




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

APRIL 1, 2004 – SEPTEMBER 30, 2004

MISSION STATEMENT

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

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

Marking the one-year anniversary since my arrival, the U.S. Postal Service Office of Inspector General (OIG) completed its fiscal year (FY) 2004 initiatives: organizational redesign, value enhancement and performance orientation. As a result, our performance has improved and is on a steady upward trajectory across the organization.

We strengthened the OIG by focusing on mission-critical initiatives and ensuring that OIG work adds value to the Postal Service. Audit directors and Investigative special agents in charge worked closely with Postal Service business units and area vice presidents.

The retooled Office of Investigations has far exceeded last year's results. Our investigative work resulted in \$23.7 million in fines, judgments and restitutions, a 259 percent increase over FY 2003.

The productivity and timeliness of our Office of Audit also improved and monetary benefits identified by our audits increased by 56.5 percent over the last fiscal year. The Postal Service vice presidents and their audit director counterparts focused efforts on issues that in FY 2004 identified \$506.8 million in savings and funds that could be put to better use.

To continue the momentum, we're building on the three initiatives established at the beginning of FY 2004. We're ensuring directorate excellence, conducting expert planning (which includes close consultation with the postal community) and beginning a "Smart Workplace" initiative to ensure optimal performance. During this reporting period, each OIG employee was trained in project management, writing/editing and utilizing workplace alternatives.

Planning has begun to transfer a portion of the work currently performed by the U.S. Postal Inspection Service (USPIS) — appropriate internal crimes work — to the OIG, to be consistent with congressional intent. The two organizations had been working under a designation of functions crafted when the OIG was established in 1997. That agreement is being revisited.

In this semiannual report, we're focusing on the top five management challenges the OIG believes are facing the Postal Service today: cost control; revenue; strategic direction; safety and security; and management information. Next, we're highlighting several significant audits and investigations conducted over this reporting period. In a new section, we explore ideas and concepts regarding postal operations; programs that may contribute to reducing costs; improving efficiencies; and increasing revenue or introducing new ways of doing business.

As background, the OIG is required by law to report monetary benefits and accomplishments semiannually to Congress and the Governors of the Postal Service. Our auditors and postal managers use the evidence gathered during audits to develop figures that can be reasonably determined and supported. The savings identified are linked to recommendations such as, reducing workhours in postal facilities or terminating transportation contract routes to save money over a period of time without detracting from service delivery.

There are also non-financial benefits, such as deterring fraud, waste or misconduct; ensuring a level playing field for contractors; and helping secure postal computer systems from attack.

To estimate savings, the OIG and postal management project findings over the remaining term of a contract, lease, Decision Analysis Report (typically 10 years cash flow), or other period used by the Postal Service.

In this reporting period, the OIG issued 268 audit reports, management advisories and other products. These efforts, some of which the OIG and postal management accomplished jointly, resulted in \$229.4 million in questioned costs, unrecoverable costs, funds to be put to better use and revenue impact.

In addition, the OIG completed 463 investigations resulting in 190 referrals to management, 28 arrests, 24 indictments, 14 convictions and \$6.4 million in fines, restitutions and recoveries, of which more than \$2.3 million was returned to the Postal Service.

As in my previous message, I again acknowledge Postal Service leadership and the Board of Governors for their strong support in all of our efforts. I look forward to continuing our work overseeing the nation's mail service by delivering audit reports and investigative services that promote economy, efficiency and integrity within the Postal Service.



Sincerely,

David C. Williams
October 1, 2004

SUMMARY OF PERFORMANCE

April 1, 2004 – September 30, 2004

AUDIT

Reports issued	268
Significant recommendations issued	52
Total reports with financial impact	60
Funds put to better use.....	\$163,398,672
Questioned costs ¹	\$65,263,905
Unrecoverable costs	\$67,199
Revenue impact.....	\$664,780
TOTAL.....	\$229,394,556²

INVESTIGATIONS

Investigations completed.....	463
Arrests.....	28
Indictments/informations	24
Convictions/pretrial diversions	14
Administrative actions.....	98
Total fines, restitutions and recoveries ³	\$6,352,168
Amount to Postal Service (included in total figure above) ³	\$2,291,260

HOTLINE CONTACTS

Facsimile – FAX	214
E-mail.....	2,749
Standard Mail	480
Voice mail messages	849
Telephone calls.....	8,408
TOTAL CONTACTS.....	12,700

¹ Includes unsupported costs of \$4,725,975.

² The Postal Service agreed to recommendations or proposed alternative corrective actions that, if implemented, could result in more than \$229 million in savings.

³ Some fines and recoveries were from the previous reporting period, but not previously reported.

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INTRODUCTION

For this reporting period, the April 1 to September 30 Semiannual Report to Congress focuses on the top five management challenges that the Office of Inspector General (OIG) believes the Postal Service is facing today. The OIG will continue providing audit and investigative support to postal executives as they take on these very significant challenges. Following is a summary of the sections in this report.

MANAGEMENT CHALLENGES

All federal departments confront significant management risks and opportunities. The Postal Service is no exception. In this report, the OIG focuses on five major challenges that confront postal management and spotlights efforts underway to manage them.

- **Cost Control** — With declining revenues in several key areas, the Postal Service must control costs to maintain universal service. The greatest opportunities to reduce costs are in optimizing its network, controlling its labor costs and increasing efficiencies through technology investments.
- **Revenue** — Revenue growth has been relatively stagnant in the face of rising labor costs and increases in new delivery points. The Postal Service must strive to develop revenue streams that fully cover the cost of its operations without placing undue burden on ratepayers.
- **Strategic Direction** — The Postal Service must balance its public service obligation with the need to remain commercially viable. To achieve this objective, the Postal Service must continue to work within existing law to increase its business effectiveness and operational efficiency.
- **Safety and Security** — With more than 700,000 employees, nearly 38,000 facilities and approximately 200 billion pieces of mail to deliver each year, the Postal Service has the enormous task of securing the nation's mail system and safeguarding its employees and customers in an environment of increased potential for terrorist attacks.
- **Management Information** — To address concerns that information it provides is not transparent, the Postal Service has embarked on an effort to provide information that better meets the needs of its managers and stakeholders.

FEATURE STORIES

This chapter highlights OIG work in three areas: network optimization; working together — a “win-win” for the Postal Service; and the injury compensation working group.

IDEAS WORTH EXPLORING

This section presents concepts for improving Postal Service operations, which the OIG plans to evaluate in more depth. The ideas discussed are a property line initiative; commercialization of employee benefit programs; contract routes versus hourly carriers; neighborhood mail; five-day versus seven-day delivery; labor flexibility/moving across crafts; right-sizing Post Offices; providing fair and efficient retail services; and government-related services.

APPENDICES

The appendices align the OIG's body of work with the five management challenges facing the Postal Service. This semiannual report fulfills the requirements of the Inspector General Act of 1978 to summarize OIG activities during the immediately preceding six-month period ending September 30, 2004.

SUPPLEMENTAL INFORMATION

This section includes a brief synopsis of each audit, selected investigations and Freedom of Information Act requests that were completed between April 1 and September 30, 2004. It also includes a glossary.

MANAGEMENT CHALLENGES

All federal departments confront significant management risks and opportunities. The Postal Service is no exception. In this report, the OIG focuses on five major challenges that confront postal management and spotlights efforts underway to manage them.

COST CONTROL

The Postal Service's universal service network continues to grow as the nation's population increases and new businesses and households are formed. Even as this network expands, First-Class Mail volumes continue to decline due to the impact of electronic diversion and sluggish economic growth, negatively impacting the financial situation of the Postal Service. However, the costs of maintaining a universal service system will continue to increase regardless of the decrease in mail volume. From FY 2002 through 2003, the Postal Service has added deliveries to 3.7 million new addresses.

The Postal Service has taken aggressive steps in recent years to stem the tide of increasing costs. It reduced overall spending by \$8.3 billion during the past three years. Expenses decreased steadily from FY 2001 through FY 2003, and FY 2004 expenses are anticipated to be below those in FY 2001. In FY 2003 alone, the Postal Service's efforts in managing its business coupled with the impact of the Postal Civil Service Retirement System (CSRS) reform legislation resulted in a net income of \$3.9 billion. Even without the CSRS legislation, cost reductions and increased productivity would have resulted in a net income of \$900 million.

However, costs such as employee and retiree benefits continue to increase annually at rates exceeding inflation, and are expected to do so again in FY 2005.

Although the Postal Service has offset some of these increases by reducing its number of career employees, other costs such as employee compensation and supplies and services associated with serving an expanding delivery network also continue to rise.

In FY 2003, Congress passed legislation that reduced the Postal Service's payments to the CSRS. This allowed the Postal Service to divert some of the planned retirement benefit payments to other needs. For example, although it anticipated having to borrow additional funds in the fourth quarter of FY 2004, the Postal Service was able to pay off some of its remaining debt as of June 30, 2004. However, expenses continue to rise in areas related to employee retirement and health care, which increased by more than \$1 billion.

While legislative relief helped reduce the Postal Service's CSRS costs, it placed additional burdens on the Postal Service not previously required and not levied against other federal government entities. The OIG reported that the decision to include additional obligations associated with the CSRS (such as requiring the Postal Service to fully fund military service pension costs for its employees) brought into question whether postal revenues are being used to fund costs not traditionally borne by federal agencies and suggested that the timing of adding these charges points to an effort to keep higher payments coming into the Civil Service Retirement and Disability Fund.



Since 2001, the Postal Service added deliveries to 3.7 million new addresses.

After FY 2005, the law requires that “savings” from lowered CSRS payments be held in a separate account that the Postal Service cannot use until new legislation is passed. To compensate for not being able to use the savings to offset other business expenses, the Postal Service expects that it will have to raise postage rates over five percent, including two cents for First-Class Mail in FY 2006. Additionally, the Postal Service anticipates periodic postage rate increases of 1.0 to 1.5 percent just to fund this provision after FY 2006. Further, with the continued diversion of First-Class Mail to other communication means, maintaining this “savings” requirement could accelerate this diversion.

The OIG reported that postal customers should be the beneficiaries of the lowered payments, so that the Postal Service may retire debt and cover other retirement costs not previously funded, or it may submit new cost data to the Postal Rate Commission that will ensure proper postage rates are set. Legislation is pending that addresses these issues.

In this report, the OIG focuses on three significant cost control opportunities: network optimization, labor costs and technology investments. Following are discussions of these elements.

Network Optimization

The challenge for the Postal Service is to standardize, retool and right-size its \$26 billion mail processing and transportation network (this figure includes labor costs) while continuing its robust daily operations. This will not be easy. The sheer size and complexity of the network is daunting — as it is one of the most complex in the world.

It will be difficult to redesign the network while still in operation and at the same time maintain record customer service levels. Public and congressional con-

cerns with facility closures will also need to be addressed. Moreover, network optimization will be a difficult initiative because the Postal Service has not yet achieved a common facility footprint or equipment layout in its facilities.

In the 34 years since the Postal Reorganization Act of 1970, the Postal Service implemented a series of class-based mail processing networks.

- The Processing and Distribution Center (P&DC) network includes more than 300 facilities that primarily act as distribution centers for First-Class Mail, periodicals and preferred parcel volume. Many of P&DCs have Business Mail Entry Units (BMEUs) where mailers present bulk mail or presorted mail for acceptance.
- The Bulk Mail Center (BMC) network, instituted in the 1970s, includes 21 processing facilities primarily designed to support Parcel Post and Standard Mail.



The Processing and Distribution Center (P&DC) network includes more than 300 facilities that primarily act as distribution centers for First-Class Mail, periodicals and preferred parcel volume.

- The Priority Mail Processing Center (PMPC) network, established in the mid-1990s, includes nine Logistics and Distribution Centers (L&DCs) and two processing centers primarily designed to process Priority Mail.

- The network of six International Service Centers (ISCs) serves as the gateway for international and military mail. The Postal Service established the network in 1996 to better compete in the international mail market.

While these networks were created incrementally during the last 30 years to standardize and improve the service of specific mail classes, this approach has also led to non-standardized use of the networks and facilities, resulting in overlapping mail flows across products and classes. Also, in today's climate where some mail classes are experiencing flat to declining volume and market shifts, there is less need for dedicated class-based networks.

The Postal Service has developed a concept to optimize the current mail processing system by considering the physical shape of a product being processed. This "shape-based" system determines the capacity requirements based upon the volume and path of each type of shape.

A key component of network optimization is the Evolutionary Network Development (END) initiative, introduced in September 2004 at the National Postal Forum. END is a sophisticated modeling effort to assess restructuring of the Postal Service's mail processing, transportation and logistical support networks. For the past two years, the Postal Service has conducted extensive modeling and simulations of its networks — originally called the Network Integration and Alignment Initiative (NIA). Network modifications are expected to begin in calendar year 2005.

There is a strong and compelling case supporting network optimization. Declining mail volumes, evolving technology and increasing delivery points make it critical for the Postal Service to address inefficiencies in its network and infrastructure.

A key element of the Postal Service's transportation network is its vehicle fleet and vehicle management infrastructure that ensures operationally-ready, safe and reliable vehicles. The Postal Service vehicle fleet includes light delivery vehicles, cargo vans, tractors and trailers that transport mail and equipment.

In recent audits of vehicle management, the OIG identified almost \$90 million in unsupported costs or potential savings.

Other control initiatives include efforts to optimize the Postal Service's highway transportation network and to reduce costs by consolidating highway contract transportation routes. Every day Postal Service trucking contractors transport mail across highway networks nationwide, costing more than \$2 billion annually. Working with the OIG, the Postal Service has identified more than 1,000 potential highway contract trip eliminations, consolidations or modifications, resulting in savings of more than \$50 million over the life of the contracts.

Another large transportation network issue centers on the rising cost of fuel. The Postal Service currently spends more than \$1 billion per year for vehicle fuel, making it one of the largest fuel consumers in the United States. (Fuel costs are second only to labor costs in the Postal Service.) A one-cent increase in aviation and gasoline fuel prices, sustained for a year, has an approximate \$8 million annual impact on postal expenses. An ongoing OIG audit will determine whether fuel procurement is cost-effective and if there are opportunities to save money.

The Postal Service is also restructuring its Mail Transport Equipment Service



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Center network (MTEESC), a system of 22 contractor-operated logistical support facilities that provide equipment to mail processing facilities nationwide. The OIG is currently working with the Postal Service to identify opportunities to make the MTEESC network more effective. See page 4 regarding network optimization.

Labor Costs

Controlling labor costs is one of the biggest challenges facing the Postal Service, due primarily to the size of its workforce. Labor costs include salary and cost of living adjustments (COLA), workers' compensation for injured employees, health insurance and other benefits.

The Postal Service currently has about 707,000 career and 98,000 non-career employees. Personnel and compensation benefits for employees totaled more than \$50.5 billion in FY 2003, a figure that accounts for more than three-quarters of the Postal Service's total operating expenses. A substantial portion of these costs can be attributed to the Postal Service's 713,000 bargaining unit employees. In its *2003 Comprehensive Statement on Postal Operations*, the Postal Service stated the average annual pay and benefits for career bargaining unit employees was \$57,051.

Bargaining unit employees have a unique status within the Postal Service because they have the legal right to negotiate wages, hours and work conditions through collective bargaining with management. The four major collective bargaining agreements have expiration dates ranging from November 2005 to November 2006. The current agreements provide basic salary increases and a COLA that must be paid for the duration of the agreements. In FY 2004, Postal Service COLA and salary costs for bargaining unit employees increased about \$851 million over the previous year. The

Postal Service estimates the increase will be about \$1 billion in FY 2005.

The 1970 Postal Reorganization Act, 39aUSC, 101(c) & 1003(a), requires postal employee pay and benefits to be comparable to that paid for comparable levels of work in the private sector. This requirement came under debate during the April 2003 hearings before the President's Commission on the Postal Service. In those hearings, the President's Commission heard expert views regarding whether postal employees received comparable pay or were paid more than employees in the private sector who perform similar work.

As a result, the President's Commission recommended in its July 2003 report that the Postal Reorganization Act of 1970 be amended to clarify the meaning of the term "comparability" and that a new Postal Regulatory Board be authorized to determine comparable total compensation for all postal employees. Pending legislation on postal reform, however, does not contain provisions to address this recommendation.

The Postal Service's largest labor cost center is delivery operations, which encompasses 43 percent of total labor hours. These hours are time expended by city and rural letter carriers sorting and delivering mail.

The Postal Service developed the management tool, Delivery Operations Information System (DOIS), to aid delivery managers in matching workload to workhours. Recent OIG reviews noted opportunities for supervisors and managers in several delivery units to increase use of DOIS to improve management of city letter carrier delivery operations. In FY 2005, the OIG will expand these reviews to other postal delivery units, as well as assess the rural and highway contract letter carrier models to determine

whether they are more efficient and cost-effective than the city letter carrier model.

Another significant cost continuing to plague the Postal Service is workers' compensation expenses for injured workers.

The Postal Service was the largest participant in the Department of Labor's (DOL's) Office of Workers' Compensation Programs (OWCP) in FY 2004, representing about 30 percent of the total federal workforce that participated. It was also the largest payee to OWCP, with approximately \$830 million in payments for the same year. This is more than 35 percent of the \$2.3 billion in total federal workers' compensation payments.

Postal workers' compensation payments have risen by approximately 30 percent over the last several years — from \$638 million in 2000 to \$830 million in 2004. At the same time, the administrative fees that OWCP charges the Postal Service have increased 33 percent, from \$33 million in 2000 to \$44 million in 2004.

Finally, the Postal Service records, as a liability, the present value of all future payments it expects to make to those employees receiving workers' compensation. At the end of FY 2003, it estimated total liability for future workers' compensation costs at \$7.1 billion. The estimated total costs of a claim are based upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee and/or the trend of experience with such an injury, and other factors.

Although most rising OWCP costs are beyond its control, the Postal Service is nonetheless trying to reduce costs through accident prevention initiatives that have resulted in fewer employees on OWCP rolls. To assist the Postal Service, the OIG identified 12 performance clus-

ters in six areas of postal operations that implemented prevention initiatives which could become best practices in reducing accidents, injuries and illness. In addition, future OIG work will review the Postal Service's efforts to prevent specific types of accidents.

The Postal Service has also tried for several years to gain congressional interest in its desire to replace the DOL's OWCP program with its own program. The Postal Service believes having its own program would allow a great deal more flexibility and would be in its best interest. The OIG is conducting a survey to determine the feasibility and cost of such a program.

The OIG is also reviewing workers' compensation costs in the areas of permanent and partial disability, and medical service payments made to providers. In addition, the OIG is examining a contract between the Postal Service and a preferred provider organization to determine the gain share amounts claimed and realized by the Postal Service through the contract.

Also, the OIG partnered with the Postal Service by creating an Injury Compensation Working Group to develop ways to help the Postal Service reduce its workers' compensation costs.

One of the initiatives implemented by the working group is the new Healthcare Internal Data Analysis System computer program. This program examines duplicate medical billings and a practice called "unbundling," where medical services are broken apart and separately billed for the purpose of charging more to OWCP. The working group and its initiatives are discussed in detail on page 19 of this report.



To assist the Postal Service, the OIG identified 12 performance clusters in six areas of postal operations that implemented prevention initiatives that can become best practices in reducing accidents, injuries and illness.

Another significant labor cost for the Postal Service is contributions made to the Federal Employees' Health Benefits (FEHB) program on behalf of postal employees. In FY 2003, the Postal Service paid more than \$4 billion for health insurance premium costs for nearly 630,000 eligible postal employees. This contribution is more than one-third of the total costs of the FEHB program, which is more than any other federal entity. A fuller discussion on the Postal Service's contribution to the FEHB program is on page 22.

Technology Investments

The Postal Service depends on technology to deliver more than 650 million pieces of mail daily to more than 140 million addresses, but is challenged to smartly adapt new technology to maintain its competitive position in the market.

The Postal Service's long-term vision is to automate the sortation of more mail in delivery-ready sequence (in delivery order for a given route). The possibilities include

letters and flats (oversized letters) sorted together, placed in a single bundle and delivered to an individual address.

In addition, to improve the security and safety of customers and employees the Postal Service is addressing the threat of biohazards in the mail by identifying and deploying technology that is compatible with existing systems.

Automation and information technology have helped the Postal Service, over the last three years, trim \$8.3 billion from the agency's operating expenses, accord-

ing to Postmaster General John Potter, speaking at the September 2004 National Postal Forum. Through automation, the Postal Service is sorting as much as 80 percent of its letter mail into proper sequence for carrier delivery, but the goal is to reach 100 percent. Most flats and parcels continue to require sorting by carriers. The key to achieving its goal is quality barcoding and addressing by customers and through new technologies in development. The OIG will continue to look at the new technology and initiatives being developed to ensure benefits and capabilities are economical and attainable.

The Postal Service invested more than \$13 billion deploying automation technology over the last 20 years. Letters are a majority of the volume that the Postal Service processes and most letters are sorted into delivery sequence order using automation equipment. The long-term capital plan still calls for significant capital investments in new automation equipment and management information systems to increase operating efficiency.

Over the past several years, the OIG has evaluated the development, deployment and return on investment of many Postal Service initiatives to automate its mail processing operations. These included material handling equipment, robotics, parcel processing equipment, retail systems and flats processing equipment. These initiatives improved operations, but in several instances there were delays in deployment and machine performance results were lower than expected.

The large size and diversity of the Postal Service's customer base presents technological challenges demanding that solutions be simple, easy to use and competitive. The Postal Service is also using technology to achieve this aim. To address changing customer needs, the Postal Service has committed resources to better data



The Postal Service invested more than \$13 billion deploying automation technology over the last 20 years.

management, tracking of mail and improved customer communication.

The Postal Service's future vision includes intelligent mail coding and tracking. (Intelligent Mail™ is the capture and sharing of information about each mailpiece throughout the postal system.) This will help the Postal Service compete in an environment where information about mail is becoming increasingly more



Intelligent mail™ is the capture and sharing of information about each mailpiece throughout the postal system.

important to its customers. Competitors have built their businesses, in part, by recognizing this shift in customer requirements. The Postal Service expects to benefit from this vision through revenue growth, reduced operating costs and enhanced mail security.



The OIG will continue to evaluate the efficiency and effectiveness of current and future Postal Service strategies to enhance mail processing equipment and other emerging technologies. The OIG will also continue to review new initiatives for biohazard detection and protection systems to safeguard postal employees, customers, operations and mail security during disasters and national emergencies.



The OIG will continue to look at the new technology and initiatives being developed to ensure benefits and capabilities are economical and attainable.



REVENUE

The Postal Service must strive to develop revenue streams that fully cover the cost of its operations without placing undue burden on ratepayers. Part of the OIG's challenge is to work with the Postal Service to help minimize the size of rate adjustments required to meet the rising cost of operations.

Unlike most federal agencies, the Postal Service relies on its revenues, not appropriations, to fund its operations. Without adequate revenues, the Postal Service would have to borrow funds, reduce services, raise rates or seek taxpayer subsidies. Recent financial data indicates the Postal Service's overall financial condition continues to improve in 2004. Current projections show a net income of about \$2.6 billion at the end of FY 2004. However, this turnaround appears to be short-lived, as the Postal Service is projecting a loss in FY 2005 of about \$200 million.

For FY 2004, some of the projected income relates to legislation passed in April 2003 that reduced Postal Service payments to the Civil Service Retirement System by about \$2.7 billion. In addition, revenues grew for Standard Mail due to increased advertising spending and election mail. However, First-Class Mail revenue is expected to decrease by more than two percent after FY 2004, due to the continued use of electronic alternatives to mail. Further decreases are expected in the future. Additionally, other unknowns may impact revenue, including the passage of postal reform legislation, the economy and increasing competition.

To grow revenue, the Postal Service is entering into contractual agreements, Negotiated Service Agreements (NSA), with three customers that gives them pricing incentives in exchange for a shift in customer behavior that provides cost benefits to the Postal Service.

On September 30, the Postal Service completed the first year of an NSA with Capital One Services, Inc.; which has, based on the final forecast presented at the Postal Rate Commission (PRC), resulted in an estimated

85 million additional First-Class mailpieces. Also, on the same date, the PRC recommended approval of the Discover Financial Services NSA. The Discover agreement is also intended to retain and grow First-Class Mail volume, however, the PRC case indicates that there will be a shift of mail volume from Standard to First-Class Mail. The Postal Service is waiting for PRC approval for the Bank One NSA, which is similar to the Discover Financial Services NSA.

All of the agreements are expected to result in cost savings because they require the customers to receive information about undeliverable mail electronically in lieu of having pieces returned physically. The OIG will continue to monitor the Bank One Corporation NSA, which was filed with the Postal Rate Commission on June 21, 2004.

The Mail Evaluation, Readability and Lookup Instrument (MERLIN) is designed to improve the quality of mail, automate acceptance, make verification consistent and ensure appropriate revenue collection. The Postal Service invested \$186.5 million in MERLIN to provide automated acceptance and verification of discounted mailings in BMEUs.

During this reporting period, the OIG conducted two site-specific reviews and reported that MERLIN was underutilized. One BMEU, for example, failed to collect \$30,455 in additional revenue that was due. A report is planned to summarize the site-specific MERLIN reports and cover issues such as return on investment and user satisfaction.

Another avenue being pursued to increase revenue is providing government-related services in all Post Offices. One of these services is providing passports.

Last year, the Postal Service generated approximately \$103 million in revenue from passport fees alone. The OIG plans to follow these new business strategies and marketing practices introduced by the Postal Service to determine if waste, misconduct or fraud could interfere with Postal Service efforts to increase business and revenue.

STRATEGIC DIRECTION

In determining its strategic direction, the Postal Service must balance public service with its need to remain commercially viable. This task is increased due to heightened competition in the delivery and communication industries, especially with electronic alternatives to mail (such as electronic payments) steadily eroding First-Class Mail volume.

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 reinvest surplus. Postal Service management recognizes that providing universal service in a dynamic and competitive environment requires a strategic direction that embraces change. To continue meeting its statutory mission, the Postal Service must continue to work within existing law to increase its business effectiveness and operational efficiency and to ensure that new products and services are self-sustaining and relate to its core business.

Due to concerns raised by Congress, the Government Accountability Office and other interested stakeholders regarding the Postal Service's future, the *Transformation Plan* was issued in April 2002. It addresses the continued need for strategic direction, outlines ways to address those concerns, provides short-term actions to take under its existing authority and outlines long-term strategies that require congressional action.

Since the *Transformation Plan Progress Report* was issued in November 2003, the Postal Service is on target to achieve its promised cost reductions of about \$5 billion by 2006, and continues to pursue initiatives to develop people, manage costs, improve service and grow revenue.

In order to track progress of *Transformation Plan* initiatives, the Postal Service must have accurate and reliable performance data, as discussed in the management information section of this semiannual report.

Despite record accomplishments in FY 2004, the Postal Service will again be challenged in FY 2005. Postal Service management is anticipating balancing a projected FY 2005 budget of \$68 billion (keeping revenues equal to expenses) and seeing Standard Mail volumes exceed First-Class Mail volumes for the first time. Management will continue to implement cost reductions while the Postal Service delivers an estimated 1.4 billion more pieces of mail than the previous year.

Through its work, the OIG is looking at ways to assist the Postal Service in its strategic planning process and to serve as a sounding board. As Postal Service management continued to seek cost-cutting efforts in FY 2004 to reduce overhead, the OIG worked with management to provide a case study report on district consolidations highlighting what worked well and what could be improved.

In addition, the OIG plans to assess the major management reports the Postal Service issues on its plans, strategies and measurements to determine whether they duplicate each other or if any can be consolidated. Finally, the OIG will continue following pending congressional postal reform and the Postal Service's *Transformation Plan*.



The Postal Service must balance public service with its need to remain commercially viable.



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

SAFETY AND SECURITY

The nation's mail system has been one of the mediums used for carrying out terrorist attacks. With more than 700,000 employees, nearly 38,000 facilities and approximately 200 billion pieces of mail to deliver each year, the Postal Service faces the enormous challenge of securing the nation's mail system and safeguarding postal employees and customers from these attacks. Regardless of the Postal Service's efforts, the threat of future attacks can be reduced but not eliminated.

From January to July 2004, the Postal Service and the Postal Inspection Service responded to more than 800 suspicious white-powder mail incidents, having the potential to be anthrax.

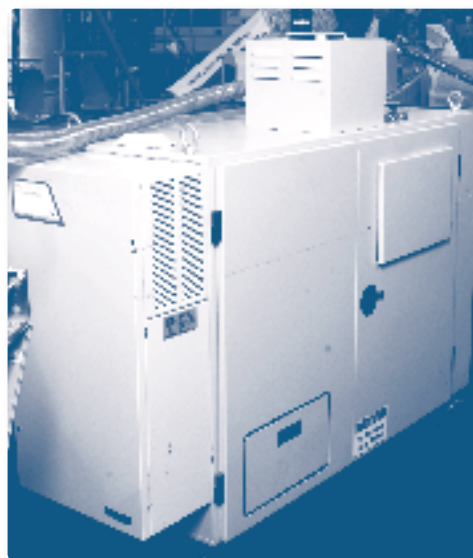
To respond more effectively to such incidents, the Postal Service and the USPIS established national and local policies (supplementing national policies) for interacting with local police and fire departments. However, a recent OIG review found that the policies and procedures need to better complement one another and personnel need to be better trained, as demonstrated during a recent suspicious white-powder mail incident at a mail processing center in Washington, D.C. The Postal Service and the USPIS are taking actions to modify local policies to complement national policies and ensure postal personnel are trained to adequately respond.

In response to the Department of Homeland Security (DHS) Presidential Directive 5, the Postal Service's chief operating officer and executive vice president revised existing emergency management policies and created the Office of Emergency Preparedness to reflect a new emergency preparedness focus. This new office is implementing an integrated emergency management

plan throughout the Postal Service. The all-hazard, comprehensive plan will be issued in conjunction with the national deployment of the Biological Detection System and Ventilation and Filtration System to test for biological threats.

The Postal Service is also coordinating with the Federal Emergency Management Agency on DHS Presidential Directive 8, a companion to Presidential Directive 5. The new directive provides steps and prevention activities during the early stages of a terrorist attack. The Postal Service is also working closely with state and local officials to establish lines of communication, roles and responsibilities, and points of contact; and to develop site-specific details such as local jurisdictional issues.

The OIG will continue to review the Postal Service's future efforts in developing effective mail security systems; the development, implementation, and coordination of emergency preparedness plans; and USPIS initiatives and programs that provide protection for employees, customers, physical assets and the nation's mail system.



The Biological Detection System and Ventilation and Filtration System tests for biological threats.

MANAGEMENT INFORMATION

The importance of management information is paramount as the Postal Service continues to demonstrate 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. In the past, problems with management information led to significant differences between initial and subsequent forecasted estimates within a three-month period. These significant changes in financial outlook were not evident from publicly available information and came as a surprise to many stakeholders. The Postal Service and its stakeholders need timely, reliable and accurate data to better plan, make critical management decisions and evaluate performance.

To address concerns that the information it provides is not transparent, the Postal Service is working to give information that better meets the needs of its managers and stakeholders. For example, the Postal Service is currently developing an annual report that more closely mirrors those of public companies, and is working to (voluntarily) comply with provisions of the Sarbanes-Oxley Act. The OIG's role is to help ensure that the information provided is timely, reliable and accurate.

The Postal Service relies on accurate information to make critical decisions and meet its congressional reporting requirements. Current postal reform bills in both the Senate and the House of Representatives would require the Postal Service to provide an annual report to a Postal Regulatory Commission that would analyze costs, revenues and rates. The report would also describe market information and measure service quality for postal products. If this provision in the bill is passed, the

OIG will be active in validating data and auditing information systems to determine the accuracy of information provided to the new commission.

Data supporting performance and results must also be objective so that stakeholders receive accurate and complete information necessary to make decisions related to their needs. As noted in its July 2003 report, the President's Commission recognizes that the Postal Service does, in many respects, conduct financial reporting over and above what is required of federal agencies; however, improvement is still needed. The President's Commission suggests that the Postal Service should be setting the standard for financial transparency by which all other federal entities are judged.

In coordination with the Securities and Exchange Commission (SEC), the Postal Service initiated actions to voluntarily comply with certain SEC requirements in another measure to provide its stakeholders with better financial transparency. For example, the Postal Service enhanced its *Quarterly Financial Report* to provide more detail in such areas as costs and revenue by product and financial outlook. Changes to incorporate SEC disclosures in its 2004 annual report are also being considered.

Additionally, the Postal Service began actions to comply with portions of the Sarbanes-Oxley Act of 2002 related to documentation and testing of controls over financial reporting. Processes in eight major focus areas — cash, money orders, meter revenue, payroll expense, transportation expense, real estate expense, contract payments and finan-



The Postal Service relies on accurate information to make critical decisions.

cial reporting — were initially selected for examination. The Postal Service has placed these processes under review and plans to revise the existing documentation to conform to the Committee of Sponsoring Organization's framework.

Changes in technology and the business environment emphasize the need for providing timely, accessible, relevant and accurate data to postal decision makers to support these initiatives. Similarly, an effective system of accounting, financial and information controls is necessary for measuring financial performance. In FY 2004, the Postal Service moved to a commercial off-the-shelf general ledger system that improves support capabilities, adapts to changing business processes and supports financial reporting. The OIG, in support of the annual financial statement audit, is currently reviewing the transactions included in the new general ledger system.

Computers and electronic data are vital to Postal Service operations and its critical information not only needs to be timely, reliable and accurate, but also "safe and secure."

To validate that management decisions are based on accurate information, the OIG conducted audits during FY 2004 to ensure there are effective controls over information processing environments to protect the confidentiality, integrity, reliability and availability of vital information, the revenue stream and the agency brand. For example, the OIG performed security vulnerability assessments of servers covering key information processing platforms, as well as audits of the Postal Service disaster recovery and business continuity processes and computer incident response functions. The OIG will continue this effort in FY 2005.



Computers and electronic data are vital to Postal Service operations and its critical information.

FEATURE STORIES

This chapter highlights OIG work in three areas: network optimization; working together — a “win-win” for the Postal Service; and the injury compensation working group.

NETWORK OPTIMIZATION

Optimizing the Postal Service’s multi-billion dollar mail processing and transportation network will not be easy. The sheer size and complexity of the network is daunting – as it is one of the most elaborate networks in the world.

- The mail processing component of this network encompasses more than 450 facilities, including processing and distribution centers/facilities, bulk mail centers, Priority Mail processing centers, logistics and distribution centers, international service center, business mail entry units and facility annexes, as well as various other facilities. Many of these facilities were established to process the mail by class (e.g., First-Class Mail, Standard Mail, Priority Mail, Periodicals and Package services). Efforts are underway to further enhance letter processing, improve flats automation and deploy the next generation of package sorting equipment.



The transportation and logistical support component of this network comprises more than 17,500 highway network routes, 215,000 vehicles and more than \$6 billion in annual contracts for air and surface transport.

- The transportation and logistical support component of this network comprises more than 17,500 highway network routes, 215,000 vehicles and more than \$6 billion in annual contracts for air and surface transport. This infrastructure is one of the biggest in the world. One major part of this infrastructure includes the hub-and-spoke program (HASP). A postal hub is a centralized mail collection facility located at various points nationwide. Spokes are the mail transportation routes that connect outlying dispatch or destination points to the hub. This concept reduces the need for direct point-to-point transportation routes and plays an integral part in network optimization.

This infrastructure, created incrementally over the last 30 years, contains excess capacity and some facilities that may not be optimally located. Over time, the classes and types of mail were commingled within these networks, resulting in overlapping mail flows across products and classes. Also, in today’s climate where some mail classes are experiencing flat to declining volume and market shifts, there is less need for these dedicated class-based networks.

An example that arose from multiple, class-based networks was the outsourcing of 10 Priority Mail Processing Centers to solely handle Priority Mail. Establishing a dedicated network for Priority Mail improved service, but increased Priority Mail costs to customers. Resulting price increases were a factor behind lower volume. The Postal Service learned that a more measured approach is necessary before implementing future major network changes. The Postal Service has developed a concept to optimize the current mail processing system by considering



POSTCARDS



FLATS



LETTERS



PARCELS

Over time, the classes and types of mail were commingled within these networks, resulting in overlapping mail flows across products and classes.

the physical shape of a product being processed. This “shape-based” system determines the capacity requirements based on the volume and path of each type of shape.

Evolutionary Network Development

A key component of network optimization is the Evolutionary Network Development (END), initiative, which affects \$20 billion in processing, distribution and labor costs and \$6 billion in transportation costs. (Various names have been used for this initiative including the Network Integration and Alignment Project and Network Rationalization.)

END starts with a sophisticated modeling process to help create a flexible processing and delivery network that reduces Postal Service and customer costs, increases operational effectiveness and improves consistency of service. It will be difficult to redesign the network while it is still in operation, and at the same time, maintain record customer service levels. Also, public and congressional concerns with facility closures will need to be addressed. Moreover, it will be a difficult initiative because the Postal Service has not yet achieved a common facility footprint or equipment layout in facilities.

Network Validation

As recommended by the OIG, the Postal Service assembled an internal team to conduct independent verification and validation (IVV) of the END models developed by contractors. During 2004, the IVV team identified key model assumptions, verified underlying inputs to the models and is currently validating the models. The OIG, working jointly with the IVV team, has monitored progress and recommended best practices. The Postal Service plans to complete the IVV process in December 2004. Incremental implementation and deployment of net-

work modifications will begin in calendar year 2005, and are tentatively projected to be completed by the end of 2009.

The Postal Service has already been improving network efficiency. For instance, the Postal Service has reduced costs by improving operational efficiency in the international mail processing network. Postal Service management closed the Dallas, Texas, International Service Center (ISC) and performed network efficiency reviews of other centers. The OIG continues to work together with the Postal Service to independently assess inefficiencies in the ISC network.

Over the past six months, the OIG and the Postal Service have worked jointly to:

- Improve the efficiency of operations at the New York ISC by reducing 320,000 workhours. This reduction could produce a cost avoidance of \$98 million over 10 years.
- Improve the efficiency of the Airmail Records Unit at the New York ISC by reducing 30,000 workhours. This reduction could produce a monetary impact of \$9.2 million over 10 years. Management also agreed to consider outsourcing this operation.

The OIG and the Postal Service will work together to further improve operational efficiencies by examining the Los Angeles ISC and selected domestic mail processing facilities in the Eastern and Capital Metro Areas.

Transportation Network

The Postal Service spends more than \$2 billion annually for contracted highway transportation. It has taken steps to optimize its highway transportation network and reduce costs by consolidating highway contract transportation routes.

Over the past two years, the OIG issued 10 audit reports covering evaluation

of highway contract routes, and has worked with the Postal Service to identify more than 1,000 potential highway contract trip eliminations, consolidations or modifications potentially resulting in savings of more than \$50 million over the life of the contracts. The Postal Service eliminated or modified most of these trips without negatively affecting service or operational flexibility because mail volume was low and mail could be consolidated on other trips.

Air networks are another vital part of the overall transportation network necessary to accomplish the Postal Service's mission. Its air network operations consist of contracts with FedEx, commercial airlines and other private carriers. Approximately \$1.9 billion is spent annually on these operations — with about \$1.2 billion to FedEx and \$700 million to commercial and other private carriers.

In May 2004, the OIG began audit work in the air network operations area with the objectives of determining whether air network operations are effective and identifying opportunities to save money. During the first phase of the audit, the OIG is assessing operations under the new commercial air contract, including a review of contract implementation by postal headquarters and planned reviews of local postal air mail and carrier operations. Through this work, the OIG intends to assist the Postal Service in overcoming network optimization challenges.

The Postal Service currently spends more than \$1 billion per year for vehicle and aviation fuel, making it one of the largest fuel consumers in the United States. Fuel costs are second only to labor costs in Postal Service highway transportation contracts. A one-cent increase in the cost of fuel results in an \$8 million annual fuel increase. Consequently, in March 2004, the OIG announced audit work in the fuel management area to determine if fuel

procurement cost-effective and to identify opportunities to save money.

The first phase of the audit will determine if the diesel bulk fuel program is being effectively implemented. The results of this work will determine if the diesel bulk fuel program can be expanded to provide savings in additional areas of fuel consumption.

During this period, OIG investigations uncovered fraud in the transportation services area. A Postal Service contracting officer became suspicious that a Texas truck trailer lease contractor involved in mail delivery was overcharging for truck trailer repairs. Following our investigation, in August 2004, the contractor pled guilty to making false claims. The OIG determined that the contractor filed hundreds of claims for damage reimbursement, conspired with certain preferred vendors to undermine the required competitive bidding process and, between 1997 and 2002, submitted more than 95 percent of its claims with a falsified estimate for repair.

The OIG will continue to work with the Postal Service to optimize the highway transportation network, and plans to review the bulk mail transportation routes and the FedEx contract.



Looking Toward The Future

The Postal Service and the OIG will continue working together to identify opportunities to improve operations and reduce costs. Some near-term challenges for the Postal Service involving the END initiative include:

- Completing a blueprint that will govern network changes;
- Developing a comprehensive and integrated plan for network changes;
- Identifying and obtaining the resources needed to incrementally implement network optimization; and
- Developing a formal process to implement the initiative and evaluate results.

WORKING TOGETHER — A “WIN-WIN” FOR THE POSTAL SERVICE

Working together has proven to be an effective means of improving the efficiency of the Postal Service. Today, there is increased involvement with postal management in planning and providing technical assistance on audits, but independence is maintained by ensuring that final decisions are made by the OIG, according to responsibilities outlined by the Inspector General Act. In some instances, postal employees were assigned to serve as

technical advisors on OIG-led audits. This relationship has fostered trust and open communications between the Postal Service and the OIG. The OIG’s goal is to add value and provide a helpful resource to the Postal Service.

In another example, Postal Service managers worked closely with the OIG’s Network Operations – Processing and Logistics teams to save the Postal Service 589,000 workhours, eliminate 1,000 unnecessary trips and realize monetary benefits of more than \$247 million. The table below provides additional breakdowns.

The OIG’s Network Operations – Processing and Logistics teams will continue to assist postal managers in tackling the challenges of declining mail volume, excess capacity and underutilized networks by providing an independent assessment of mail processing and transportation operations. The improved relationship has also led to audit referrals in the areas of domestic and international mail operation networks, bulk mail highway transportation routes and military absentee ballots.

These efforts have generated more discussion on how the OIG can coordinate and cooperate to bring value to the Postal Service. For instance, the OIG Network

ADDING VALUE

Topic	Theme	Number of Reviews	Workhour Savings	Monetary Impact over 10 Years
Evolutionary Network Development	Independent Verification and Validation - Advisory Capacity	1	None	None
Business Mail Entry Units	Efficiency	7	94,000	\$29 million
International Service Centers	Efficiency and Facility Closures	4	495,000	\$168 million
MERLIN	Utilization/Revenue Collection	2	None	\$30,455
Highway Contract Routes	Optimizing the Transportation Network	10	None	\$50 million over contract term, 1,000 trips eliminated
TOTAL		24	589,000	\$247 million

Operations - Logistics team was recently requested to make presentations at the Southeast Area's Transportation and Networks meeting and at a national meeting of managers from bulk mail centers, area distribution network offices and network operations management.

The OIG shared with the Postal Service its methodology for evaluating highway contract trips and identifying opportunities to eliminate trips and save money. The Postal Service transportation managers shared their thoughts and insights. At these meetings, both the Postal Service and the OIG addressed the challenges brought on by change, stressed the need for and benefit of working together, and explored opportunities to share information.

Working together has definitely proven to be a "win-win" for the Postal Service and the OIG as they prepare for the future.

INJURY COMPENSATION WORKING GROUP

To identify and help control increasing costs associated with the workers' compensation program, an Injury Compensation Working Group (ICWG) was created in January 2004, with a staff drawn from the OIG, the USPIS, the Postal Service's Health and Resource Management (H&RM) division and stakeholders. Investigative, audit and administrative initiatives were begun to reduce provider and claimant fraud, to address systemic issues related to the fee schedule and bill payment system of the DOL OWCP and to enhance the Postal Service's operational efficiency.

A major management challenge for the Postal Service in FY 2004 was to reduce workers' compensation payments, which increased from \$638 million in FY 2000 to \$830 million in FY 2004. In addition, the Postal Service paid the DOL

\$44.5 million in fees for administering OWCP claims in 2004. (DOL administers the workers' compensation program for all federal agencies. However, unlike agencies that receive annual appropriations from Congress, the Postal Service pays workers' compensation costs from its own revenue.)

In July 2004, the ICWG implemented a new computer program called the Healthcare Internal Data Analysis System. The system "analyzes" data by delving into DOL OWCP medical billing and compensation payment records to identify patterns, trends and schemes that may be driving up costs, as well as to select and refine management practices that could result in fewer work-related injuries to postal employees.

Phase I of the system rollout began in July 2004. A contracted registered nurse and investigative analyst from H&RM and the postal healthcare fraud group are analyzing data to identify duplicate medical billings for identical or multiple medical services paid by DOL OWCP.

From July 1, 2003 to July 1, 2004, the OIG Dallas Field Office and Postal Service Injury Compensation Unit conducted "beta" (field) testing of the system, which identified \$432,851 in duplicate billings in the Southwest Area. Collection efforts since October 1, 2003, have returned nearly \$289,000 to the Postal Service by way of DOL. An additional \$84,000 is pending collection, with analysts reviewing another \$60,000 for possible collection. At the conclusion of the Southwest Area review, the working group will use the system to analyze medical data in the Pacific, Southeast and Eastern Areas.

Phase II of system implementation, which began recently, is examining "unbundling" as a potential cause of increased costs for OWCP and the Postal Service. (Unbundling is the practice of breaking

a medical service apart and separately billing the constituent parts. For example, an unbundled appendectomy might produce separate bills for the abdominal incision, abdominal surgery, tissue restructuring and sutures.) Unbundled services cost OWCP and the Postal Service more, since the total cost for the various parts is more than the allowable charge for the service. Beta testing of this phase of the system is scheduled to begin in November 2004, followed by implementation at the end of December 2004.

In addition to identifying root causes for cost increases, the ICWG's 11 members

seek to lower costs through investigations, audits or administrative remedies and recommendations. Thus far, analytical work by group members has pinpointed certain system weaknesses and administrative activities, as well as fraud, as potential causes for the rising costs. The OIG has already initiated investigations and audits and has others planned.

The group also expects to provide information that may support a legislative change that would allow the Postal Service to better control its OWCP costs by moving from the OWCP Federal Employees' Compensation Act program to one of its own.

IDEAS WORTH EXPLORING

The role of the OIG is not only to fight waste, fraud and misconduct, but also to promote economy, efficiency and effectiveness in Postal Service programs and operations. Therefore, researching initiatives is within the OIG's area of responsibility. In this section, the OIG explores ideas and concepts regarding postal operations and programs that may reduce costs, improve efficiencies, increase revenue or introduce new ways of doing business. Many of these ideas have been introduced before, and the OIG plans to determine the feasibility or viability of these concepts.

The OIG proposes eight ideas for further consideration:

- *Property line mailbox delivery, which looks at improving efficiency by requiring mail delivery to property line mailboxes rather than to a customer's door.*
- *Postal Service commercialization of benefit programs like life and health insurance as well as administration of the workers' compensation program.*
- *Cost efficiency of contract routes versus hourly carriers.*
- *"Neighborhood mail," which allows the delivery of unaddressed mail to the mailbox.*
- *Five-day versus seven-day delivery to maximize efficiency and infrastructure utilization.*
- *Labor flexibility to allow employees to perform jobs currently worked by a single craft.*
- *Right-sizing Post Offices while providing fair and efficient retail services.*
- *Government-related services, which would allow postal employees to perform functions on behalf of other federal agencies.*

Each of these suggestions poses new challenges and potential opportunities for the Postal Service.

PROPERTY LINE MAILBOX INITIATIVE

The Postal Service is continually challenged to keep up with increasing mail delivery points (drop-off points for mail, such as houses, businesses, housing developments, etc.). It delivers to more than 140 million delivery points, or stops, daily; and, as of the third quarter of 2004, there were more than 1 million additional delivery points added over the previous year.

According to the U.S. Census Bureau, the nation's population was more than 282 million in 2000, and by 2010 it will be approximately 309 million. As urban and suburban areas continue to grow, maximizing mail carrier efficiency to new and existing delivery points will be key to controlling the costs of providing universal service.

City delivery workhours comprise the largest workhour segment in the Postal Service. City letter carriers can make deliveries in vehicles, on foot, or a combination of vehicle and on foot. The cost per delivery increases as the delivery is made closer to the customer's door. Delivery to a customer's door is the least efficient mode of delivery because the carrier has to dismount from the vehicle, walk onto the customer's property and, in many cases, climb stairs to perform the door delivery.

According to a recent Government Accountability Office review, door delivery once was the norm in urban settings; however, the Postal Service changed its policy in 1978 to limit additional door deliveries to further enhance delivery efficiencies. To comply with this policy, the Postal Service started working with developers of new single-family neighborhoods to provide alternatives to door delivery. As a result, property line delivery is one of the fastest growing modes of delivery. According to Postal Service delivery officials, the only instance where new delivery points would receive door delivery would be if the new delivery point is established on a block that currently receives door delivery.



At the end of FY 2003, approximately 32 percent of deliveries (excluding those to postal retail facilities) were still made to the door. This has a significant impact on the workhours and thus the costs of delivery for the Postal Service.

Instituting a national policy on mailbox placement, whereby existing door deliveries would be converted to property line deliveries, might possibly provide for savings in excess of a billion dollars annually to the Postal Service.

Other key factors such as customer concerns and Congressional interests would need to be considered. This national policy could also allow for certain exceptions, through a local approval process, to provide continued door service for senior citizens and other customers who for reasons of disability or other appropriate reasons need door delivery on a continual or periodic basis.

In addition, alternatives to property line delivery should be considered for those areas where theft and the security of mail are a significant concern.

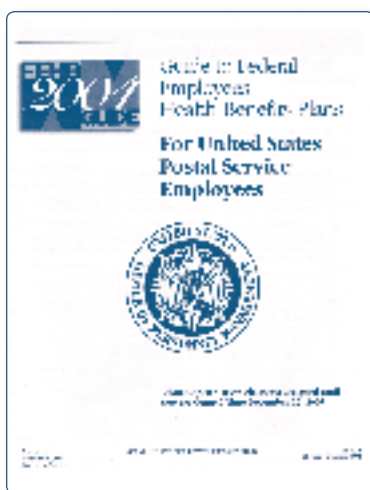
costs while, more importantly, not reducing employee benefits.

Postal employees are covered by the federal benefit programs for workers' compensation, Office of Workers' Compensation Programs (OWCP); life insurance, Federal Employees' Group Life Insurance (FEGLI); and health insurance, Federal Employees' Health Benefits (FEHB). In FY 2003, these three programs accounted for more than 11 percent of the Postal Service's compensation and benefits, or \$5.7 billion.

Because these programs represent a significant portion of its overall costs, the Postal Service may receive better rates with no reduction in benefits to employees by allowing private sector companies to competitively bid against each other to sponsor or administer the Postal Service's benefits programs.

Postal employees who are injured on the job are covered by the Federal Employees' Compensation Act, administered by the DOL's OWCP. As noted previously, the Postal Service was the largest participant in the federal workers' compensation program in FY 2004, paying over one-third of the \$2.3 billion in total federal workers' compensation payments. This was an increase of over 30 percent since FY 2000. In addition, the administrative fees that OWCP charges the Postal Service have increased 33 percent, from \$33 million in 2000 to \$44 million in 2004.

There are opportunities to reduce workers' compensation costs through rule changes that would put the federal program on par with most state programs. Eliminating annual COLAs, establishing one compensation rate at 66 2/3 percent, implementing a three day waiting period, allowing employer choice of physician and mandatory retirement age would all make the federal program more cost-effective for the entire federal government and not adversely affect the OWCP benefits of injured workers.



Federal Employees' Health Benefits (FEHB) brochure

COMMERCIALIZATION OF EMPLOYEE BENEFITS PROGRAMS

The Postal Service may have an opportunity to better administer its benefits programs by utilizing its buying power and looking on the open market for comparable or better rates and coverage.

While evaluating alternate opportunities, the Postal Service can initiate or continue to work with organizations currently administering the benefits programs to ensure all parties are doing everything possible to minimize costs by preventing or detecting errors or irregularities. This could slow the increase of current employee benefits program

Given the size of the Postal Service injury compensation program, the possibility of establishing its own program could result in savings for the Postal Service and the federal government, and needs to be more fully explored.

In the meantime, the Postal Service has taken steps to reduce workers' compensation costs. For example, medical claim costs were reduced by contracting with a network of medical care providers. The savings are distributed back to the Postal Service.

Also, the Postal Service, along with the OIG, should keep working with the DOL's OWCP to find new ways of conducting business and developing tests to detect possible fraud schemes, double billings or simple errors associated with workers compensation payments. Continued efforts should work to keep costs down.

FEGLI is the largest group life insurance program in the world. Generally, the cost of basic insurance is shared between the employee and the government; however, the Postal Service pays the complete cost of basic life insurance for its 690,000 eligible employees, nearly \$200 million per year. (All postal employees receive basic life insurance coverage, with the exception of those who waive coverage, casual or temporary employees, substitute rural carriers and certain members of the Uniformed Services, among others.) The Postal Service pays over 50 percent of the total costs spent by the federal government for this benefit. Estimates indicate that the Postal Service could realize substantial savings if its assets were transferred from FEGLI to a plan operated by the Postal Service.

The FEHB program provides health insurance benefits to more than eight million federal enrollees and dependents, including eligible employees of the Postal Service. (Similar to the life insurance benefit, certain postal personnel are not eligible for health insurance, including members of the armed forces.) Like

other federal agencies, health benefit costs are shared between the Postal Service and the employee. However, according to the President's Commission, Postal Service collective bargaining employees contribute only slightly more than half of what other federal and private sector workers contribute for health care coverage.

In FY 2003, the Postal Service paid approximately 83 percent or \$4 billion of the premium costs for nearly 630,000 eligible employees. This was an increase of nearly 8 percent from FY 2002. Costs continued to rise through the third quarter of FY 2004 and the Postal Service expects an increase of about \$800 million in FY 2005.

The Government Accountability Office, in an FY 1992 report on federal health benefits costs, noted that the FEHB program's administrative costs could be reduced by allowing for the competitive selection of contractors to perform the program's administrative services. Further research may be necessary to determine whether sufficient vendors exist that could accommodate the Postal Service's employee benefit needs.

The concept of the federal government utilizing the commercial marketplace to reduce costs is not new. The government has recognized that it must determine whether efficiencies can be gained by using commercial or private sector alternatives. A recent update to the President's Management Agenda further encourages public-private competition. The President's Commission noted that unless postal expenses can be reduced, it is questionable whether affordable universal mail service is sustainable via a self-financing public institution. The Commission also supported broader flexibility to pursue new strategies to bring revenues and expenditures into balance without sacrificing quality of service and the ability to meet the nation's postal needs.

The OIG can work with the Postal Service to determine the feasibility of a strategy to pursue commercial alternatives to its current benefit programs while, at the same time, work with the Postal Service and administrators to monitor the benefit programs to keep cost increases to a minimum.

CONTRACT ROUTES VERSUS HOURLY CARRIERS

As discussed, delivery costs for the Postal Service are significant and grow with increases in the number of addresses. Unlike processing, street delivery is intrinsically labor



Rural carrier

City letter carrier

intensive. The Postal Service uses more than 220,000 city carriers and 60,000 rural carriers to deliver the mail to more than 140 million delivery points.

Both city and rural carriers are Postal Service employees. However, city carriers are paid hourly wages with overtime, if worked, while rural carriers are paid an annual salary based on an evaluation of the average workload per route. The Postal Service also contracts with private individuals and businesses through competitive bidding for the highway movement and delivery of mail to another two million delivery points.

Salaries and benefits for letter carriers, which constitute about 43 percent of total salaries and benefits for the Postal Service, are projected for FY 2005 to be \$21 billion — \$16 billion for city carriers and \$5 billion for rural carriers. A 1999 study by Postal Rate Commission (PRC) staff concluded that the costs of the different types of delivery

vary significantly. The study showed that the average annual cost per route for city carriers was about \$104,000; for rural carriers, about \$74,000; and for highway contract carriers, about \$25,000.

A July 2004 report from the Government Accountability Office (GAO) noted that the Postal Service estimated the annual cost in FY 2003 for each city door delivery (\$295) was more than twice as expensive as rural delivery (\$143) and over three times as expensive as highway contract deliveries (\$90). The GAO report said a key factor in determining the total cost of a route is the carriers' compensation system, which differs for each type of carrier. Compensation for city and rural carriers is collectively bargained between the Postal Service and the National Association of Letter Carriers (NALC) and the National Rural Letter Carriers Association (NRLCA), respectively. Compensation for contract carriers is established by the terms of their contracts.

The OIG plans to consult with the Postal Service and its unions to explore the merits and concerns regarding the various methods of compensating carriers for a day's work. Because city letter carriers are compensated hourly, there is little incentive for them to deliver the mail quickly; in fact, this compensation method could encourage slower delivery because of overtime compensation. Rural and contract carriers have more incentive to deliver mail quickly because, in general, their compensation does not vary even if it takes longer than normal to deliver a given day's mail volume.

The Postal Service may consider exploring legislation permitting a form of pay called "administratively uncontrolled overtime," a substitute form of payment used by other agencies for irregular, unscheduled overtime work, which is paid on an annual rather than hourly basis. This form of compensation could allow the Postal Service to better predict and control overtime costs.

NEIGHBORHOOD MAIL

The Postal Service previously developed the concept of neighborhood mail or community mail, a service that could benefit the



Neighborhood mail may also increase small businesses' targeted market presence and revenues.

Postal Service and small- and medium-sized businesses. Using neighborhood mail, businesses could send unaddressed mail to potential customers in the communities they serve using the Postal Service's knowledge of the number of pieces necessary to cover a given delivery area. However, past opposition from major newspaper lobbyists stopped further concept development.

Currently, only three countries with major Posts (postal services) — Italy, Spain and the United States — do not take advantage of neighborhood mail. Countries that provide this service include Switzerland, France, Germany and Sweden. However, these countries do not have a monopoly on mail delivery; rather, they only have a share of the total mail volume in their respective countries.

For the Postal Service, further concept development of unaddressed neighborhood mail may be beneficial because it has a monopoly on every mailbox in the United States. The Postal Service could potentially have 100 percent share of the volume if it offered this service, increasing mail volume and revenue, enabling it to meet its federal mandate to operate on a break-even basis. Neighborhood mail may also increase small

businesses' targeted market presence and revenues. While the Postal Service has not made any formal revenue projections, some officials estimated this service could increase annual revenue by \$100 million to \$300 million per year.

FIVE-DAY VERSUS SEVEN-DAY DELIVERY

The Postal Service currently delivers mail six days-a-week as part of its universal service obligation. Changing this six-day commitment to five or seven days could be explored for opportunities to enhance the Postal Service's current financial position. The Postal Service has already examined the five-day option and deemed it not feasible from a financial perspective, or from impact on stakeholders. (On April 3, 2001 the Postal Service Board of Governors directed management to study cost savings associated with reducing delivery service to five days. On July 10, 2001, the Governors announced that the Postal Service will continue with its existing six-day delivery service after hearing preliminary findings on the study of the five-day option.) The estimated net savings was found to be negative due to loss of revenue and less than expected cost savings.

More importantly, the adverse impact on customer service and customer satisfaction was deemed to be prohibitive. These findings suggest that increasing the delivery frequency to seven days may result in equally interesting but favorable findings. It is conceivable that a seven-day delivery service may result in additional revenues that would offset additional costs while increasing customer service and satisfaction, and offering the Postal Service a competitive advantage.

The OIG may consider exploring the operational feasibility and financial considerations of changing the frequency of delivery to seven days. The Postal Service has a significant infrastructure in place that is generally not utilized one day a week. Market research and cost studies need to be undertaken

to properly examine the operational and financial impact of such a proposal. Market research would be helpful to probe customers' needs and stakeholders' reaction, and to estimate volume and revenue impact. There could also be political pressure against this change from competitors such as newspaper associations and other delivery services. If these studies, however, yield favorable findings, the Postal Service may opt for a gradual approach (as opposed to a big bang approach) in implementing this change in a test market before full and national implementation.

LABOR FLEXIBILITY/MOVING ACROSS CRAFTS

The agreements between the Postal Service and three of its four major unions — American Postal Workers Union, National Postal Mail Handlers Union, and the National Association of Letter Carriers — state that “normally, work in different crafts, occupational groups or levels will not be combined into one job.” This is a prohibition against what is referred to as “crossing crafts,” except in accordance with certain restrictive provisions. This prohibition may have slowed the Postal Service in its efforts to increase efficiencies in mail processing and delivery. Specifically, it limits the Postal Service's ability to make cross craft assignments even when there is no question the reason for the assignments is to avoid duplication of effort and increase efficiencies.

For example, if a postal clerk has insufficient work for an eight-hour workday but there is a heavy workload elsewhere, management cannot readily assign him/her to that work unless it is within his/her craft and at his/her same level. Instead, the Postal Service generally would either pay overtime to an employee in the overloaded craft or delay completion of the work until another day. In the meantime, management must pay the idle clerk, even though he/she is not working.

The issue of greater flexibility in the deployment of the Postal Service workforce was discussed in the President's Commission report. The report stated that the effective utilization of employees was essential to the process of building and maintaining a world-class workforce. The report further stated this was needed to ensure appropriate flexibilities in its deployment of the workforce.

The OIG will look at merits and concerns on these issues with the Postal Service and its unions.

RIGHT-SIZING POST OFFICES: PROVIDING FAIR AND EFFICIENT RETAIL SERVICES

The Postal Service faces significant legal and political constraints when attempting to close Post Offices to right-size its operations. Private companies that provide retail services have much greater flexibility to open and close outlets than the Postal Service. It is a commonly accepted principle that private competitive markets do a far better job of supplying the demand for goods and services than the government.



Private companies that provide retail services have much greater flexibility to open and close outlets than the Postal Service.

Many believe that government should only provide essential goods and services if private markets would fail to do so.

The Postal Reorganization Act defines postal services as “basic and fundamental” and requires that the Postal Service provide “prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” It is clear that

Congress believes that postal services are essential services that private markets would not serve. It is not clear whether the Postal Service provides such service in the most fair and efficient manner possible. Putting aside the question of whether private markets would provide postal services if there were no monopoly, much could be learned from private markets on how and where similar services are provided.

The OIG will benchmark postal retail services against retail services provided by private markets for essential services such as pharmacies and other similar retail outlets. This research could develop measures of access to postal and other retail services such as retail units per square mile, customers per retail unit and households per retail unit. Such measures could be compared nationwide and by geographic areas.

The benchmarking would recognize that the Postal Service is expanding access to products and services through alternate locations and channels. Nonetheless, the results may indicate that there are too many and or too few Post Offices in many areas. Most importantly, the analysis would provide a knowledge base and criteria for the Retail Network Optimization initiative and would assist decision makers in determining any changes to the network and where the access points best fit into that retail network.

In the *Transformation Plan*, the Postal Service identified its strategy to ensure it continues to provide customers with more and better access to its products and to make better, more efficient use of its extensive retail network, including moving simple transactions out of the Post Office.

The Postal Service recognizes that the shifting geography of its customers, the changes in customer lifestyles and behaviors, and the rise of new technology all affect how it provides access to its products and services. To determine how best to provide access to

retail services, the Postal Service has a Retail Network Optimization initiative to develop a “consistent and systematic methodology to maximize retail access strategy, which will result in equal or better value for Postal Service customers, in addition to avoiding unnecessary future postal expenditures.”

GOVERNMENT – RELATED SERVICES

The Postal Service has the opportunity to increase revenue and potentially decrease the cost of government in general by providing more services through its extensive retail network for other government agencies in need of a physical presence in thousands (up to 38,000) of locations throughout the country. For example, the Postal Service currently offers limited government-related services such as passport applications.

The passport application program is in partnership with the Department of State. The Postal Service receives \$30 for each application. For fiscal year 2004, the Postal Service has generated more than \$100 million in revenue from passport fees alone. The Postal Service continues to explore new opportunities to generate revenue by offering government-related services.

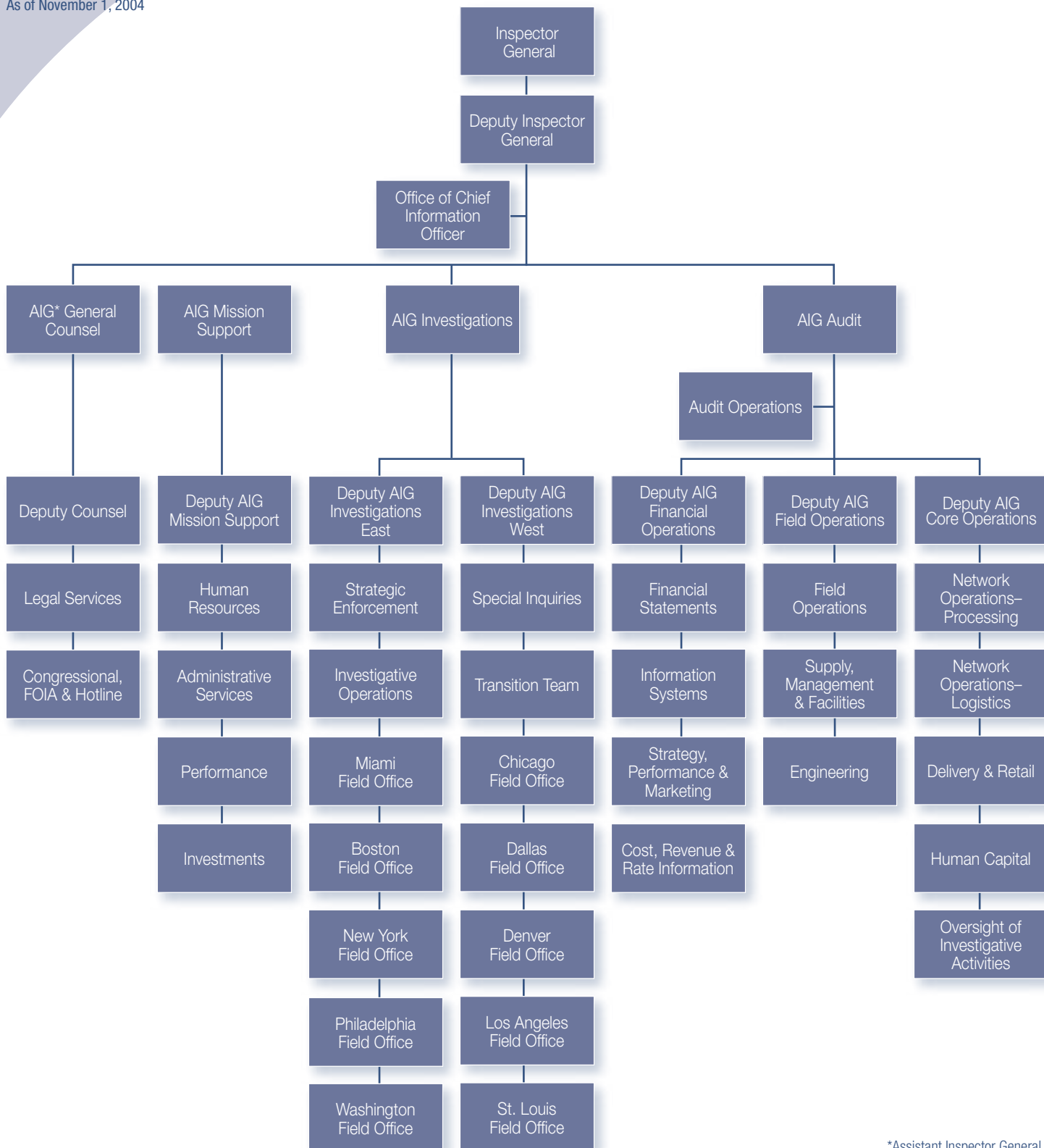
Additional services could be provided for other agencies, such as taking applications for social security cards, benefit applications for social security or welfare, etc. The Postal Service may wish to examine ways to provide more mail services to other federal agencies. Currently, federal agencies are not using postal products such as Express Mail and Priority Mail to its fullest extent possible for government business. Because of regulatory constraints, the Postal Service cannot respond to market forces where other carriers are able to provide more flexible pricing and discounts than the Postal Service. The OIG plans to explore the opportunities of other governmental activities through which the Postal Service could generate additional revenue.



The passport application program is in partnership with the Department of State. The Postal Service receives \$30 for each application.

USPS OFFICE OF INSPECTOR GENERAL ORGANIZATIONAL CHART

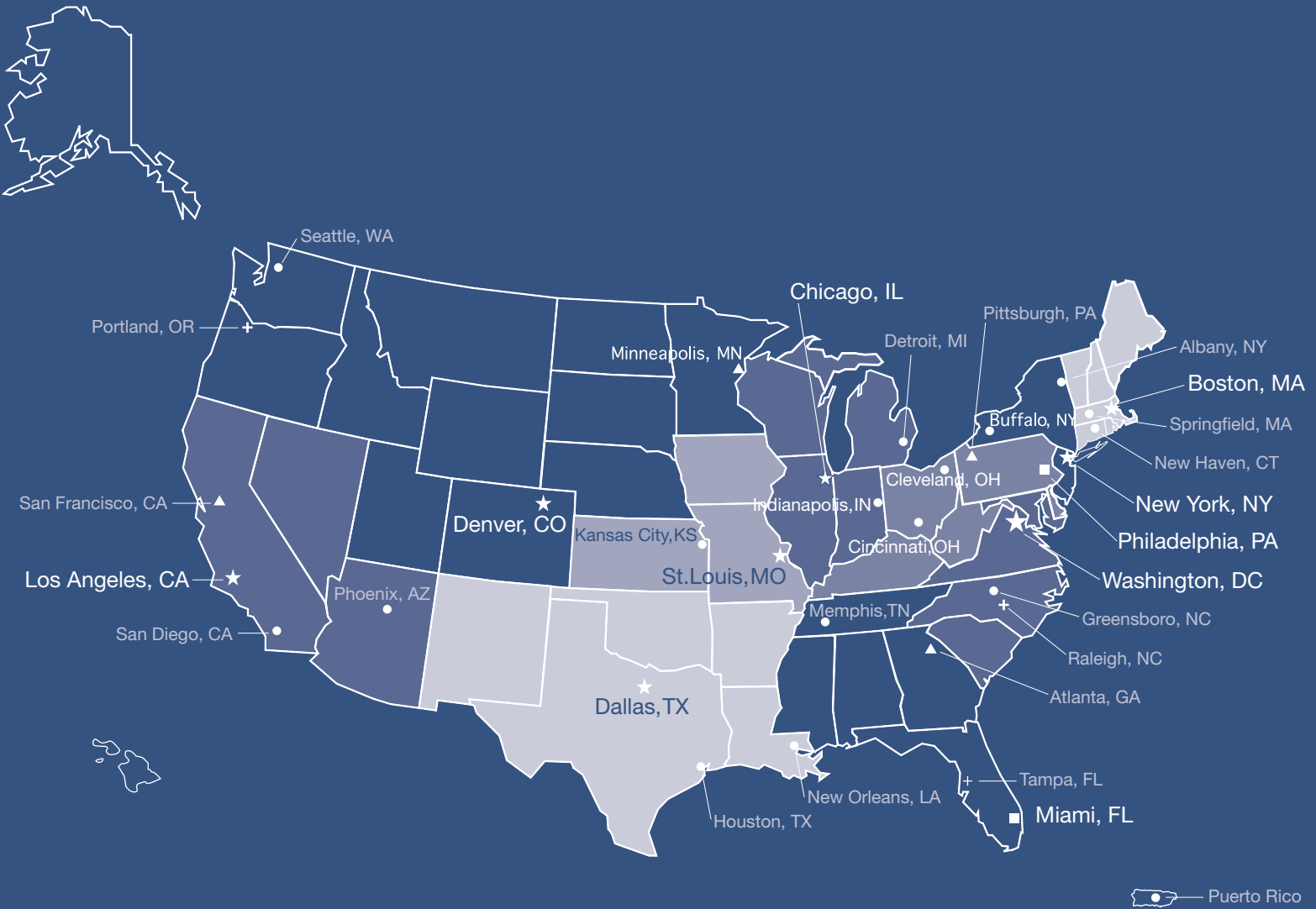
As of November 1, 2004



*Assistant Inspector General

USPS OFFICE OF INSPECTOR GENERAL OFFICE LOCATIONS

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



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

APPENDICES

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

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

istration of U.S. Postal Service programs and operations during the reporting period. Over the last six-month time period, the Postal Service agreed with our recommendations that identified potential monetary benefits of nearly \$230 million.

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

APPENDIX A

REPORTS ISSUED TO POSTAL SERVICE MANAGEMENT

For the period April 1, 2004, through September 30, 2004

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

SUMMARY

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

Principal Area	Number of Reports Issued	Questioned Costs ¹	Unsupported Costs	Recommended Funds Put To Better Use	Revenue Impact	Unrecoverable Costs
Cost Control	248	\$65,263,905	\$4,725,975	\$163,398,672	\$634,325	\$67,199
Revenue	4	\$0	\$0	\$0	\$30,455	\$0
Safety and Security	5	\$0	\$0	\$0	\$0	\$0
Management Information	10	\$0	\$0	\$0	\$0	\$0
Strategic Direction	1	\$0	\$0	\$0	\$0	\$0
TOTAL	268	\$65,263,905	\$4,725,975	\$163,398,672	\$664,780	\$67,199

¹ Includes unsupported costs of \$4,725,975.

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Audit Report	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Revenue Impact	Unrecoverable Costs
COST CONTROL					
SUPPLY MANAGEMENT AND FACILITIES					
Application of Agreed-Upon Procedure to Lease Operating Expenses Claimed by Equities Office Property Trust CA-CAR-04-023; 07/01/2004	\$9,632	—	—	—	—
Audit of Billed Costs Submitted by Clean Harbors Environmental Services, Incorporated Under Contract Number CG84-99-A-100042, Delivery Order 483083-02-F-0108 CA-CAR-04-014; 04/21/2004	\$1,010,063	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by M & A Technology Incorporated CA-CAR-04-013; 04/13/2004	\$1,374,913	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronics Systems Company, Under Letter Contract Number 3BMHRD-03-Z-5541, Solicitation Number DLH-071804 CA-CAR-04-018; 05/05/2004	\$13,250,468	—	—	—	—
Audit of Firm Fixed Price Proposal Submitted by Siemens Dematic Postal Automation L.P. CA-CAR-04-021; 06/02/2004	\$89,463	—	—	—	—
Audit of Incurred Costs at the William F. Bolger Conference Center Under Contract Number 102590-97-B-0032 CA-CAR-04-020; 06/02/2004	\$25,822	—	—	—	—
Audit of Proposal Submitted by CODE Plus, Incorporated CA-CAR-04-026; 09/20/2004	\$249,238	—	—	—	—
Audit of Termination for Convenience Price Adjustment Claim Submitted by Abcon Associates, Incorporated CA-CAR-04-022; 06/16/2004	\$4,478,385	\$2,702,465	—	—	—
Financial Opportunities of Underutilized Land CA-MA-04-004; 07/1/2004	—	—	\$330,000	—	—
Lessor Maintenance Enforcement CA-MA-04-006; 09/30/2004	—	—	\$20,507	—	\$6,000
FISCAL YEAR 2003 FINANCIAL INSTALLATION AUDITS					
Englewood Station FF-AR-04-239; 08/12/2004	\$7,035	\$7,035	—	—	—

DEFINITIONS

QUESTIONED COSTS

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

UNSUPPORTED COSTS

A cost that is not supported by adequate documentation. Unsupported costs are included with the amounts shown as Questioned Costs.

FUNDS PUT TO BETTER USE

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

REVENUE IMPACT

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

UNRECOVERABLE COSTS

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

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Audit Report	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Revenue Impact	Unrecoverable Costs
FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDITS					
Albany Business Mail Entry Unit FF-AR-04-224; 07/08/2004	—	—	—	\$994	\$0
Amsterdam Business Mail Entry Unit FF-AR-04-199; 06/21/2004	—	—	—	\$794	—
Bally Post Office FF-AR-04-272; 08/31/2004	—	—	—	\$1,068	—
Broken Arrow Post Office, Broken Arrow, OK FF-AR-04-295; 09/27/2004	—	—	—	\$1,301	—
Carrollton Post Office and Business Mail Entry Unit FF-AR-04-150; 05/05/2004	—	—	—	\$122,900	—
Cathlamet Post Office FF-AR-04-174; 05/27/2004	—	—	—	\$3,570	—
Clarksville Self-Service Postal Center FF-AR-04-131; 04/20/2004	—	—	—	—	\$1,896
Clovis Main Post Office FF-AR-04-206; 06/28/2004	—	—	—	\$2,093	—
Coronado Self-Service Postal Center FF-AR-04-132; 04/22/2004	—	—	—	—	\$1,192
Crenshaw Station FF-AR-04-128; 04/30/2004	—	—	—	\$1,005	—
Durham Business Mail Entry Unit FF-AR-04-236; 07/27/2004	—	—	—	\$16,503	—
El Dorado Post Office FF-AR-04-210; 06/30/2004	—	—	—	\$2,350	—
El Mercado Postal Store FF-AR-04-293; 09/21/2004	—	—	—	\$3,507	—
Frederick Business Mail Entry Unit FF-AR-04-118; 04/13/2004	—	—	—	\$141,954	—
High Point Post Office FF-AR-04-192; 06/10/2004	—	—	—	\$12,735	—
Ithaca Downtown Station FF-AR-04-277; 09/08/2004	—	—	—	—	\$1,082
Kenwood Station FF-AR-04-162; 05/13/2004	—	—	—	\$18,178	—
Lakeland District Leased Vehicles FF-MA-04-001; 07/02/2004	—	—	\$186,027	—	—
Lebanon Business Mail Entry Unit FF-AR-04-197; 06/16/2004	—	—	—	\$568	—
Livonia Business Mail Entry Unit FF-AR-04-216; 07/07/2004	—	—	—	\$582	—
Long Beach Viking Station (CA) FF-AR-04-157; 05/14/2004	—	—	—	\$1,114	—
Manasquan Main Office FF-AR-04-207; 06/29/2004	—	—	—	\$1,200	—
Merced Business Mail Entry Unit FF-AR-04-297; 09/28/2004	—	—	—	\$2,442	—

REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Audit Report	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Revenue Impact	Unrecoverable Costs
Milton Post Office FF-AR-04-222; 07/08/2004	—	—	—	\$5,354	—
New Castle Post Office FF-AR-04-173; 05/28/2004	—	—	—	\$5,816	—
New Haven (CT) Business Mail Entry Unit FF-AR-04-233; 07/21/2004	—	—	—	\$4,524	—
New York Main Office FF-AR-04-262; 08/19/2004	—	—	—	\$5,725	\$13,807
Northaven Station FF-AR-04-176; 05/27/2004	—	—	—	\$2,060	—
Northwest Postal Store, Gainesville, FL FF-AR-04-156; 05/14/2004	—	—	—	\$0	\$22,916
Ortega Contract Postal Unit FF-AR-04-251; 08/13/2004	—	—	—	\$18,960	—
Palatine Business Mail Entry Unit (IL) FF-AR-04-159; 05/14/2004	—	—	—	\$5,160	—
Pewaukee Business Mail Entry Unit FF-AR-04-276; 09/07/2004	—	—	—	\$10,338	—
Pico Rivera Bulk Mail Entry Unit FF-AR-04-298; 09/28/2004	\$1,379	—	—	—	—
Pico Rivera Main Office – Self-Service Postal Center FF-AR-04-116; 04/08/2004	—	—	—	\$0	\$4,121
Piney Creek Post Office (NC) FF-AR-04-151; 05/10/2004	—	—	—	\$756	—
Rockford Post Office, Rockford, MI FF-AR-04-167; 05/21/2004	—	—	—	\$1,264	—
San Francisco Business Mail Entry Unit FF-AR-04-275; 09/07/2004	—	—	—	\$18,120	—
Schertz Main Post Office FF-AR-04-119; 04/09/2004	—	—	—	\$1,309	\$4,012
Southampton Post Office FF-AR-04-133; 04/22/2004	—	—	—	\$517	—
Tampa Business Mail Entry Unit FF-AR-04-219; 07/08/2004	—	—	—	\$5,572	—
Tampa Main Office Window Unit FF-AR-04-255; 08/13/2004	—	—	—	\$3,948	\$12,173
West Chester Business Mail Entry Unit FF-AR-04-246; 07/30/2004	—	—	—	\$19,044	—

FISCAL YEAR 2004 FINANCIAL RELATED AUDITS

Stamp Accountability and Inventory Controls Related to the American Bank Note Company FF-AR-04-269; 8/31/2004	—	—	—	\$191,000	—
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REPORTS WITH QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Audit Report	Questioned Costs	Unsupported Costs	Recommend Funds Put to Better Use	Revenue Impact	Unrecoverable Costs
NETWORK OPERATIONS - LOGISTICS					
Bulk Mail Center Highway Transportation Routes – Great Lakes Area NL-AR-04-004; 09/29/2004	—	—	\$7,660,533	—	—
Vehicle Management – Delivery Vehicles – Buy Versus Lease NL-AR-04-005; 09/30/2004	\$42,751,032	—	\$40,296,954	—	—
Vehicle Management – Trailer Requirements – Northeast Area NL-AR-04-006; 09/30/2004	\$2,016,475	\$2,016,475	\$7,300,150	—	—
NETWORK OPERATIONS – PROCESSING					
Efficiency of the Airmail Records Unit at the New York International Service Center NO-AR-04-011; 09/24/2004	—	—	\$9,248,967	—	—
Efficiency of the New York International Service Center ND-AR-04-009; 09/24/2004	—	—	\$98,355,534	—	—
REVENUE					
NETWORK OPERATIONS – PROCESSING					
Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Philadelphia NO-AR-04-012; 09/224/2004	—	—	—	\$30,455	—

REPORT LISTING

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

For the period April 1, 2004, through September 30, 2004

COST CONTROL

SUPPLY MANAGEMENT AND FACILITIES

Application of Agreed-Upon Procedure on Billed Costs Submitted by APL Logistics Under Contract Number 162745-97-B-1177 CA-CAR-04-016; 05/05/2004	Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronics Systems Company, Under Letter Contract Number 3BMHRD-03-Z-5541, Solicitation Number DLH-071804 CA-CAR-04-018; 05/05/2004	Audit of Termination for Convenience Price Adjustment Claim Submitted by Abcon Associates, Inc. CA-CAR-04-022; 6/16/2004
Application of Agreed-Upon Procedure to Lease Operating Expenses Claimed by Bedford Property Investors, Inc. CA-CAR-04-024; 07/01/2004	Audit of Firm Fixed Price Proposal Submitted by Siemens Dematic Postal Automation L.P. CA-CAR-04-021; 06/02/2004	Automated Postal Centers CA-OT-04-001; 4/9/2004
Application of Agreed-Upon Procedure to Lease Operating Expenses Claimed by Equities Office Property Trust CA-CAR-04-023; 07/01/2004	Audit of Forward Pricing Proposal and Related Historical Costs Submitted by Worldwide Flight Services, Inc. CA-CAR-04-025; 07/30/2004	Financial Opportunities of Underutilized Land CA-MA-04-004; 7/1/2004
Arlington, Virginia, Main Post Office CA-OT-04-002; 07/09/2004	Audit of Incurred Costs at the William F. Bolger Conference Center Under Contract Number 102590-97-B-0032 CA-CAR-04-020; 06/02/2004	Fiscal Year 2003 Supply Chain Management Savings CA-AR-04-003; 09/30/2004
Audit of Airfare Adjustment Cost Estimating Relationship Factor Proposed by Siemens Dematic Postal Automation L.P. CA-CAR-04-015; 05/03/2004	Audit of Proposal Submitted by CODE Plus, Incorporated CA-CAR-04-026; 09/20/2004	Lessor Maintenance Enforcement CA-MA-04-006; 09/30/2004
Audit of Billed Costs Submitted by Clean Harbors Environmental Services, Inc. Under Contract Number CG84-99-A-100042, Delivery Order 483083-02-F-0108 CA-CAR-04-014; 04/21/2004	Audit of Proposed Rates as Part of Indefinite Quantity Proposal Submitted by URS Group, Inc. CA-CAR-04-019; 05/07/2004	Leased Office Spacing, New Haven (CT) CA-OT-04-003; 7/30/2004
Audit of Firm Fixed Price Proposal Submitted by M & A Technology, Inc. CA-CAR-04-013; 04/13/2004	Audit of Reported Postage Sales at Selected Contract Postal Units Operated by Mail America Corp. CA-CAR-04-017; 05/05/01	Preferred Portfolio Partnering Program CA-AR-04-002; 09/30/2004
		Repairs and Alterations of Postal Service Facilities CA-MA-04-005; 7/23/2004
		Supply Management Transactional Cost Models CA-OT-04-004; 8/4/2004

DELIVERY AND RETAIL

Function 4 – Customer Service Operations
DR-AR-04-014; 09/30/2004

FINANCIAL STATEMENTS

Duplicate Payment Made to Inland Paperboard & Packaging FT-AR-04-012; 09/30/2004	Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement and Employee Headcount Data FT-AR-04-011; 08/23/2004	Postal Service's Funding of the Civil Service Retirement System FT-OT-04-002; 04/09/2004
Erroneous Economic Value Added Reserve Payments FT-OT-04-003; 06/18/2004		

FISCAL YEAR 2003 FINANCIAL INSTALLATION AUDITS

Business Mail Entry Unit (Capping Report) FF-AR-04-256; 08/18/2004	Post Office, Branches and Stations (Capping Report) FF-AR-04-247; 08/24/2004	Stamp Distribution and District Accounting Offices (Capping Report) FF-AR-04-149; 05/06/2004
Englewood Station FF-AR-04-239; 08/12/2004	Self-Service Postal Centers (Capping Report) FF-AR-04-232; 07/19/2004	
Contract Postal Units (Capping Report) FF-AR-04-230; 07/19/2004		

FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDITS

Abilene Business Mail Entry Unit FF-AR-04-228; 07/13/2004	Colorado Springs Self-Service Postal Center FF-AR-04-301; 09/30/2004	Grand Chute Branch FF-AR-04-202; 06/24/2004
Albany Business Mail Entry Unit FF-AR-04-224; 07/08/2004	Columbus Stamp Distribution Office FF-AR-04-194; 06/10/2004	Grove City Post Office FF-AR-04-191; 06/14/2004
Aloha Branch FF-AR-04-221; 07/07/2004	Coronado Self-Service Postal Center FF-AR-04-132; 04/22/2004	Guilford Post Office FF-AR-04-235; 07/22/2004
Amsterdam Business Mail Entry Unit FF-AR-04-199; 06/21/2004	Cozad Post Office FF-AR-04-248; 08/11/2004	Gulfport Business Mail Entry Unit FF-AR-04-201; 06/23/2004
Bally Post Office FF-AR-04-272; 08/31/2004	Crenshaw Station FF-AR-04-128; 04/30/2004	Haltom City Branch FF-AR-04-180; 06/02/2004
Baton Rouge Stamp Distribution Office FF-AR-04-169; 05/24/2004	Dallas Business Mail Entry Unit FF-AR-04-211; 07/01/2004	Harlingen Business Mail Entry Unit FF-AR-04-244; 07/29/2004
Beedeville Post Office FF-AR-04-122; 04/20/2004	Dexter Post Office FF-AR-04-245; 07/30/2004	Harmon's Contract Postal Unit FF-AR-04-184; 06/04/2004
Broken Arrow Post Office FF-AR-04-295; 09/27/2004	Durham Business Mail Entry Unit FF-AR-04-236; 07/27/2004	Harrisburg Stamp Distribution Office FF-AR-04-209; 06/30/2004
Brownsburg Post Office FF-AR-04-124; 04/21/2004	Durham West Station FF-AR-04-181; 06/04/2004	Hayward Post Office FF-AR-04-250; 08/12/2004
Brunswick Business Mail Entry Unit FF-AR-04-267; 8/26/2004	East Greenville Business Mail Entry Unit FF-AR-04-220; 07/07/2004	High Point Post Office FF-AR-04-192; 06/10/2004
Camden Business Mail Entry Unit FF-AR-04-291; 09/22/2004	Eau Claire (WI) Business Mail Entry Unit FF-AR-04-270; 08/30/2004	Honolulu Stamp Distribution Office FF-AR-04-281; 09/10/2004
Cameron Contract Postal Unit FF-AR-04-286; 9/16/2004	El Dorado Post Office FF-AR-04-210; 06/30/2004	Ithaca Business Mail Entry Unit FF-AR-04-292; 09/22/2004
Canton Business Mail Entry Unit FF-AR-04-260; 08/20/2004	El Mercado Postal Store FF-AR-04-293; 09/21/2004	Ithaca Downtown Station FF-AR-04-277; 09/08/2004
Carmichael Business Mail Entry Unit FF-AR-04-177; 05/27/2004	Farmingdale Business Mail Entry Unit FF-AR-04-268; 08/30/2004	Jacksonville Business Mail Entry Unit FF-AR-04-200; 06/22/2004
Carrollton Post Office and Business Mail Entry Unit FF-AR-04-150; 05/05/2004	Farmingdale Main Office FF-AR-04-141; 04/26/2004	Johnstown Business Mail Entry Unit FF-AR-04-296; 09/29/2004
Cathlamet Post Office FF-AR-04-174; 05/27/2004	Folcroft Business Mail Entry Unit FF-AR-04-278; 09/07/2004	Kearney Business Mail Entry Unit FF-AR-04-273; 08/31/2004
Cincinnati Self-Service Postal Center #237 FF-AR-04-125; 04/20/2004	Fox Valley Business Mail Entry Unit FF-AR-04-171; 05/26/2004	Kelly's Inc., Contract Postal Unit FF-AR-04-289; 09/20/2004
Cincinnati Stamp Distribution Office FF-AR-04-237; 07/27/2004	Frederick Business Mail Entry Unit FF-AR-04-118; 04/13/2004	Kenwood Station FF-AR-04-162; 05/13/2004
Clarksville Self-Service Postal Center FF-AR-04-131; 04/20/2004	Fremont Post Office FF-AR-04-193; 06/10/2004	Kerrville Post Office FF-AR-04-287; 9/17/2004
Claydesta Station FF-AR-04-280; 09/10/2004	Gallatin Business Mail Entry Unit FF-AR-04-213; 07/06/2004	Kilgore Post Office FF-AR-04-259; 08/17/2004
Clovis Main Post Office FF-AR-04-206; 06/28/2004	Glen Rock Branch FF-AR-04-144; 04/29/2004	Lafayette Hill Post Office FF-AR-04-299; 09/29/2004
Coeymans Post Office FF-AR-04-175; 05/27/2004	Gonzales Business Mail Entry Unit FF-AR-04-172; 05/26/2004	Lakeland District Leased Vehicles FF-MA-04-001; 07/02/2004

FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDITS

Lakeshore Station FF-AR-04-168; 05/21/2004	Monte Vista Business Mail Entry Unit FF-AR-04-212; 07/09/2004	Palatka Post Office FF-AR-04-164; 05/19/2004
Laredo Business Mail Entry Unit FF-AR-04-264; 08/25/2004	Nahcotta Community Post Office FF-AR-04-126; 04/20/2004	Peter Stuyvesant Station FF-AR-04-140; 04/27/2004
Las Vegas Business Mail Entry Unit FF-AR-04-241; 07/30/2004	NETC Station FF-AR-04-161; 05/17/2004	Pewaukee Business Mail Entry Unit FF-AR-04-276; 09/07/2004
Las Vegas Stamp Distribution Office FF-AR-04-225; 07/13/2004	Newberg Post Office FF-AR-04-188; 06/14/2004	Pico Rivera Bulk Mail Entry Unit FF-AR-04-298; 09/28/2004
Lebanon Business Mail Entry Unit FF-AR-04-197; 06/16/2004	New Castle Post Office FF-AR-04-173; 05/28/2004	Pico Rivera Main Office – Self-Service Postal Center FF-AR-04-116; 04/08/2004
Ledyard Post Office FF-AR-04-139; 04/22/2004	New Haven (CT) Business Mail Entry Unit FF-AR-04-178; 05/28/2004	Pikeville Business Mail Entry Unit FF-AR-04-218; 07/07/2004
Lily Dale Post Office FF-AR-04-115; 04/05/2004	New Haven (CT) Business Mail Entry Unit FF-AR-04-233; 07/21/2004	Piney Creek Post Office FF-AR-04-151; 05/10/2004
Livonia Business Mail Entry Unit FF-AR-04-216; 07/07/2004	New London Business Mail Entry Unit FF-AR-04-231; 07/20/2004	Port Clinton Post Office FF-AR-04-243; 07/28/2004
Long Beach Downtown Station FF-AR-04-153; 05/11/2004	New Meadows Post Office FF-AR-04-266; 08/26/2004	Port Jefferson Business Mail Entry Unit FF-AR-04-204; 06/28/2004
Long Beach Viking Station FF-AR-04-157; 05/14/2004	New York Main Office FF-AR-04-262; 08/19/2004	Portage Post Office FF-AR-04-170; 05/25/2004
Loyola University Contract Postal Unit FF-AR-04-190; 06/10/2004	Newark Business Mail Entry Unit FF-AR-04-252; 08/13/2004	Radcliff Business Mail Entry Unit FF-AR-04-226; 07/09/2004
Manasquan Main Office FF-AR-04-207; 06/29/2004	Newport Post Office FF-AR-04-154; 05/12/2004	Rhineland Post Office FF-AR-04-253; 08/13/2004
Manchester Stamp Distribution Office FF-AR-04-261; 08/23/2004	Norfolk Post Office FF-AR-04-155; 05/20/2004	Rockford Post Office, Rockford (MI) FF-AR-04-167; 05/21/2004
Marinette Post Office FF-AR-04-242; 07/28/2004	North West St. Johns Station FF-AR-04-189; 06/10/2004	Rural Hall Business Mail Entry Unit FF-AR-04-214; 07/06/2004
Memphis Stamp Distribution Office FF-AR-04-163; 05/19/2004	Northaven Station FF-AR-04-176; 05/27/2004	Salt Lake City Stamp Distribution Office FF-AR-04-130; 04/20/2004
Merced Business Mail Entry Unit FF-AR-04-297; 09/28/2004	Northwest Postal Store - Gainesville, FL FF-AR-04-156; 05/14/2004	San Francisco Business Mail Entry Unit FF-AR-04-275; 09/07/2004
Metairie Self-Service Postal Center #73 FF-AR-04-186; 06/09/2004	Oak Harbor Post Office FF-AR-04-114; 04/07/2004	San Marcos Post Office FF-AR-04-187; 06/10/2004
Milford Business Mail Entry Unit FF-AR-04-249; 08/11/2004	Oceanside Business Mail Entry Unit FF-AR-04-215; 07/06/2004	Saugatuck Station FF-AR-04-234; 07/21/2004
Milton Post Office FF-AR-04-222; 07/08/2004	Old Village Station FF-AR-04-185; 06/08/2004	Savannah Plaza Contract Postal Unit FF-AR-04-137; 04/23/2004
Mineral Wells Business Mail Entry Unit FF-AR-04-294; 09/22/2004	Orlando Business Mail Entry Unit FF-AR-04-271; 08/31/2004	Schertz Main Post Office FF-AR-04-119; 04/09/2004
Missoula Business Mail Entry Unit FF-AR-04-285; 9/16/2004	Ortega Contract Postal Unit FF-AR-04-251; 08/13/2004	Seattle Stamp Distribution Office FF-AR-04-127; 04/20/2004
Mount Juliet Business Mail Entry Unit FF-AR-04-217; 07/07/2004	Palatine Business Mail Entry Unit (IL) FF-AR-04-159; 05/14/2004	Ship Bottom Branch FF-AR-04-290; 09/20/2004



FISCAL YEAR 2004 FINANCIAL INSTALLATION AUDITS

Southampton Business Mail Entry Unit FF-AR-04-198; 06/17/2004	Terre Haute Stamp Distribution Office FF-AR-04-183; 06/04/2004	Vestal Main Office FF-AR-04-123; 04/14/2004
Southampton Post Office FF-AR-04-133; 04/22/2004	Trevett Post Office FF-AR-04-179; 06/01/2004	Warners Post Office FF-AR-04-279; 09/08/2004
South Salem Post Office FF-AR-04-283; 9/15/2004	Tucson Self-Service Postal Center #737 FF-AR-04-274; 09/01/2004	Washington (DC) Self-Service Postal Center #0502 FF-AR-04-166; 05/17/2004
Spearfish Self-Service Postal Center FF-AR-04-300; 09/29/2004	Tyler Southeast Crossing Station FF-AR-04-138; 04/23/2004	West Chester Business Mail Entry Unit FF-AR-04-246; 07/30/2004
Spencer Post Office FF-AR-04-240; 07/27/2004	University of Central Arkansas Contract Postal Unit FF-AR-04-120; 04/14/2004	West Palm Beach Stamp Distribution Office FF-AR-04-282; 9/13/2004
Strathcona Main Post Office FF-AR-04-142; 04/28/2004	Valley Forge Business Mail Entry Unit FF-AR-04-205; 06/28/2004	West Simsbury Post Office FF-AR-04-145; 05/04/2004
Tampa Business Mail Entry Unit FF-AR-04-219; 07/08/2004	Van Brunt Station FF-AR-04-203; 06/28/2004	Wickenburg Post Office (AZ) FF-AR-04-165; 05/20/2004
Tampa Main Office Window Unit FF-AR-04-255; 08/13/2004		

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

Albany District FF-AR-04-160; 05/20/2004	Kentuckiana District FF-AR-04-143; 04/29/2004	Oklahoma District FF-AR-04-121; 04/14/2004
Appalachian District FF-AR-04-257; 08/18/2004	Long Island District FF-AR-04-117; 04/05/2004	Philadelphia District FF-AR-04-196; 06/14/2004
Arizona District FF-AR-04-227; 07/12/2004	Massachusetts District FF-AR-04-258; 08/17/2004	Pittsburgh District FF-AR-04-136; 04/20/2004
Big Sky District FF-AR-04-158; 05/13/2004	Mid-America District FF-AR-04-129; 04/20/2004	Rio Grande District FF-AR-04-147; 05/05/2004
Cincinnati District FF-AR-04-208; 06/29/2004	Mid-Carolinas District FF-AR-04-134; 04/22/2004	Royal Oak District FF-AR-04-152; 05/10/2004
Connecticut District FF-AR-04-265; 08/26/2004	New Hampshire/Vermont District FF-AR-04-284; 09/20/2004	Salt Lake City District FF-AR-04-182; 06/04/2004
Gateway District FF-AR-04-135; 04/21/2004	New Jersey International Bulk Mail Facility FF-AR-04-263; 08/25/2004	South Florida District FF-AR-04-223; 07/08/2004
Honolulu District FF-AR-04-288; 09/20/2004	New York District FF-AR-04-238; 07/27/2004	Suncoast District FF-AR-04-254; 08/13/2004
John F. Kennedy Air Mail Facility FF-AR-04-229; 07/15/2004	Northland District FF-AR-04-146; 05/05/2004	Westchester District FF-AR-04-195; 06/10/2004

FISCAL YEAR 2004 FINANCIAL RELATED AUDITS

Stamp Accountability and Inventory Controls
Related to the American Bank Note Company
FF-AR-04-269; 8/31/2004

FISCAL YEAR 2004 PROTECTIVE REVIEWS

Fiscal Years 2003 and 2004 Protective Reviews
Capping Report
FT-MA-04-003; 8/12/2004

Network Optimization

DELIVERY AND RETAIL

City Letter Carrier Street Management and Route Inspections in the Fort Worth District DR-AR-04-001; 06/22/2004	Self-Service Vending Program – Eastern Area DR-AR-04-015; 09/30/2004	Self-Service Vending Program – Rio Grande District DR-AR-04-010; 09/24/2004
City Letter Carrier Office Preparation – Dallas District DR-AR-04-005; 7/26/2004	Self-Service Vending Program – Greater South Carolina District DR-AR-04-007; 09/20/2004	Self-Service Vending Program – Sacramento District DR-AR-04-011; 09/28/2004
Self-Service Vending Program – Alabama District DR-AR-04-004; 6/30/2004	Self-Service Vending Program – Kentuckiana District DR-AR-04-012; 09/30/2004	Self-Service Vending Program – Southeast Area DR-AR-04-013; 09/30/2004
Self-Service Vending Program – Albany District DR-AR-04-006; 9/13/2004	Self-Service Vending Program – Massachusetts District DR-AR-04-008; 09/24/2004	Self-Service Vending Program – Tennessee District DR-AR-04-003; 06/30/2004
Self-Service Vending Program – Atlanta District DR-AR-04-002; 07/01/2004	Self-Service Vending Program – Nevada-Sierra District DR-AR-04-009; 09/24/2004	

NETWORK OPERATIONS – LOGISTICS

Bulk Mail Center Highway Transportation Routes – Great Lakes Area NL-AR-04-004; 09/29/2004	Vehicle Management – Delivery Vehicles – Buy versus Lease NL-AR-04-005; 09/30/2004	Vehicle Management – Trailer Requirements – Northeast Area NL-AR-04-006; 09/30/2004
Buy Versus Lease – Cargo Vans NL-OT-04-001; 9/09/2004		

NETWORK OPERATIONS – PROCESSING

Efficiency of the Airmail Records Unit at the New York International Service Center NO-AR-04-011; 09/24/2004	Efficiency of the New York International Service Center NO-AR-04-009; 09/24/2004
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Labor

HUMAN CAPITAL

Efforts to Prevent Accidents, Injuries and Illnesses in the Mississippi and Suncoast Performance Clusters (Southeast Area) HM-AR-04-006; 04/29/2004	Efforts to Prevent Accidents, Injuries and Illnesses in the Mid-America and Salt Lake City Performance Clusters (Western Area) HM-AR-04-010; 07/20/2004	Efforts to Prevent Accidents, Injuries and Illnesses in the Long Island and New York Performance Clusters (New York Metro Area) HM-AR-04-008; 07/07/2004
Efforts to Prevent Accidents, Injuries and Illnesses in the Arkansas and Oklahoma Performance Clusters (Southwest Area) HM-AR-04-007; 06/28/2004	Efforts to Prevent Accidents, Injuries and Illnesses in the Los Angeles and Oakland Performance Clusters (Pacific Area) HM-AR-04-011; 07/26/2004	Efforts to Prevent Accidents, Injuries and Illnesses in the Chicago and Greater Indiana Performance Clusters (Great Lakes Area) HM-AR-04-009; 07/07/2004
		Summary Report on the Efforts to Prevent Accidents, Injuries and Illnesses in 12 Performance Clusters HM-AR-04-012; 09/21/2004

Technology

ENGINEERING

Advanced Facer Canceled System Improvements DA-AR-04-004; 09/30/2004	Postal Automated Redirection System First Article Testing DA-AR-04-002; 9/15/2004	Technology Acquisition Management DA-AR-04-003; 09/24/2004
Automated Package Processing DA-AR-04-001; 08/20/2004		

REVENUE

INSPECTION SERVICE OVERSIGHT

Postal Inspection Service's Asset Forfeiture Program
SA-AR-04-002; 06/29/2004

NETWORK OPERATIONS - PROCESSING

Express Mail Operations
NO-AR-04-008; 05/05/2004

Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Philadelphia, PA
NO-AR-04-012; 09/24/2004

Mail Evaluation, Readability and Lookup Instrument Utilization at the Business Mail Entry Unit in Columbia, SC
NO-AR-04-010; 09/24/2004

STRATEGIC DIRECTION

STRATEGY & PERFORMANCE

Fiscal Year 2003 District Consolidations in the Eastern, Northeast and Pacific Areas
ST-OT-04-001; 06/17/2004

SAFETY AND SECURITY

ENGINEERING

Decision Process for Disposition of the Curseen-Morris Facility
DA-OT-04-003; 04/09/2004

Emergency Preparedness Training
DA-OT-04-004; 07/23/2004

INFORMATION SYSTEMS

Business Continuity Planning and Testing at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers
IS-AR-04-010; 07/14/2004

Personnel Security Controls at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers
IS-AR-04-011; 09/08/2004

INSPECTION SERVICE OVERSIGHT

Postal Inspection Service's Postal Police Officers
SA-AR-04-001; 04/21/2004

MANAGEMENT INFORMATION

INFORMATION SYSTEMS

Audit of Serena ChangeMan ZMF Implementation
IS-AR-04-008; 06/17/2004

Click-N-Ship Application Controls Review – Access to Nonproduction Systems
IS-AR-04-012; 09/28/2004

Computer Incident Detection and Response Capabilities
IS-AR-04-009; 06/18/2004

Electronic Data Interchange at the San Mateo Information Technology and Accounting Service Center
IS-AR-04-013; 09/29/2004

Follow-up of the Network Security and Security Testing of Load Balancers at the San Mateo Host Computing Services
IS-AR-04-006; 06/08/2004

Oracle Database Testing at the Host Computing Services, Eagan, MN
IS-CS-04-004; 06/16/2004

Postal Service's Advanced Computing Environment Program Management
IS-AR-04-007; 06/16/2004

Postal Service's Business Partner Connectivity
IS-AR-04-014; 09/30/2004

Security Vulnerability Assessment of Selected UNIX Servers at Host Computing Services, Eagan, MN
IS-CS-04-005; 07/12/2004

Security Vulnerability Assessment of Selected Windows Servers at the Host Computing Services, Eagan, MN
IS-CS-04-003; 05/21/2004

APPENDIX B

FINDINGS OF QUESTIONED COSTS

For the period April 1, 2004, through September 30, 2004

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

OFFICE OF INSPECTOR GENERAL AND POSTAL INSPECTION SERVICE

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

Description	Number of Reports	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
Reports for which no management decision was made at the beginning of the reporting period	22	\$94,171,919	\$10,483,386
Reports requiring management decision that were issued during the reporting period	12	\$65,263,905	\$4,725,975
TOTAL	34	\$159,435,824	\$15,209,361
Reports for which a management decision was made during the reporting period (i+ii)	22	\$95,720,298	\$8,492,933
(i) Dollar value of disallowed cost	—	\$16,313,060	\$78,338
(ii) Dollar value of cost not disallowed	—	\$79,407,238	\$8,414,595
Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing.	12	\$63,715,526	\$6,716,428
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	0	\$0	\$0
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	6	\$13,208,954	\$1,997,488

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

Report Date	Report/Case Number	Project Type	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
—	—	—	\$0	\$0

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

Subject	Case Number	Report Date	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
Contract Audit – M.E.S. Incorporated	CA-CAR-02-045	6/28/2002	\$1,053,263	\$134,340
Contract Audit – M.E.S. Incorporated	CA-CAR-02-051	9/13/2002	\$620,681	\$187,271
Contract Audit – Bell and Howell Mail and Messaging Technologies	CA-CAR-03-002	10/16/2002	\$343,759	\$0
Contract Audit – D. L. Kaufman, Incorporated	CA-CAR-03-011	2/11/2003	\$4,028,935	\$0
Audit of Equitable Adjustment Claim Submitted by STV, Incorporated	IR-CAR-03-011	9/30/2003	\$98,569	\$0
OFFICE OF INSPECTOR GENERAL TOTAL			\$6,145,207	\$321,611
Contract Audit – 181-1294644-AC(1)		11/17/99	\$7,063,747	\$1,675,877
POSTAL INSPECTION SERVICE TOTAL			\$7,063,747	\$1,675,877
COMBINED TOTAL			\$13,208,954	\$1,997,488

APPENDIX C

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period April 1, 2004, through September 30, 2004

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

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

OFFICE OF INSPECTOR GENERAL

Description	Number of Reports	Dollar Value
Reports for which no management decision was made at the beginning of the reporting period	11	\$183,597,134
Reports requiring management decision that were issued during the reporting period	8	\$163,398,672
TOTAL	19	\$346,995,806
Reports for which a management decision was made during the report period (i + ii)	11	\$185,753,605
(i) Value of recommendations agreed to by management	—	\$183,142,772
(ii) Value of recommendations that management did not agree	—	\$2,610,833
Reports for which no management decision was made by the end of the reporting period.*	8	\$161,242,201
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	1	\$1,200,212
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	4	\$104,784,352

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

Subject	Case Number	Report Date	Recommend Funds Put to Better Use
Vehicle Maintenance Facilities – Chicago District – Accidental Vehicle Damage Cost and Vehicle Safety, Security and Appearance	NL-AR-04-002	12/05/2003	\$1,200,212
TOTAL			\$1,200,212

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

Subject	Case Number	Report Date	Recommend Funds Put to Better Use
Bulk Fuel Purchase Plan	TR-AR-01-004	07/27/2001	\$15,918,035
New York Metro Area Operational Use of Trailers	TD-MA-03-001	01/29/2003	\$2,495,344
Trailer Lease Justification	TD-AR-02-002	3/29/2002	\$82,349,739
New York Metro Area Trailer Acquisition – Lease Versus Buy	TD-AR-03-009	03/31/2003	\$4,021,234
TOTAL			\$104,784,352

*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 through September 30, 2004

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

OFFICE OF INSPECTOR GENERAL

Issue Date	Number of Recommendations*	Report Title	Report Number
9/29/1999	3	Emergency and Extra Trip Expenditures on Highway Routes	TR-AR-99-003
9/29/2000	2	Review of the United States Postal Inspection Service Budget Process	OV-AR-00-005
4/30/2001	1	Postal Inspection Service Support to Postal Service Threat Assessment Teams	OV-AR-01-002
7/27/2001	5	Bulk Fuel Purchase Plan	TR-AR-01-004
9/28/2001	1	Postal Inspection Service Fraud Against Government Program	OV-AR-01-004
2/22/2002	3	Review of the Facilities Management System for Windows	IS-AR-02-003
3/29/2002	1	Review of Contracts Associated with Biohazard Threat	CQ-MA-02-002
3/29/2002	1	Public-Key Infrastructure Initiatives by the Postal Service	EM-AR-02-009
3/29/2002	2	Trailer Lease Justification	TD-AR-02-002
5/8/2002	2	Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayments and Refundable Disbursements	LH-AR-02-003
7/9/2002	4	Review of eBusiness Agreements	EM-AR-02-012
7/10/2002	2	New York Metro Area Trailer Acquisition Requirements	TD-MA-02-003
7/30/2002	3	Postal Inspection Service Health Examination Program	OV-AR-02-003(R)
9/3/2002	2	Postal Service's Corporate Succession Planning Process	LH-AR-02-004
9/26/2002	1	Utility Payments to Commonwealth Edison	FT-AR-02-015
9/27/2002	3	Effectiveness of the Postal Service's Asset Locator	FT-AR-02-017
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
10/28/2002	2	New York Metro Area Trailer Acquisition - Safety and Length	TD-AR-03-001
1/29/2003	2	New York Metro Area Operational Use of Trailers	TD-MA-03-001
1/30/2003	1	Fiscal Year 2002 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-03-008
1/30/2003	1	Sexual Harassment Prevention Measures in the Northern Virginia and Richmond Districts – Capital Metro Operations	LH-AR-03-003
2/25/2003	2	Sexual Harassment Prevention Measures in the Albany and Southeast New England Districts – Northeast Area	LH-AR-03-004
3/5/2003	1	Sexual Harassment Prevention Measures in the Central Florida and South Georgia Districts – Southeast Area	LH-AR-03-005

* Pending corrective action

Issue Date	Number of Recommendations*	Report Title	Report Number
3/5/2003	2	Sexual Harassment Prevention Measures in the Greensboro and Harrisburg Districts – Eastern Area	LH-AR-03-006
3/5/2003	1	Sexual Harassment Prevention Measures in the Dakotas and Portland Districts – Western Area	LH-AR-03-007
3/12/2003	2	Address Change Service	TD-AR-03-004
3/18/2003	3	Sexual Harassment Prevention Measures in the Oakland and Santa Ana Districts – Pacific Area	LH-AR-03-008
3/19/2003	3	Vehicle Maintenance Facilities - Vehicle Inventory Control Weaknesses in the Chicago District	TD-AR-03-005
3/25/2003	3	Sexual Harassment Prevention Measures in the Arkansas and Rio Grande Districts – Southwest Area	LH-AR-03-009
3/28/2003	2	Work Performed by Business Mail Entry Employees in the Seattle, Minneapolis and Des Moines Bulk Mail Centers	CQ-AR-03-001
3/31/2003	1	Retail Data Mart System – Security Issues	OE-AR-03-002
3/31/2003	2	New York Metro Area Trailer Acquisition – Lease Versus Buy	TD-AR-03-009
6/13/2003	1	Postal Inspection Service Tracking of Investigative Workhours and Activity	SA-AR-03-003
6/30/2003	2	Review of Facility Conditions at the Groton, Connecticut, Main Post Office	LH-AR-03-010
7/31/2003	2	Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District	AO-AR-03-001
8/21/2003	2	Propriety of Postal Service Utility Payments	FT-AR-03-011
9/8/2003	2	Capping Report on the Postal Service's Sexual Harassment Prevention Measures in 18 District Offices	LH-AR-03-011
9/10/2003	1	Retail Data Mart System – Data Integrity and Expected Benefits	OE-AR-03-006
9/25/2003	2	Efficiency of Work Performed by Business Mail Entry Clerks in the San Francisco Business Mail Entry Unit	AO-AR-03-002
9/26/2003	2	Postal Inspection Service Controls Over Firearms – Reconciliation of Sturm, Ruger and Company, Inc., Firearms	SA-AR-03-006
9/29/2003	1	Enhanced Carrier Route Standard Mail Worksharing Discounts	AC-AR-03-006
9/30/2003	1	Inventory Management – Maintenance Stockrooms	AC-AR-03-007
9/30/2003	8	General Controls at the Engineering Research and Development Center	IS-AR-03-008
9/30/2003	3	Postal Service and Union Labor Relations	LH-AR-03-012
12/1/2003	1	Potential Improper and Erroneous Payments	FT-AR-04-001
12/2/2003	3	Fiscal Year 2003 Information System Controls, Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers	IS-AR-04-001
12/5/2003	3	Vehicle Maintenance Facilities - Chicago District – Accidental Vehicle Damage Cost and Vehicle Safety, Security and Appearance	NL-AR-04-002
2/23/2004	1	Conditions at Patterson Station in the Baltimore District	NL-MA-04-002
2/24/2004	1	Network Integration and Alignment Models – Independent Verification and Validation	NO-AR-04-005
3/10/2004	3	Information Systems Disaster Recovery Process	IS-AR-04-004
3/30/2004	4	Compliance with the Bank Secrecy Act	FF-AR-04-100

* Pending corrective action

Issue Date	Number of Recommendations*	Report Title	Report Number
3/31/2004	2	Efficiency of the San Francisco International Service Center and the General Services Administration Facility	NO-AR-04-006
3/31/2004	2	Efficiency of the Oakland International Service Facility and the Regatta Facility	NO-AR-04-007
4/21/2004	1	Postal Inspection Service's Postal Police Officers	SA-AR-04-001
6/8/2004	3	Follow-up of the Network Security and Security Testing of Load Balancers at the San Mateo Host Computing Services	IS-AR-04-006
7/1/2004	2	Financial Opportunities of Underutilized Land	CA-MA-04-004
7/14/2004	1	Business Continuity Planning and Testing at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers	IS-AR-04-010
9/13/2004	2	Self-Service Vending Program – Albany District	DR-AR-04-006
9/20/2004	3	Self-Service Vending Program – Greater South Carolina District	DR-AR-04-007
9/22/2004	2	Self-Service Vending Program – Nevada-Sierra District	DR-AR-04-009
9/24/2004	1	Technology Acquisition Management	DA-AR-04-003
9/24/2004	2	Self-Service Vending Program – Massachusetts District	DR-AR-04-008
9/24/2004	1	Efficiency of the New York International Service Center	NO-AR-04-009
9/28/2004	2	Self-Service Vending Program – Sacramento District	DR-AR-04-011
9/29/2004	2	Electronic Data Interchange at the San Mateo Information Technology and Accounting Service Center	IS-AR-04-013
9/29/2004	3	Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004
9/29/2004	3	Vehicle Management – Trailer Requirements - Northeast Area	NL-AR-04-006
9/30/2004	1	Preferred Portfolio Partnering Program	CA-AR-04-002
9/30/2004	1	Fiscal Year 2003 Supply Chain Management Savings	CA-AR-04-003
9/30/2004	2	Advanced Facer-Canceler System Improvements	DA-AR-04-004
9/30/2004	2	Self-Service Vending Program – Kentuckiana District	DR-AR-04-012
9/30/2004	2	Self-Service Vending Program – Southeast Area	DR-AR-04-013
9/30/2004	2	Function 4 - Customer Service Operations	DR-AR-04-014
9/30/2004	2	Self-Service Vending Program – Eastern Area	DR-AR-04-015
9/30/2004	2	Postal Service's Business Partner Connectivity	IS-AR-04-014
9/30/2004	5	Vehicle Management – Delivery Vehicles – Buy Versus Lease	NL-AR-04-005

* Pending corrective action



APPENDIX E

SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period April 1, 2004, through September 30, 2004

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

OFFICE OF INSPECTOR GENERAL

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

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

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

Agency Response: Postal Service management stated the National Trailer Lease was not a lease, but a service contract, and as a result, did not require a Decision Analysis Report or Board of Governors' approval. However, on July 22, 2002, in an effort to reach resolution, the deputy postmaster general directed Postal Service management to analyze the National Trailer Lease in accordance with the procedures specified by Postal Service investment policy, and stated that Postal Service Finance would independently verify the analysis in accordance with the same procedures they use for capital projects. Consequently, we deferred further decision on how to proceed with resolution until we had an opportunity to review the validated analysis. As of this semiannual reporting period, we have not received a validated analysis — the equivalent of an analysis the Postal Service would use for capital projects. Therefore, we have elected to proceed with these recommendations through the resolution process.

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

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

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

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

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

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

Agency Response: The USPIS was concerned that any estimates of attributed workhours expended in the preliminary stages of an investigation to a specific jacketed case would degrade the integrity of their internal reporting systems.

APPENDIX F

INVESTIGATIVE STATISTICS¹

For the period April 1, 2004, through September 30, 2004

OFFICE OF INSPECTOR GENERAL

Statistics

Investigations completed	463
Arrests	28
Indictments/Informations	24
Convictions/Pretrial diversions	14
Administrative Actions	98
Fines, restitutions and recoveries ²	\$6,352,168
Amount to Postal Service ³	\$2,291,260

U.S. POSTAL INSPECTION SERVICE⁴

For the period October 1, 2003, through September 30, 2004

Statistics

Investigations completed	1,643
Arrests/Indictments/Informations	652
Convictions/Pretrial diversions	608
Administrative Actions	
Removals	1,081
Identifications	1,303
Fines, restitutions and recoveries	\$8,969,308
Amount to Postal Service ³	\$864,624

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

² Some fines and recoveries were from the previous reporting period, but not previously counted.

³ Amount included in total fines, restitutions and recoveries.

⁴ Statistics for the previous reporting period were not included in the *October 1, 2003 – March 31, 2004 Semiannual Report to Congress*, therefore these statistics reflect the entire fiscal year.

APPENDIX G

SUMMARY OF POSTAL SERVICE INVESTIGATIVE ACTIVITIES UNDER 39 USC 3013

For the period April 1, 2004, through September 30, 2004

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

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

Subpoena activity for the period of April 2004, through September 30, 2004

Case No.	Date Issued	Scheme
04-005	05/07/04	Solicitations in the guise of Invoices
04-006	06/04/04	False Representation – Failure to Render
04-007	06/04/04	False Representation – Failure to Render
04-008	09/30/04	Sweepstakes Scheme
04-009	09/30/04	Sweepstakes Scheme

SUMMARY OF U.S. POSTAL INSPECTION SERVICE ACTIONS UNDER

39 USC 3005 and 3007 – April 1, 2004 through September 30, 2004

Type of Scheme	Complaints Filed	Consent Agreements	FROs	Cease & Desist Orders
Advance fee	1	1	0	1
Boiler rooms/Telemarketing	–	–	1	2
Contest/Sweepstakes	2	1	1	2
False billings	1	1	–	2
Lotteries (Foreign and Domestic)	6	–	–	–
Misrepresentation	2	2	–	3
Work at home	8	5	6	12
TOTAL	20	10	8	22

OTHER ADMINISTRATIVE ACTIONS

Administrative Action Requests	21
Temporary Restraining Orders Requested	4
Temporary Restraining Orders Issued	1
Civil Injunctions (Section 1345) Requested	1
Civil Penalties (Section 3012) Imposed	\$100,595
Withholding Mail Orders Issued	13
Voluntary Discontinuances	43

FINANCIAL REPORTING ON INVESTIGATIVE ACTIVITIES FY2004 MO 7-12

Type	Semiannual Report
Personnel	171,461,269
Nonpersonnel	44,949,123
TOTAL	216,410,392
Capital Obligations	17,477,292

APPENDIX H

CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period April 1, 2004, through September 30, 2004

COST CONTROL

Requestor	Allegations/Concern	Closure Date
Representative, Illinois	Allegations of nepotism, discrimination and mismanagement.	22-Jun-04
Representative, Illinois	Request to investigate the death of a former postmaster.	22-Jun-04
Representative, Washington	Allegations of fraudulent acts, harassment and discrimination.	11-May-04
Senator, Colorado	Request to investigate work practices at a Post Office.	13-May-04
Representative, South Carolina	Allegations of financial and other improprieties.	22-Apr-04
Senator, Florida	Allegations of employment-related and injury compensation benefits issues.	15-Apr-04
White House	Request to investigate work practices at a Post Office.	13-May-04
Senator, Virginia	Requesting assistance in expediting EEO complaint against USPS OIG.	26-Apr-04
Representative, Florida	Allegations of harassment and discrimination at a Post Office.	29-Apr-04
Senator, Delaware	Allegations of improper acts by a postal employee.	5-May-04
Governors	Employee allegations of USPS OIG mismanagement.	19-May-04
Representative, Louisiana	Allegation that USPS OIG findings are biased and condone Postal Service mismanagement.	9-Aug-04
Representative, Illinois	Allegations of retaliation as a result of EEO and EEOC decisions.	23-Jun-04
Representative, Virginia	Allegation of misdelivery of mail.	22-Jun-04
Senator, California	Request to investigate allegations of perjury by a postmaster.	31-Aug-04
Representative, Louisiana	Request for reconsideration of OWCP case based on allegations of fraud.	27-Sep-04
Senator, Louisiana	Allegations that USPS OIG findings are biased and condone Postal Service mismanagement.	9-Aug-04
State Senator, New York	Allegations of unfair practices, discrimination and illegal acts at a Post Office.	18-Aug-04
Representative, Virginia	Request to review the development of Postal Service areas.	2-Aug-04
Representative, Virginia	Allegations of delivery problems and incurred costs as a result of the problems.	11-Aug-04
Representative, New York	Request status of investigation.	13-Sep-04
Representative, New York	Allegation of hostile work environment.	25-Aug-04
Senator, New York	Request status of investigation.	13-Sep-04
Representative, Arizona	Allegations of sexual harassment and adverse personnel actions as a result of an EEO complaint.	29-Sep-04
Governor	Request to perform a comparison of buy versus lease of cargo vans.	9-Sep-04
Senator, Virginia	Allegations that the USPS OIG improperly handled an EEO and EEOC case.	30-Sep-04
Representative, Virginia	Allegations of wasteful and inefficient job training and placement decisions.	30-Sep-04

SAFETY AND SECURITY

Requestor	Allegations/Concern	Closure Date
Senator, Connecticut	Request to review decision by the USPS to eliminate the presence of Postal Police Officers at six postal facilities.	27-Apr-04
Governors	Review criteria to reopen/close a post office after decontamination.	9-Apr-04
Representative, South Carolina	Allegations of financial and other improprieties.	22-Apr-04
Senator, Illinois	Allegation of misdelivery of mail.	1-Apr-04
Representative, Massachusetts	Allegations of ceasing procedures on handling Unendorsed Bulk Business Mail (UBBM) at a post office.	22-Apr-04
Representative, California	Allegation of mail theft.	7-May-04
Senator, Delaware	Request report on accident prevention efforts of the Postal Service.	6-May-04
Senator, Maine	Request report on accident prevention efforts of the Postal Service.	6-May-04
Representative, Oregon	Allegations of threats of violence at a Post Office.	7-Jul-04
Representative, North Carolina	Allegations that the Postal Inspection Service did not pay reward money.	7-Jul-04
Representative, Georgia	Allegation of falsification of documents by a postmaster and supervisors.	27-Sep-04
Representative, Georgia	Allegation of falsification of documents by a postmaster and supervisors.	27-Sep-04
Representative, Pennsylvania	Request to investigate allegations of mail fraud.	15-Jul-04
Senator, Maine	Concerns with overseas delivery services.	20-Jul-04
Representative, California	Allegations of mail theft.	2-Aug-04
Representative, Michigan	Allegations of fraud, mismanagement and harassment.	17-Sep-04
Representative, Virginia	Request to review the late delivery of First Class Mail.	11-Aug-04
Representative, Illinois	Allegation of mail fraud.	27-Sep-04

REVENUE

Requestor	Allegations/Concern	Closure Date
Representative, California	Request for update on letter sent by prior IG.	5-May-04
Senator, Arizona	Allegations of difficulties with mailing and packaging contract.	17-Jun-04
Representative, New York	Allegations that the USPS is stonewalling on issues dealing with vendors and mailers.	30-Sep-04

MANAGEMENT INFORMATION

Requestor	Allegations/Concern	Closure Date
Governor	Automated Postal Center deployment delays.	9-Apr-04
Governor	Report on how much money is spent at other agencies on financial statement work.	15-Apr-04
Representative, California	Request for update on letter sent by prior IG.	5-May-04
Governor	Improper contracting of rental property.	30-Jul-04
Governor	Transition from self-service vending to Automated Postal Centers	15-Jun-04

SUPPLEMENTAL INFORMATION

AUDIT SYNOPSES

For the period April 1, 2004, through September 30, 2004

COST CONTROL

Automated Postal Centers, CA-OT-04-001

The OIG found that the contract award for the Automated Postal Centers was delayed because the requirements were not developed in sufficient detail to prepare a statement of work at the time the Board of Governors approved the project.

Contract Reviews

The Defense Contract Audit Agency (DCAA) performed 14 contract-related audits during the period at the OIG's request. The audits evaluated costs associated with advanced co-processor units, emergency response services for anthrax contamination and biohazard detection systems. DCAA also audited terminated contract costs; verified billed costs; and determined whether forward pricing rates were reasonable. The OIG considered most of the proposals acceptable for negotiating fair and reasonable rates and \$20 million was identified as potential contract savings.

Duplicate Payment Made to Shipping Box Vendor, FT-AR-04-012

The Postal Service made a \$765,781 duplicate payment to a vendor for Priority Mail shipping boxes. Payments processed by the San Mateo Accounting Service Center, Calif., generally were supported and correctly entered into the accounts payable accounting and reporting system. However, a double payment occurred when the vendor submitted the same invoice for payment on two separate dates. Further, system controls did not detect the duplicate invoices because the San Mateo personnel incorrectly entered the first invoice number that resulted in the duplicate payment for goods not received by the Postal Service.

Erroneous Economic Value Added Reserve Payments, FT-OT-04-003

The Postal Service's Chief Financial Officer (CFO) asked the OIG to review internal payroll processes and controls to determine why more than 41,000 current or former employees received \$103 million in erroneous Economic Value Added (EVA) payments on June 18, 2004. These payments were intended to complete the remaining payout of EVA reserve balances to approximately 1,900 employees. These erroneous payments duplicated lump-sum payments that employees received in October 2002. The OIG identified and reported on the corrective actions taken by the Postal Service to prevent this from occurring again.

Field Operations Reviews

The OIG audited and reported on financial operations of 149 installations, including 50 business mail entry units, 70 Post Offices, 8 contract postal units, 9 self-service postal centers and 12 stamp distribution offices, as a part of its fiscal year (FY 2004) financial statements audit of the Postal Service. Generally, financial transactions were reasonably and fairly presented in the accounting records and internal controls were in place and effective at 145 units, although the OIG identified some internal control and compliance issues. However, at four installations, the OIG identified significant

internal control weaknesses such as those related to cash and stamp accountability and business mail verification and acceptance.

For the FY 2004 Cost and Revenue Analysis, the OIG observed statistical tests conducted in 27 districts. Data collectors generally followed Postal Service policies and procedures when conducting statistical tests, except for various test errors observed in 15 districts.

In addition to the FY 2004 financial installation and Cost and Revenue Analysis work, the OIG audited and reported on seven additional installations at the request of Postal Service management or as a result of other audits. The OIG also issued five capping reports related to its FY 2003 financial installation audits of Post Offices, business mail entry units, contract postal units, self-service postal centers and stamp distribution offices.

Financial Opportunities of Underutilized Land, CA-MA-04-004

Working with Postal Service officials, the OIG jointly developed a methodology for identifying marketable underutilized land for which there was no operational need. The OIG applied it to facilities in Colorado and identified two that had marketable, underutilized land. The estimated net proceeds from the sale of the underutilized land were \$330,000. In addition, the OIG performed a preliminary analysis of all postal-owned facilities and identified 627 that had potential underutilized land in excess of 100,000 square feet each. The OIG agreed to provide this information to Facilities personnel to use in their upcoming inventory of excess property.

Fiscal Year 2003 Supply Chain Management Savings, CA-AR-04-003

In FY 2003, Postal Service operating expenses were approximately \$64 billion, of which \$9 billion was for goods and services. To reduce spending, postal officials adopted a supply chain management (SCM) philosophy. The OIG looked at whether the Postal Service was appropriately assessing SCM impact and found this was generally true for the 18 projects it reviewed. The methodology used to calculate cost savings, cost avoidance, cost reduction and revenue generation was reasonable; and conservatively, soft savings were not included as SCM impact. The Postal Service also has a mechanism for updating cumulative and carryover SCM impact. However, officials did not always establish an appropriate baseline for calculating SCM impact, and they reported impact for projects not attributable to SCM initiatives. As a result of the projects reviewed, the Postal Service overstated FY 2003 SCM savings by about \$98.6 million.

Fiscal Years 2003 and 2004 Protective Reviews Capping Report, FT-MA-04-003

The OIG found that internal controls were generally in place and functioning at 117 local Postal Service facilities. However, because field personnel did not always follow policies and procedures, opportunities existed to strengthen controls in the areas of asset and postmaster accountability, revenue protection and expense

minimization, employee and customer service, information systems security, and oversight.

Function 4 – Customer Service Operations, DR-AR-04-014

The Postal Service projected \$1 billion in savings and cost avoidance from FYs 2002 through 2006 with a workforce reduction of 19,000 full-time equivalent employees. It would achieve this goal using the Function 4 process for customer service operations that includes retail, administrative, automated and manual distribution activities within its Post Office, station and branch operations. The OIG's audit of the Function 4 process found that postal managers can improve customer service operations by fully using standardized Function 4 reviews and sharing proven practices.

Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement and Employee Headcount Data, FT-AR-04-011

The OIG assisted the Office of Personnel Management (OPM) in verifying employee withholdings and employer contributions reported on the "Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirement" for the payroll periods ending February 20, 2004; March 5, 2004; and April 2, 2004; and the "Supplemental Semiannual Headcount Report" as of March 5, 2004. Generally, the OIG verified the Postal Service's employee withholdings, employer contributions and enrollment information for health benefits, life insurance and retirement. Four reportable issues were identified based on the agreed-upon procedures provided by OPM.

Lessor Maintenance Enforcement, CA-MA-04-006

An audit of lease operating expenses found that the Administrative Service Office (ASO) and Facilities Service Office (FSO) personnel responsible for repair projects in the Dallas, Colorado/Wyoming and Capital Districts did not always process rent reduction requests. Also, FSO personnel did not include the costs of investigations and studies for repair projects in the Dallas and Fort Worth Districts in future rent reductions. As a result, the Postal Service incurred expenses for repairs that could have required the lessor to perform under the lease agreement, and missed an opportunity to reduce overall lease operating expenses by \$26,507.

Preferred Portfolio Partnering Program, CA-AR-04-002

The OIG looked at the Preferred Portfolio Partnering (PPP) program, where Postal Service officials identify, develop and implement information technology (IT) business solutions for functional areas. Contract files generally contained the required documentation, but the Postal Service can enhance program oversight and maximize IT savings. The audit recommended that postal officials review PPP performance to ensure the program was an effective and efficient tool for obtaining IT business solutions, something it has not done since FY 2001. Additionally, the audit recommended that postal officials should determine whether the Postal Service received accurate research and development credit from one of its PPP partners. Postal officials agreed with OIG recommendations.

Postal Service's Funding of the Civil Service Retirement System, FT-OT-04-002

The OIG analyzed issues pertaining to the Postal Civil Service Retirement System (CSRS) Funding Reform Act of 2003 (Public Law 108-18). The Government Accountability Office found that the Postal Service's amortized payments to OPM for its CSRS liability were too large. If the overpayments had continued, the Postal Ser-

vice would have overpaid its obligation by over \$100 billion. When OPM acknowledged the overpayment, the Postal Service was given legislative relief. However, additional burdens were placed on the Postal Service that had not been required for CSRS pension costs and not levied against other federal government entities. The Postal Service did not envision it would pay these charges for CSRS pension costs.

All Postal Service funding is derived from its customers' purchases of Postal Service products, and the Postal Service is not allowed to charge customers more than it needs for its expenses. The money should not be returned to OPM to replace appropriated tax dollars. This would constitute a hidden tax for Postal Service customers that Congress has not appropriated.

Repairs and Alterations of Postal Service Facilities, CA-MA-04-005

During FY 2003, an OIG audit found that Postal Service officials in the Dallas District effectively managed expensed repairs and alterations for its buildings and leased facilities. However, there was an appearance that the Dallas District did not appropriately use funds budgeted for expensed repairs and alterations.

The Southwest Area established a procedure in FY 2004 to use each district's budget proposal to allocate funds to the districts. In an updated audit, the OIG found that personnel responsible for expensed repair and alteration projects did not always close or update rollover projects in their tracking system resulting in unreliable data for making management decisions. The OIG recommended that the Postal Service enhance its policy on construction projects to include timely updates to FMSWIN for expensed repairs and alterations, and communicate that requirement to applicable personnel. Management agreed with the recommendation and planned to have corrective action in place by July 30, 2004.

Stamp Accountability and Inventory Controls Related to the Stamps on Consignment Program, FF-AR-04-269

The OIG audited stamp accountability and inventory controls related to the company that supplies stamps for the Stamps on Consignment Program and is in the fourth year of their contract. The Stamps on Consignment Program places stamps in commercial retail outlets and banks for sale to the public. Generally, the audit noted that stamps were properly controlled and accounted for in accordance with contract terms and payments to the Postal Service were accurate. However, Postal Service accounting records overstated the contractor's stamp accountability by \$17 million, nine consignees disputed receipt of stamp shipments valued at approximately \$191,000 and five consignees had transactions valued at approximately \$191,000 that were overdue by at least 60 days.

Network Optimization

Bulk Mail Center Highway Transportation Routes – Great Lakes Area, NL-AR-04-004

The Postal Service could save about \$7.7 million on existing Great Lakes Area bulk mail highway contracts by terminating, substituting or modifying 96 trips. The Postal Service could eliminate or modify the trips without negatively affecting service because trip mail volume was low and mail could be consolidated on other trips. Management agreed to verify the cancellation or modification of the 40 trips they identified for termination during the OIG's audit;

verify appropriate action on the 49 trips they agreed to modify, substitute, or terminate; and reassess the 7 trips they thought were still necessary.

City Letter Carrier Office Preparation – Dallas District, DR-AR-04-005

The Dallas District can improve its office preparation for city letter carriers. Specifically, impediments adversely impacted delivery supervisors' and managers' ability to adequately match workhours with workload. In addition, city letter carriers' work activities did not always ensure they departed the delivery unit as scheduled. Further, supervisors and managers did not effectively use the Delivery Operations Information System to assist in managing office activities. Management disagreed with five of the six recommendations because the findings reflected on the performance of the entire Dallas District and not the three delivery units the OIG visited. Management implemented corrective actions based on the report findings throughout the district. Management's actions taken and planned should correct the issues identified in the findings.

City Letter Carrier Street Management and Route Inspections in Fort Worth District, DR-AR-04-001

At the Oakwood and Riverside Stations, the OIG found that street management and route inspections were generally effective. Delivery unit supervisors conserved city delivery carriers' workhours by conducting required street observations. However, a route inspection conducted at the Oakwood Station delivery unit noted that managers did not adjust routes to maintain them at eight hours.

Efficiency of the Airmail Records Unit at the New York International Service Center, NO-AR-04-011

The New York International Service Center (ISC) in the New York Metro Area could improve the efficiency of its Airmail Records Unit (AMRU) by reducing workhours by 30,000. Management should also consider outsourcing the AMRU, since this operation is not core to the New York ISC's mission. Reducing workhours by 30,000 could produce a cost avoidance of \$9,248,967 based on labor savings over a 10-year period.

Efficiency of the New York International Service Center, NO-AR-04-009

An OIG audit noted that the New York International Service Center could improve the processing efficiency of international and military mail by reducing employee workhours by 326,000 and increasing supervisory workhours by 6,000, for a net reduction of 320,000 workhours. This 320,000-workhour reduction could produce a cost avoidance of more than \$98 million based on labor savings over 10 years.

Self-Service Vending Program—DR-AR-04-002, DR-AR-04-003, DR-AR-04-004, DR-AR-04-006, DR-AR-04-007, DR-AR-04-008, DR-AR-04-009, DR-AR-04-010, DR-AR-04-011, DR-AR-04-012, DR-AR-04-013, DR-AR-04-015

The Self-Service Vending (SSV) Program provides postal customers with a convenient alternative for purchasing stamps and other basic products after business hours and without the need to stand in line during business hours. During the OIG's reviews of the SSV equipment in various districts, the OIG noted that officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, officials could reduce maintenance and repair costs by stopping the use of obsolete equipment. The OIG's physical observation of vending machines

in the various districts indicated that, overall, the machines were operational and easily accessible, with few exceptions.

Trailer Requirements – Northeast Area, NL-AR-04-006

The Postal Service has a national trailer lease for 4,475 trailers to transport mail. The lease would cost the Postal Service more than one-quarter billion dollars over a 12-year period. In the Northeast Area, an OIG audit found that the Postal Service could be more effective and save money if officials analyze and identify trailer requirements. The Postal Service may have missed an opportunity to save more than \$2 million because it leased more trailers than the Springfield Bulk Mail Center needed. However, the Postal Service can save more than \$7.3 million over the remaining trailer lease by returning unneeded trailers. Postal management, however, advised that potential savings estimates were overstated.

Vehicle Management – Delivery Vehicles – Buy Versus Lease, NL-AR-04-005

The Postal Service owns about 163,000 long-life delivery vehicles (LLVs), each expected to last 24 years. The Postal Service supplements the long-life fleet with leased vehicles that typically cost two or three times as much as long-life vehicles. Since 1991, the Postal Service leased as many as 7,600 vehicles, but never less than a minimum of 2,300. The OIG audit ascertained that from fiscal years 1991 through 2003, the Postal Service could have saved more than \$43 million by replacing at least 2,300 commercially leased vehicles with Postal Service-owned vehicles. In 2006, the Postal Service can reduce its fleet of leased vehicles by 2,300 by purchasing LLVs instead that will save more than \$40 million during the 24-year expected life of a long-life vehicle.

Labor

Efforts to Prevent Accidents, Injuries and Illnesses in 12 Performance Clusters – HM-AR-04-006, HM-AR-04-007, HM-AR-04-008, HM-AR-04-009, HM-AR-04-010, HM-AR-04-011, HM-AR-04-012

All of the 12 performance clusters (PCs) audited carried out prevention initiatives that can become best practices in reducing accidents, injuries and illnesses. Additionally, all 12 PCs were accumulating and analyzing accident, injury and illness data for prevention initiatives. In all facilities visited by the OIG, processes in place helped accurately report accidents, injuries and illnesses. However, in the Mississippi, Suncoast, Los Angeles, Oakland, Chicago, Greater Indiana, Long Island, New York, Arkansas, Oklahoma, Mid-America and Salt Lake City PCs, the OIG could not determine whether the prevention initiatives reduced the number of accidents, injuries and illnesses, or whether the initiatives were carried out in a timely manner. Of this group, only the New York PC had data showing that prevention initiatives reduced the number of accidents, injuries and illnesses.

At the Los Angeles, Oakland, Chicago, Greater Indiana, Arkansas and Oklahoma PCs, the Human Resources Information Systems and the Risk Management Reporting Systems are antiquated and will be replaced. At the Mississippi and Suncoast Performance Clusters, these systems did not efficiently analyze data for prevention initiatives.

Technology

Advanced Facer Cancellor System Improvements, DA-AR-04-004

Two upgrades to the Postal Service's Advanced Facer Cancellor System might not achieve program performance nor protect revenue. Postal Service management agreed to delay deployment of the upgrades until contract requirements were met.

Interim Report – Automated Package Processing System First Article Test, DA-AR-04-001

The Automated Package Processing System (APPS) was not able to sustain throughput requirements during the First Article Test. Since testing, the Postal Service made numerous software and hardware changes to address the throughput issues. As a result of improvements, the Postal Service conditionally accepted the APPS. Also, the Postal Service did not include facility modification costs as part of the overall cost of the program. Sites did not receive detailed information to make a correct assessment as to whether modifications were needed to accommodate the APPS. As a result, numerous modification costs were not included as part of the overall program costs. We made no recommendations because Postal Service management has taken a proactive approach in addressing this issue.

Postal Automated Redirect System First Article Test, DA-AR-04-002

The OIG evaluated the Postal Automated Redirection System (PARS) to determine if it provides reliable technology for processing undeliverable-as-addressed mail. PARS identifies and redirects undeliverable-as-addressed mailpieces at their point of origin as opposed to their destination. The system has the potential to provide significant savings through a reduction in sort passes and processing time associated with handling redirected mail. Results of the PARS First Article Test Phase 1 disclosed that intercept rates on mail processing equipment were all above the statement of work technical requirements. However, there were First Article Test technical issues for the mail processing equipment and Change-of-Address Forms Processing System (CFPS). Postal Service management generally agreed with the OIG's concerns and is taking actions to lessen the impact of these issues.

Technology Acquisition Management, DA-AR-04-003

The Technology Acquisition Management organization generally supported, documented, approved and controlled Postal Service acquisitions. However, the organization still faces challenges in managing acquisitions because of the absence of formal written policies and procedures. In addition, program managers used different program management processes and did not document standards for conditionally accepted projects. Management agreed with the OIG's recommendation.

REVENUE

Mail Evaluation, Readability and Lookup Instruments Utilization at the Business Mail Entry Unit in Columbia, South Carolina, NO-AR-04-010

The Columbia, S.C., Business Mail Entry Unit (BMEU) and its detached mail units were not fully using Mail Evaluation, Readability and Lookup Instrument (MERLIN) machines to identify and collect the appropriate postage from business mailers. The Postal Service's target was 100 percent verification of large mailings (those with

more than 10,000 pieces), but the overall MERLIN verification rate was underutilized. The OIG recommended management reassess BMEU staffing and scheduling to ensure full use of MERLIN machines. Management agreed with the OIG's recommendation.

Mail Evaluation, Readability and Lookup Instruments Utilization at the Business Mail Entry Unit in Philadelphia, Pennsylvania, NO-AR-04-012

The Philadelphia Business Mail Entry Unit (BMEU) and its detached mail units were not fully using Mail Evaluation, Readability and Lookup Instrument (MERLIN) machines to identify and collect the appropriate postage from business mailers. While MERLIN utilization increased, MERLIN-compatible mailings (those with more than 10,000 pieces), it remained below the Postal Service's target of 100 percent. The BMEU did not collect \$26,825 in additional postage assessed by MERLIN verifications. Management agreed with the OIG's recommendations to collect the postage due.

Postal Inspection Service's Asset Forfeiture Program, SA-AR-04-002

The U.S. Postal Inspection Service's Asset Forfeiture Program began with the Child Protection Act of 1986 and the granting of forfeiture authority in child exploitation cases. In 1988 and 1992, the Money Laundering Control Act of 1986 was amended to give the Postal Inspection Service (USPIS) forfeiture authority for investigations of mail fraud, narcotics, child exploitation, money laundering and other financial crimes. The USPIS is adequately managing the Asset Forfeiture Program. Asset forfeiture specialists and managers generally followed policies and procedures established for the Asset Forfeiture Program, and the USPIS is addressing its strategic management challenge to strengthen program management.

Review of Express Mail Operations, NO-AR-04-008

A review of Express Mail operations found that the Postal Service exceeded its service standards in FY 2003 by delivering 95 percent of Express Mail items on time. However, over 99 percent of Express Mail packages sent to Guam and 87 percent to American Samoa did not meet established service standards. As a result, the Postal Service had a potential monetary exposure of \$376,000, if all customers requested refunds because guaranteed delivery times were not met. The review also noted that the Postal Service met its goal of scanning 98.8 percent of Express Mail packages for FY 2003. However, during the same period, two districts did not properly scan over 70,000 Express Mail packages at the time of acceptance.

STRATEGIC DIRECTION

Fiscal Year 2003 District Consolidations in the Eastern, Northeast and Pacific Areas, ST-OT-04-001

Overall, the district consolidation process worked well for the Postal Service. In particular, the Postal Service consolidated administrative functions without affecting operations or involuntarily separating employees, while still achieving the district consolidation goals. In addition, no grievances were filed by executive and administrative schedule employees, and only seven Equal Employment Opportunity (EEO) and two Merit Systems Protection Board (MSPB) complaints were filed regarding the consolidation. All of the EEO complaints and one MSPB complaint are pending. The other MSPB complaint was settled in favor of the Postal Service.

SAFETY AND SECURITY

Business Continuity Planning and Testing at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers, IS-AR-04-010

This report showed that essential business units at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers had not fully developed and tested business continuity plans documenting where and how all essential functions would be performed during a business interruption. These centers need to develop and test business continuity plans that address the movement of key personnel to an alternate facility in the event of a disruption.

Decision Process for Disposition of the Curseen-Morris Facility, DA-AR-04-003

A Postal Service Governor asked what decision process the Postal Service used to decide whether to reopen the Curseen-Morris facility (formerly Brentwood) after the anthrax attack. Postal management disclosed that the decision to sell, demolish or reopen Curseen-Morris was made using professional judgment after reviewing the unique circumstances of the event. While a firm set of criteria may not be practical for every situation, general criteria or guidelines would help ensure that a systematic approach is used and the Postal Service is addressing major considerations. The OIG recommended that postal management should benchmark with other federal and private sector organizations and document criteria and guidelines to be used in the decision-making process after a biohazard attack or other disaster.

Emergency Preparedness Training, DA-OT-04-004

In November 2003, the Postmaster General created the Office of Emergency Preparedness to best serve national security interest and properly safeguard employees and customers. Its purpose is to establish a high level of emergency preparedness through better planning, process integration and field support. Postal Service management asked for OIG input on the adequacy of their new emergency preparedness training. As a result, OIG staff participated in training sessions and exercises to learn the process for implementing the new plans. Overall, the OIG found the training sessions helpful in disseminating headquarters policies and terminology to all levels. However, the audit noted that while postal management continually provided guidance and policy, the guidance was not always communicated and therefore was not always followed by the emergency management teams.

Personnel Security Controls at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers, IS-AR-04-011

The OIG audited personnel security at the Eagan, San Mateo and St. Louis Information Technology and Accounting Service Centers. Auditors also evaluated the effectiveness of internal controls over hiring and termination procedures for Postal Service career and contract employees in sensitive positions at the three centers and found that internal controls were generally effective. While management processed initial security clearances for career employees and contractors on a timely basis, security clearance updates were not always processed on a timely basis. Obtaining and updating security clearances help protect computer resources from accidental or unauthorized use, modification, disclosure or destruction.

Postal Inspection Service's Postal Police, SA-AR-04-001

The Postal Inspection Service (USPIS) used several methodologies to support its decision to eliminate postal police officers at six facilities. These methodologies included studies and analyses; professional judgment based on interviews with local police, Postal Service managers, the USPIS and security force managers; and recommendations from the most recent Security Force Assessment Survey. However, the studies and surveys gave contrasting opinions on whether to maintain a postal police presence at the six facilities. Also, the Security Force Assessment Survey is over 18 years old and no documentation was available to assess the validity of its methodology. The OIG recommended that the USPIS update, document and validate the methodology used for conducting Security Force Assessment Surveys or use an alternative process that can be validated and documented to evaluate the presence of postal police officers at postal facilities.

MANAGEMENT INFORMATION

Audit of Serena ChangeMan ZMF Implementation, IS-AR-04-008

Serena ChangeMan ZMF is a new product that manages and automates the process of migrating software changes from a development environment to any test environment and to the production environment. By implementing Serena ChangeMan ZMF at the Eagan Information Technology and Accounting Service Center, the Postal Service established internal controls that provide reasonable assurance for the integrity of application change management. Key controls — including appropriate access, documentation maintenance, segregation of duties and management controls — were in place and functioning.

Click-N-Ship Application Controls Review – Access to Non-Production Systems, IS-AR-04-012

The Postal Service needs stronger controls over internal access to non-production Click-N-Ship systems, an OIG audit determined. The Click-N-Ship system is an Internet application that allows customers to use personal computers and printers to pay for and print labels for domestic and international mail. Users can create and pay for labels online instead of having to go to a Post Office.

Computer Incident Detection and Response Capabilities, IS-AR-04-009

The Postal Service is detecting and responding to computer security incidents. The Postal Service is doing a commendable job in responding to identified incidents. However, the Postal Service can enhance the incident detection and response functions and reevaluate software tools and resources. The Postal Service is reevaluating deployment of network-based intrusion detection sensors.

Electronic Data Interchange at the Information Technology and Accounting Service Center, IS-AR-04-013

The Postal Service could improve electronic data interchange operations by revising policies and procedures to reflect the electronic data interchange environment; changing passwords at regular intervals and implementing password history; and using contingency plans to reflect the current operating environment. Postal Service management corrected deficiencies in off-site storage of critical backup media and specifications for trading partner agreements. They also obtained reports required by Statement on Auditing Standards No. 70 for the value-added network vendor.

Follow-up of the Network Security and Security Testing of Load Balancers, IS-AR-04-006

The OIG looked at whether postal management had corrected the issues identified in Interim Audit Report – Network Security and Security Vulnerability Technical Report – Security Testing of Load Balancers. The Postal Service has corrected the issues of trust relationships between computers, load balancers and password sharing. However, managers could further improve controls over accounts.

Oracle Database Testing at the Host Computing Services, Eagan Minn., IS-CS-04-004

The OIG tested the Oracle database at the Host Computing Services to assess the security of the database, perform compliance checks against Postal Service standards, and perform security vulnerability assessments on three applications. Overall, the Oracle environment is well-managed. Some database configurations deviated from Postal Service standards, but in general, the Database Support Services (DBSS) staff is doing a good job of system maintenance. The OIG recommended that the DBSS staff should review the deviations.

Postal Service's Advanced Computing Environment Program Management, IS-AR-04-007

The Postal Service has made remarkable progress in upgrading its outdated computing infrastructure into a modernized environment. In reviewing the program accomplishments, the OIG noted that the Program Management Office was not preparing and reporting accurate financial information on the ACE program on a timely basis. During the OIG's review, the Program Management Office took steps to document the reporting procedures and update financial reports. Management agreed with the OIG's recommendations and

has procedures in progress, completed or planned addressing the issues in this report. These procedures, when fully implemented, ensure that cost controls are effective and the total cost of the project are known and reported to upper management.

Postal Service's Business Partner Connectivity, IS-AR-04-014

The Postal Service's controls over business partner connectivity are generally adequate but can be improved. Postal management agreed to OIG recommendations.

Security Vulnerability Assessment of Selected UNIX Servers at Host Computing Services, IS-CS-04-005

The OIG evaluated security over selected UNIX servers at the Host Computing Services to determine whether the servers complied with Postal Service standards for server hardening. The OIG selected eight production servers for review, but limited the OIG's tests to two servers not included in a Postal Service internal review of six of the eight servers. The servers the OIG reviewed support the general ledger and eAccess applications. The OIG reviewed all eight servers for compliance with Postal Service hardening standards. Overall, the UNIX environment is well-managed; however, the OIG made several recommendations that postal management agreed with.

Security Vulnerability Assessment of Selected Windows Servers at the Host Computing Services, IS-CS-04-003

The OIG conducted a security vulnerability assessment at the Host Computing Services to evaluate security over one Windows NT and three Windows 2000 servers. Overall, the Windows environment is well-managed. The OIG had several recommendations that postal management agreed with making.

SUPPLEMENTAL INFORMATION

INVESTIGATIVE SYNOPSES

For the period April 1, 2004, through September 30, 2004

Truck Trailer Contractor Pleads Guilty to Filing False Claims

A Texas contractor that leases truck trailers for mail delivery pleaded guilty in U.S. District Court in San Francisco, Calif., on August 3, 2004, to one count of making false claims. OIG special agents determined that the contractor filed hundreds of claims for damage reimbursement supported by forged and fraudulent bids and estimates. The company also colluded with certain preferred vendors to undermine the required competitive bidding process, and between 1997 and 2002 submitted more than 95 percent of its claims with a falsified estimate for repair.

As a condition of its plea agreement, the company entered into a corporate integrity agreement with the Postal Service requiring the implementation of a quality assurance program to ensure its compliance with postal regulations and sound business ethics. The company was also placed on one year probation.

On October 5, 2004, the contractor was ordered to pay a \$500,000 criminal fine and \$1.2 million to cover the OIG's investigative costs.

Construction and Paving Company Fined, Debarred

On June 10, a construction and paving company hired to renovate a parking lot at a New Jersey International & Bulk Mail Center was ordered by a U.S. District Court judge in Newark, N.J., to pay a \$60,000 fine and \$33,400 in restitution to the Postal Service. Earlier, the company pleaded guilty to causing the Postal Service to modify a contract when it submitted change orders that contained inflated costs. The company is also serving a three-year probationary period.

The judge, in addition, fined the corporate president \$5,000 and ordered him to serve two years probation for providing a gratuity to an employee of a construction management services firm under contract to the Postal Service. In exchange for free paving of his driveway, that employee approved overstated and nonexistent charges on a contract modification.

Medical Doctor Sentenced for Insurance Fraud

A four-year investigation culminated on May 25 when a California doctor was sentenced for insurance fraud. The doctor pleaded guilty to a 23-count criminal indictment in March, and a San Diego superior court judge ordered him to serve 48 months in prison. The judge also ordered the doctor to pay \$1,311.53 in restitution to the Postal Service and \$495 to the California Department of Insurance, as well as perform 500 hours of community service.

Contractor Fails to Outsmart Postal Service

On May 24, a U.S. District Court judge in St. Louis, Mo., dismissed a case against the Postal Service, which resulted in a cost avoidance of \$107,237. Two months earlier, on March 24, the OIG learned that a former highway transportation contractor fraudulently negotiated \$170,227 in Postal Service checks. The Postal Service sent the checks in error to the contractor's former company as payment for operating a particular highway contract route. The contractor cashed the checks, even though he knew his company no longer operated the route.

At one time, the contractor's company ran the highway contract route. But in 2001 that route was sold to another contractor in a state court action involving the contractor and his companies. When the Postal Service withheld the funds from two other highway contract routes in order to recover its money, the contractor filed a civil suit on April 19, alleging the Postal Service was in breach of contract. The contractor also filed two temporary restraining orders, requesting the judge to order immediate

release of the funds. The judge denied both temporary restraining orders and the case was dismissed.

Two More Sentenced in Texas Billing Scheme

Two more participants in a billing scheme between an auto service company and a Texas Post Office were sentenced on July 19. A U.S. District Court judge in Texas sentenced a former postal supervisor to 27 months in prison, three years supervised release and payment of \$3,130 in restitution. The supervisor was convicted of 17 counts of false claims, two counts of false statements and one count of conspiracy to commit bribery. The owner of the auto service company pleaded guilty to conspiracy to commit bribery and was sentenced to six months in a community corrections center and five years probation.

The investigation revealed discrepancies in the frequency of repairs, number of labor hours charged and number of parts that the vehicle maintenance facility provided. Invoices disclosed that the Texas Post Office paid over \$200,000 to the company.

Long-Life Vehicles Roll On with New Transmissions

As a result of an OIG investigation, an Alabama auto distributor company agreed on May 17, to supply to the Postal Service 174 truck transmissions valued at \$256,650 for no charge. The transmissions for the Postal Long-Life Vehicles had all failed during the two-year warranty period. The company did not initially provide free replacements per its agreement with the Postal Service. In an administrative settlement, the company agreed to supply the transmissions over the next year to 15 vehicle maintenance facilities (VMFs) throughout the country.

In addition, postal employees at the Philadelphia VMF were able to identify seven more defective transmissions from a list compiled by special agents. The auto company replaced these transmissions, valued at \$12,075, on May 3, free of charge.

Healthcare Business Owner to Pay \$29,032 for Fraud

On June 7, a U.S. District Court judge in Kansas City, Kan., ordered the owner of a Kansas City healthcare company to pay more than \$29,032 in restitution and to spend six months confined to his home for healthcare fraud. The OIG opened its investigation after learning that the company billed the Department of Labor's Office of Workers' Compensation Programs (OWCP) and a federal health-benefit plan for the same services to a postal employee.

Over a three-year period, one postal worker received treatment from a chiropractor, a massage therapist and a personal trainer for a repetitive-motion injury of his arm, elbow and shoulder. After treatment, the employee received documentation showing that the facility's owner (who was also a caregiver) double-billed for the services by submitting invoices to OWCP and the employee's health-benefit plan. The documentation also falsely showed that this one caregiver had treated the postal worker all 27 times when, in fact, several different specialists were involved in the treatment.

Elusive Psychotherapist Sentenced

On April 29, a Florida psychotherapist was sentenced in Florida state court to one year of probation after pleading "no contest" to second and third-degree grand theft charges. In an investigation initiated at the request of the Florida Department of Insurance Fraud, the OIG determined that the psychotherapist fraudulently billed Blue Cross and

Blue Shield nearly \$49,000 for services he did not provide. The physician claimed that he supplied services to 11 postal employees.

The doctor had eluded arrest for about five months by fleeing to Canada in August 2003, when a warrant for his arrest was issued. A random screening at the Phoenix Sky Harbor International Airport turned up the outstanding arrest warrant, and the psychotherapist was extradited to Florida.

\$473,894 in Costs Avoided

An OIG investigation helped the Postal Service avoid \$473,894 in costs when it verified that a "casual" postal employee was continuing to receive disability benefits by not reporting that she had returned to work. The Washington, D.C., resident hurt herself on the job in 1997, while working for the Postal Service during the second of two 90-day periods. While continuing to receive workers' benefits, the woman went back to work, holding jobs with a grocery store chain and two banks from June 2001 to October 2003. Her compensation benefits have since been stopped.

\$724,299 Payout Avoided in Civil Suit

On June 21, a reduced judgment in a civil lawsuit resulted in a cost avoidance of \$724,299 for the Postal Service. A Florida man sought \$3 million in damages for injuries received during a June 1999 traffic accident with a postal vehicle. As a result of the OIG's investigative efforts, a U.S. District Court judge in Jacksonville, Fla., concluded that the plaintiff proved damages totaling only about \$1.4 million and then awarded him \$724,299.

\$916,710 in Illegally Gained Disability Benefits Avoided

OIG special agents helped the Postal Service avoid paying \$916,710 in disability payments over the lifetime of an employee who was cheating the system. Investigators substantiated that a postal mechanic, who worked in Maryland, continued to receive more than \$2,300 a month in disability benefits even though he had returned to full-time work. For his improper conduct, the man was removed from his position on August 27. The Office of Workers' Compensation Programs overpaid the mechanic \$20,291 for the eight months from February to October 2003 when he was working.

Scammer Knocked Off OWCP Roles

An OIG investigation substantiated that a former Maryland postal worker was receiving full disability benefits after she returned to work. The woman's job injury occurred in September 2002, but she began earning

wages again in October 2002 and continued through March 2004 without notifying the Office of Workers' Compensation Programs, as required. Workers' compensation benefits to the woman have been suspended, potentially saving the Postal Service \$696,196.

"Operation Bad Voyage" Makes Good Progress

OIG special agents continued to make headway in the "Operation Bad Voyage" investigation into the gasoline fraud scheme in the Miami area. To date 26 subjects have been arrested. Since July 19, 2003, an abundance of Postal Service Voyager Fleet Card Personal Identification Numbers (PINs) and more than 270 account numbers have been compromised as subjects purchased about \$400,000 in fuel throughout the Miami area.

A total of 14 subjects are scheduled for a plea arraignment on November 12. During the reporting period, three subjects were sentenced. On May 24, 2004, a U.S. District Court judge in Miami ordered one subject to spend five months in prison and five months in home confinement. Another subject was sentenced on April 26, 2004, to one year of probation by an 11th Circuit Court Judge in Miami-Dade County. The third subject entered into a plea agreement with the Florida State Attorneys' Office on September 1, and was sentenced to two years probation. In June, OIG agents seized a large commercial fuel tanker in Miami that was used to transport stolen fuel purchased with counterfeit credit cards using Voyager and Exxon/ Mobil credit card numbers.

Handling of Suspicious Mail Reviewed

In August 2004, the Postmaster General asked the OIG to review the policies, procedures and practices of the Postal Service and Postal Inspection Service (USPIS) regarding the handling of a suspicious mail package at the V Street mail processing facility in Washington, D.C. The results and findings of this inquiry are restricted due to the security issues identified.

Seattle Employee Confesses to Hacking Postal Computers

A Seattle postal employee was put on immediate administrative suspension after he confessed to adding unauthorized IDs and computer password-defeating software to computers in the Seattle District. The OIG initiated an investigation on May 6, after learning that the unauthorized user IDs were added to the local administrator's group without the consent or knowledge of the Internet services manager. The employee's case is pending administrative action by postal management.

SUPPLEMENTAL INFORMATION

FREEDOM OF INFORMATION ACT

ACTIVITIES

For the period April 1, 2004, through September 30, 2004

REQUESTS	Number of Requests
Carryover from prior period	8
Received during period	53
Total on hand during the period	61

OIG ACTIONS	Number of Requests
Processed during the period	26
Released (19)	
Withheld (7)	
Referred to Postal Service or other agency	7
Otherwise closed	5
Total Processed During the Period	38
Balance at End of Period (Pending)	23

APPEALS	Number of Appeals
OIG determinations appealed	5
OIG determinations upheld	3
OIG determinations upheld in part	2
OIG determinations reversed	0
Appeals of OIG determinations pending	0



SUPPLEMENTAL INFORMATION

GLOSSARY

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

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

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

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

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

Contest/sweepstakes scheme – 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.

Common facility footprint – A standard footprint design for architectural design, equipment complement and layout.

Craft – A bargaining unit employee represented by a union at the national level.

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

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

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

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

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

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

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

Gain Share – A gain share is used to describe a situation where a savings has been realized and will be shared with the Postal Service and an outside entity.

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

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

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

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

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

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

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

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

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

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

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

stations, Post Office branches, contract postal units and non-personnel units.

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

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

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

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

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

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



NOTES

OFFICE OF INSPECTOR GENERAL

Report

Fraud, Waste and Misconduct in the Postal Service

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