection System, Phase 1	1	2/25/03
LH-AR-03-004	Sexual Harassment Prevention Measures in the Albany and Southeast New England Districts - Northeast Area	2	2/25/03
LH-AR-03-005	Sexual Harassment Prevention Measures in the Central Florida and South Georgia Districts - Southeast Area	1	3/5/03
LH-AR-03-006	Sexual Harassment Prevention Measures in the Greensboro and Harrisburg Districts - Eastern Area	2	3/5/03
LH-AR-03-007	Sexual Harassment Prevention Measures in the Dakotas and Portland Districts - Western Area	1	3/5/03
TD-AR-03-004	Address Change Service	5	3/12/03
LH-AR-03-008	Sexual Harassment Prevention Measures in the Oakland and Santa Ana Districts - Pacific Area	3	3/18/03
TD-AR-03-005	Vehicle Maintenance Facilities - Vehicle Inventory Control Weaknesses in the Chicago District	3	3/19/03
LH-AR-03-009	Sexual Harassment Prevention Measures in the Arkansas and Rio Grande Districts - Southwest Area	3	3/25/03
CQ-AR-03-001	Work Performed by Business Mail Entry Employees in the Seattle, Minneapolis, and Des Moines Bulk Mail Centers	2	3/28/03
TD-AR-03-007	Highway Network Scheduling - Capital Metro Area	2	3/28/03
HK-MA-03-002	Postal Service's Death Benefit Payments to Decedent's Survivor(s)	1	3/31/03
OE-AR-03-002	Retail Data Mart System - Security Issues	4	3/31/03
TD-AR-03-008	Highway Network Scheduling - New York Metro Area	2	3/31/03
TD-AR-03-009	New York Metro Area Trailer Acquisition - Lease versus Buy	2	3/31/03
IS-AR-03-005	General Controls	1	5/12/03
SA-AR-03-003	Postal Inspection Service Tracking of Investigative Workhours and Activity	1	6/13/03
HK-AR-03-002	Shared Service Center Injury Compensation Program	2	6/19/03
FT-AR-03-010	Government Performance and Results Act Implementation at the United States Postal Service	3	6/20/03
LH-AR-03-010	Review of Facility Conditions at the Groton, Connecticut, Main Post Office	4	6/30/03
TD-AR-03-010	Highway Network Scheduling - Southwest Area	2	7/11/03
AO-AR-03-001	Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District	2	7/31/03
SA-AR-03-004	Postal Inspection Service Law Enforcement Staffing Requirements	2	8/4/03
SA-AR-03-005	Postal Inspection Service Resource Allocations for Fiscal Year 2003	1	8/20/03
FT-AR-03-011	Propriety of Postal Service Utility Payments	2	8/21/03
LH-AR-03-011	Capping Report on the Postal Service's Sexual Harassment Prevention Measures in 18 District Offices	3	9/8/03

Report Number	Report Title	Number of Recommendations	Issue Date
TD-AR-03-012	Voyager Card Control Weaknesses - National Analysis	1	9/8/03
DA-AR-03-006	Operational Status of the Mailing Evaluation, Readability, and Lookup Instrument Program	4	9/9/03
OE-AR-03-006	Retail Data Mart System – Data Integrity and Expected Benefits	1	9/10/03
TD-AR-03-013	Highway Network Scheduling – Western Area	2	9/23/03
AO-AR-03-002	Efficiency of Work Performed by Business Mail Entry Clerks in the San Francisco Business Mail Entry Unit	2	9/25/03
SA-AR-03-006	Postal Inspection Service Controls Over Firearms – Reconciliation of Sturm, Ruger and Company, Inc. Firearms	2	9/26/03
TD-AR-03-014	Highway Network Scheduling - Southeast Area	3	9/26/03
AC-AR-03-006	Enhanced Carrier Route Standard Mail Worksharing Discounts	1	9/29/03
AC-AR-03-007	Inventory Management – Maintenance Stockrooms	1	9/30/03
IS-AR-03-008	General Controls	8	9/30/03
LH-AR-03-012	Postal Service and Union Labor Relations	5	9/30/03
TD-AR-03-015	Highway Network Scheduling – Eastern Area	2	9/30/03

APPENDIX E

Investigative Statistics¹

For the period April 1, 2003, through September 30, 2003

OFFICE OF INSPECTOR GENERAL**Statistics**

Arrests	19
Information/Indictments	16
Convictions²/Pretrial Diversions	13
Suspension/Debarments	
Individuals	8
Firms	8
Administrative Actions	
Postal Service Employee	8
Contractor	6
Fines, Restitution, and Recoveries	\$5,036,696
Amount to Postal Service ³	\$1,618,531

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

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

³ Amount included in total Fines, Restitution, and Recoveries

APPENDIX F

Summary of Postal Service Investigative Activities Under 39 USC § 3013

For the period April 1, 2003, through September 30, 2003

The Postal Reorganization Act requires the Postmaster General to furnish information on the investigative activities of the Postal Service on a semiannual basis. With passage of the Deceptive Mail Prevention and Enforcement Act in December 1999, the Postal Service's reporting obligations were changed.

The Act requires the Postal Service to submit its semiannual report to the OIG rather than to the Board of Governors, expands the subject matter that must be reported, and revises the reporting schedule to coordinate with the OIG Semiannual Report to Congress. The information in the report includes actions directed at combating crimes involving the mail; costs and expenditures devoted to Postal Service investigative activities; use of subpoena power; and any additional information the OIG may require.

ABUSE OF MAILS

The Postal Service reports to the Office of Inspector General information related to investigative activities designed to protect the public against unscrupulous mailers perpetrating fraudulent schemes. The following information summarizes the administrative and judicial actions initiated and resolved during the reporting period. These actions include the issuance of cease and desist orders directed to mailers, actions to intercept payments fraudulently induced, and orders seeking to intercept fraudulent mailings.

INSPECTION SERVICE

Type of Scheme	Complaints Filed	Consent Agreements	False Representation Orders	Cease & Desist Orders
Advance fee	1	2	1	2
Boiler rooms/Telemarketing	1	1	0	1
Contest/Sweepstakes	0	1	1	2
Employment	0	0	0	0
False Billings	6	5	2	6
Fraud – Internet Schemes	4	4	1	4
Lotteries (foreign and domestic)	40	1	40	1
Merchandise:				
Failure to pay	0	0	0	0
Misrepresentation	0	0	0	0
Miscellaneous	1	1	0	1
Work at home	37	38	10	39
TOTAL	90	53	55	56

OTHER ADMINISTRATIVE ACTIONS

Administrative Action Requests	124
Temporary Restraining Orders Requested	1
Temporary Restraining Orders Issued	1
Civil Injunctions (1345) Requested	1
Civil Injunctions (1345) Issued	1
Cases Using Direct Purchase Authority	0
Refusals of Direct Purchase Authority	0
Civil Penalties (Section 3012) Imposed	4
Expenditures Incurred for:	
Test Purchases	0
Expert Testimony	0
Witness Travel	0
Withholding Mail Orders Issued	64
Voluntary Discontinuances	176

POSTAL SERVICE ADMINISTRATIVE SUBPOENA AUTHORITY

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

Case Number	Date Issued	Scheme
USPS-03-008	04/15/03	Failure to Render
USPS-03-009	04/30/03	Financial
USPS-03-010	04/30/03	Financial
USPS-03-012	05/27/03	Failure to Render
USPS-03-011	06/12/03	False Representation

FINANCIAL REPORTING ON INVESTIGATIVE ACTIVITIES

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

Type	Semi Annual Report
Personnel	\$152,356,518
Nonpersonnel	\$37,992,206
Total Expenditures	\$190,348,724
Capital Obligations	\$3,518,392

OTHER INVESTIGATIVE ACTIVITIES

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

MAIL SECURITY TASK FORCE

The Postmaster General established the Mail Security Task Force in October 2001, and appointed the Chief Postal Inspector to lead the team. The task force is committed to reducing the risks to the safety and security of postal employees and customers. The Steering Committee, comprising Postal Inspectors, senior level postal executives, and presidents of the labor unions and management associations, meets on a regular basis. Seven working groups are contained within the task force including Mail Center Security, Contingency Planning System-Wide, Mail Preparation, Mail Screening, Communicating/Messaging, Safety and Security in the Workplace Environment, and Mail Transportation Security. All of the working groups have presented findings to the Steering Committee, which is in the process of issuing an interim status report.

INTERNATIONAL SECURITY GROUPS

The Inspection Service is an active participant in two international groups focused on security. The International Security Group targets initiatives to improve the safety, security, and reliability of international mail products for the U.S. Postal Service. The group also develops strategies and initiatives to improve quality of service and security of mail for the 189 member countries of the Universal Postal Union. The Postal Security Action Group of the Universal Postal Union focuses on problems and issues affecting the safety, security, and integrity on international communications products. This group is chaired by the Chief Postal Inspector.

DECEPTIVE MAIL PREVENTION

The Deceptive Mail Prevention and Enforcement Act, which became effective April 12, 2000, subjects violators to civil penalties in addition to Cease and Desist Orders and False Representation Orders. To support this new law, the Postal Inspection Service created the Deceptive Mail Enforcement Team to identify violators and ensure swift, appropriate, investigative attention. Questionable promotions identified by team, as well as those received as consumer complaints, are examined for compliance. During fiscal year 2003, 83 promotions were reviewed for possible violations, and 12 have been referred for preliminary investigative attention.

INTERNET FRAUD PREVENTION

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

DEFINITIONS OF SCHEMES

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

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

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

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

False billings. Mailing solicitations in the guise of billings.

Fraud Internet Schemes. Fraudulent schemes using the Internet with a nexus to the mail.

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

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

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

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

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

APPENDIX G

Closed Congressional and Board of Governors Inquiries

For the period April 1, 2003, through September 30, 2003

This appendix lists the 29 Congressional and Governors inquiries the OIG closed during this reporting period. The OIG reviewed these inquiries to help identify systemic issues and to determine the need for future Postal-wide audits.

CONGRESSIONAL

PERFORMANCE

Requestor	Allegations/Concern	Response Date
Senator, North Carolina	Allegation of mail tampering	14-May-03
Senator, Mississippi	Allegations of customer being overcharged	25-Jun-03
Representative, California	Allegation of difficulties with claim regarding goods damaged during shipment	08-Jul-03
Senator, Mississippi	Allegation of international mail not being delivered and contents opened and damaged	11-Aug-03
Senator, Mississippi	Allegation of international mail not being delivered	11-Aug-03
Representative, Virginia	Allegation of unprofessional conduct by a letter carrier	18-Aug-03
Representative, Ohio	Allegation of serious maintenance concerns regarding USPS vehicles	02-Sep-03

FINANCIAL MANAGEMENT

Requestor	Allegations/Concern	Response Date
Representative, Kansas	Allegation of procedural flaws in the solicitation and contract award processes	29-Apr-03
Senator, Colorado	Request for review of Postal Service's bid process	07-Jul-03
Senator, California	Allegation of unfair penalty for an administrative error regarding military retirement	18-Aug-03
Representative, Virginia	Allegation of non-reimbursement for damage to a package	18-Aug-03
Representative, Pennsylvania	Allegation of fraudulent recording of time by managerial staff	23-Sep-03

LABOR MANAGEMENT

Requestor	Allegations/Concern	Response Date
Representative, Texas	Allegation of harassment	29-Apr-03
Representative, California	Allegation of breach of employment offer	17-Jun-03
Representative, Massachusetts	Allegation of supervisory personnel submitting false statements	27-Jun-03
Representative, North Carolina	Allegation of favoritism, racial inequality, and hostile work environment	01-Jul-03
Senator, California	Allegation of abuse of authority and reprisal	16-Jul-03
Representative, Missouri	Allegation of hostile work environment and inconsistent policy enforcement	05-Aug-03
Representative, Massachusetts	Allegation of managerial harassment	24-Sep-03
Representative, Texas	Allegation of managerial harassment	25-Sep-03

OVERSIGHT OF INSPECTION SERVICE

Requestor	Allegations/Concern	Response Date
Representative, New York	Request to review Inspection Service's interpretation of laws which govern reimbursement and overtime hours worked	29-May-03

OTHER SIGNIFICANT ISSUES

Requestor	Allegations/Concern	Response Date
Senator, California	Request for assistance regarding OIG's response to a complaint	01-Apr-03
Senator, Michigan	Allegation that OIG failed to properly investigate a hotline complaint regarding safety issues	29-Apr-03
Representative, Florida	Request for status of action taken on hotline complaint	29-May-03
Senator, California	Allegation of misconduct by an OIG investigator	19-Jun-03
Senator, California	Request for assistance with OIG response to previous complaints	19-Jun-03
Senator, Florida	Allegation of OIG wasting money on teambuilding activities	15-Jul-03
Representative, Massachusetts	Allegation of identify theft through stolen mail	29-Aug-03
Representative, District of Columbia	Request for assistance regarding appeals process for employee	03-Sep-03

Notes

Notes



OFFICE OF INSPECTOR GENERAL

1735 N. Lynn Street

Arlington, VA 22209-2020

(703) 248-2300

Fax: (703) 248-2291

Internet: www.uspsoig.gov