

Testimony for the Record

**Statement of
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United States Postal Service
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and Federal Services
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Chairman Akaka and Members of the Subcommittee, on behalf of the Office of Inspector General (OIG), United States Postal Service, I am pleased to submit this written statement. The Postal Service provides a basic and fundamental service to the American public. It entered the 21st century facing challenges posed by new technology and a changing business world, which threatened its very existence and relevance. To address these challenges and its continued viability, the Postal Service developed a Transformation Plan to provide a clear vision for its future. Notwithstanding postal transformation, the OIG stands ready to assist the Postal Service in its efforts to improve public accountability. Specifically, our testimony will discuss the areas of strategic vision, financial management, contracting, core business operations, technology, labor management, oversight of the Inspection Service, and terrorism response. In addition, this testimony discusses the challenges the OIG faces in performing its mission to identify fraud, waste, abuse, and mismanagement in postal operations.

This agency was created as the first independent OIG for the Postal Service by Congress in September 1996 and has grown from 1 to 725 employees. As you know, we have a statutory mission to conduct independent audits, reviews, and

investigations of postal programs and operations, including the Inspection Service. Since our inception, we have identified \$2 billion in potential monetary benefits. However, we still have much work to do to convince postal management and stakeholders of the value of an independent inspector general.

Strategic Vision

The Postal Service is a governmental entity that is required to act in a businesslike manner. While fulfilling its public role of providing universal service, it also must compete with private industry and foreign posts. Being a governmental entity, the Postal Service must be accountable to the public, who fund the Postal Service through the purchase of products and services.

To survive, the Postal Service needs to articulate how it will balance providing public service with commercial enterprise in implementing strategies to meet future service and delivery challenges. This objective cannot be achieved without continuity of vision. However, in the past five years three different Postmasters General have introduced their own distinct vision of the Postal Service's future, and implemented operational changes consistent with their vision, which affected the costs and revenues of the Postal Service. The Postal Service needs a clearly defined, long-term strategy to achieve an appropriate balance between public service and commercial enterprise that transcends short-term changes in senior management.

The General Accounting Office placed the Postal Service on its "High Risk List" in 2001. The Postal Service recently articulated its strategy to address the concerns raised by Congress, the General Accounting Office, and others in its Transformation Plan. The Plan is a good starting point and provides information about the challenges the Postal Service faces, identifies numerous short-term actions to take under its existing authority, and outlines long-term strategies that

would require congressional action. However, as has been identified by numerous sources, the Plan does not define key terms, including universal service. Without a better understanding of these key terms, it will be very difficult to implement the Plan. The Plan also relies on congressional action, which, if not forthcoming, will limit its effectiveness. Further, we noted the Postal Service does not have an overall implementation plan, including prioritization and resource allocation.

Financial Management

Unlike most federal agencies, the Postal Service does not rely on appropriations but instead funds its activities through revenue generation. The Comptroller General recently noted that the Postal Service must provide the public with increased visibility and transparency in its financial operations to assure the public that it is providing the best possible service at the lowest cost.

The Postal Service reported billions of dollars in losses over the past years in its financial statements despite recent rate increases, employee reductions, and a freeze on capital expenditures. In addition, Postal Service workers' compensation costs are increasing at a staggering rate, totaling over \$800 million this year, and the General Accounting Office recently questioned how the Postal Service would disclose to the public almost \$100 billion in future employee retirement and post-retirement health benefit obligations. The Postal Service needs to effectively protect revenues; manage costs and increase productivity in order to improve its financial condition; and provide the users of its financial reports with the necessary information to make informed decisions. The following examples illustrate some of the financial management areas we have identified that require attention.

- **Our review of the Postal Service accounting system found that it does not provide program managers the means to effectively track financial obligations, and recommended that the Postal Service improve its accounting system. In one review, Postal Service program managers expressed concerns regarding the absence of complete financial information needed to develop, justify, and defend program budgets. We also found that several managers maintained their own informal checkbook systems to track outstanding obligations for products and services that had been received but not yet paid.**
- **During our ongoing review of productivity, we concluded that the Postal Service has made tremendous strides over the past two years. We noted that an additional \$2 billion in cost savings could have been realized since 1990, primarily by reducing work hours. The Postal Service's investment in technology resulted in about \$3 billion in cost savings during this same period, but it has been unable to achieve expected returns on these investments through reduced labor costs, in part because of the terms of national union agreements that prevent it from reducing staff.**
- **The Postal Service did not have the information needed to track the financial performance of over 1,400 postal retail stores. We concluded that postal management will be unable to determine the profitability of individual stores until it implements methods to track cost and revenue.**

Because of the significant rise in the Postal Service's costs relating to workers' compensation expenses, we are undertaking a multi-part initiative to address fraud, waste, and abuse in this program. We believe that by expanding our work in this area, the Postal Service will realize reductions in these costs, which have increased over 40 percent during the last three years. These costs include the payment of benefits to postal workers who are injured on the job, as well as

medical provider claims for treatment of injuries. While all federal agencies have experienced a general rise in workers' compensation costs, the Postal Service's increase is greater than the overall federal trend. For fiscal year 2002, the Postal Service has incurred over \$800 million in workers' compensation expenses. Reducing these costs can have a major impact on improving the overall cost of postal operations.

The Postmaster General has agreed that the individual employee workers' compensation fraud investigations will be transferred from the Inspection Service to the OIG. This transfer will start with the Capital Metro area during 2003. We believe that having responsibility for employee workers' compensation fraud, as well as audits and medical provider fraud in one agency, will increase the Postal Service's ability to respond to and reduce costs in the workers' compensation area, and result in program improvements both within the Postal Service and the Department of Labor.

We are encouraged by the Postal Service's recent efforts to minimize its losses and reduce its need for additional borrowing as it approaches the statutory debt ceiling. The Postal Service has also recognized the need to improve its financial reporting systems. Projects initiated by the Postal Service include replacing the current general ledger system, implementing a monthly reporting cycle, realigning its fiscal year with the government fiscal year, and consolidating common accounting services. The OIG supports these efforts to improve financial management.

Contracting

The Postal Service is accountable to the public for ensuring that it purchases high quality products and services for the lowest possible prices. The OIG has also sought to better protect the interest of the Postal Service by promoting

changes to its procurement policies and procedures. As one of the largest contracting organizations in the federal government, administering over \$18 billion a year in contracts for goods and services, the Postal Service must be careful that efficiency improvements in its contracting practices do not unduly increase its financial risk and exposure to fraud. Unlike most other federal agencies, the Postal Service is not subject to the Federal Acquisition Regulations. While the OIG does not believe that the Postal Service should be subject to these regulations, we do believe there are other best practices from this and other sources that could better protect its interests.

Over nine months ago, we proposed revisions to the Postal Service's Purchasing Manual and requested that they be addressed as part of the manual's re-issuance. These revisions included strengthening the examination of records clause, requiring certain contractors to have an approved accounting system, and incorporating a computer security standard provision. In addition, in our testimony a year ago, we stated that the Postal Service was the only major federal procurement agency that still does not honor debarments by other federal agencies. As a result, contractors who have been convicted of defrauding other federal agencies, and have been debarred from contracting with those agencies, are free to contract with the Postal Service. Furthermore, the Postal Service requires a higher standard of evidence than is required anywhere else in the federal government to debar a contractor for fraud. We believe this standard is unnecessary and inhibits the Postal Service from protecting itself from fraudulent contractors. As recently as September 16, 2002, the Postmaster General indicated the Postal Service did not intend to follow any of these recommendations.

The OIG continues to reach out to contracting officials throughout the Postal Service with fraud awareness and prevention messages. We believe the need for increased fraud awareness and improved contracting procedures will help to

prevent the Postal Service from being the victim of contract fraud schemes. The following examples illustrate some of the types of contracting issues we have audited and frauds we have investigated:

- The OIG reviewed Postal Service's use of contracts that are used in times of an emergency or critical need and do not have all terms defined. We found these contracts did not have adequate oversight and increased the risk for the Postal Service to be overcharged. We recommended that the Postal Service increase oversight of these contracts and clarify the contract requirements as soon as possible.**
- We have identified over \$462 million in questioned and unsupported contract costs out of \$3 billion in contracts over the past three years. These have included numerous contractors who do not have adequate cost accounting and billing systems to support charges to the Postal Service. For example, we questioned over \$150 million of charges for one major contractor, who had almost \$402 million in contracts, because of major accounting and estimating system deficiencies.**
- Based upon information from the OIG, the Postal Service evacuated a newly built mail processing center because of identified safety hazards. Postal operations were temporarily disrupted while repairs were made, impacting service. The OIG investigation determined that a contractor solicited bribes to certify defective construction work at this facility. Through OIG efforts, this unscrupulous contractor was indicted and prosecution is pending.**
- A major environmental services company recently pled guilty to performing false tests at postal and other government facilities around the country. Company employees committed a number of improper and fraudulent**

practices when testing underground storage tanks in postal and other federal facilities. As part of a plea agreement involving 89 sites, of which 33 were postal facilities, the company will pay a \$1 million criminal fine and restitution of nearly \$1.3 million. The company also agreed to take corrective actions to prevent recurrence of the improper testing.

- **OIG investigators worked with the Postal Service law department to reach an agreement with a major technology firm to settle false claims for over billing related to work performed during Year 2000 (Y2K) preparations. The company agreed to pay the Postal Service over \$800,000. The company was one of several contractors hired by the Postal Service to ensure that Postal Service systems would function properly for the Y2K deadline. The charges arose from whistleblower allegations that the company had billed the Postal Service for contract work performed by unqualified employees or work not performed under the Y2K Postal Service contract requirements.**

We are encouraged by the Postal Service's supply chain management initiative that will leverage the Postal Service's purchasing power by centralizing and consolidating purchases. If implemented properly, it can result in more favorable pricing to the Postal Service. In addition, the Postal Service has initiated an internal website to refer contract audit issues to the OIG.

Core Business Operations

Amidst the debate over the future of the Postal Service and its efforts to leverage new technologies and approaches to improve operations, it must continue to be accountable for its primary objective - delivering the mail. A significant disruption of these core operations would be readily noticeable and would further jeopardize the public's confidence in the Postal Service's ability to compete in a changing marketplace and overall financial condition of the Postal Service. The

following examples illustrate the core business work, which includes accepting, processing, transporting, and delivering the mail, as well as marketing postal products and services.

- An OIG audit of the Postal Service's leased fleet of about 8,700 trailers projected that more than 25 percent of the leased trailers did not meet safety standards, \$5 million in leased trailer inventory could not be accounted for, and damage claims were paid to contractors without determining fault or verifying the cost of the repairs. The Postal Service leases trailers to provide operating flexibility in transporting the mail.
- In an ongoing review, we identified about \$29 million of excess spare parts for mail processing equipment. The excess inventory resulted from purchasing parts above actual demands and maintaining stock levels higher than needed.
- An OIG audit of the automated mail handling system disclosed that projected work hour savings would not be realized, and the robotic system was deployed, although it has consistently not met anticipated performance criteria. We concluded that the return on investment was overstated because \$4.1 million in costs were not included in the cost-benefit analysis.

The Postal Service takes continuous action to improve core business operations such as its recent highway network system and carrier productivity initiatives that are designed to reduce operating costs and improve customer service.

Technology

Investments in technology require strong control and accountability because of their high costs and potential impact on service. It is not unusual for these investments to cost hundreds of millions of dollars, and if the technology fails to work properly, mail delivery may be slowed and privacy information compromised. OIG reviews within the area of technology have covered the development of new systems, information systems, and eCommerce initiatives, some of which are listed below.

- During the past year, OIG has issued 15 reports on telecommunications security at six locations. These reports identified significant vulnerabilities in the security of the computer equipment that the Postal Service depends upon for the efficient performance of its nationwide area network. We worked closely with the Postal Service as they took action to ensure these vulnerabilities did not result in a loss of confidentiality, integrity, and availability of vital financial and operational systems.**
- Our review of six systems under development disclosed that planning could be improved, requirements better defined, more thorough testing performed, and a standard methodology used. Changes, made while a system is under development, are 50 to 100 times less costly than after a system is operational. As a result of our reviews, Postal Service management implemented a standard methodology for system development efforts.**
- Our reviews of eBusiness agreements found that in some cases the agreements did not contain adequate security provisions. In addition, procedures to protect individual privacy information were inadequate. Postal management is proactively working to correct these deficiencies by**

appointing a chief privacy officer, increasing focus on security, and updating policies in these areas.

- Our review questioned the need for five concurrent projects with similar goals and objectives. All five projects, with a total cost of over \$22 million to date, were cancelled after the Postal Service decided not to pursue any of these initiatives.
- In another review, a retail website was established without regard to the full cost of development and operation. We projected that the website's costs would exceed revenues by more than \$5 million over a 10-year life. To respond to our concerns, the Postal Service combined this website into an existing website, which decreased the cost of the project.

The Postal Service realizes the need to improve the quantity and quality of information available to its customers. The Information Platform program is a series of initiatives with the goal of improving customer satisfaction and Postal Service operations. Our review of several of the individual initiatives determined that they have the potential to be successful.

Labor-Management

The Postal Service is accountable for ensuring the safety and well-being of more than 800,000 full- and part-time employees, while also maintaining a productive and cost-effective workplace. Labor-management problems cost the Postal Service millions of dollars each year, adversely affect employee morale, decrease quality of service, and may ultimately result in higher rates. The following examples illustrate our work in this area.

- **Our current work estimates the Postal Service has incurred about \$500 million in the past four years for labor-management problems. We also estimate this amount could potentially escalate to over \$1.1 billion by the end of fiscal year 2003. Much of this cost is directly related to the thousands of grievances filed annually and the missed opportunities to prevent and/or resolve grievances at the lowest possible level. Although several independent organizations, including the OIG, have made numerous recommendations on how to improve relations between the Postal Service and its unions, many of them were not fully implemented.**
- **Despite our efforts to assist the Postal Service in extending reprisal protection afforded to other federal employees under the Whistleblower Protection Act, employees are still not afforded this protection. The Postal Service agreed to extend protection in May 2001; however, the regulations have not been finalized. We continue to work with the Postal Service to prevent reprisal against postal employees who report fraud, waste, abuse, and mismanagement to the OIG; however, if no action is forthcoming by the Postal Service, legislation may be necessary to secure this protection for Postal Service employees.**
- **We concluded that the Postal Service's pay-for-performance program contributed to significant improvements in mail delivery service and employee safety, but did not result in improved workplace relations or financial performance. Based, in part, on our work, the Postal Service discontinued the program and agreed to incorporate accountability for those areas in a new program it plan to establish.**
- **In a recent audit of the Postal Service's corporate succession planning process we found its plan for filling vacant Postal Career Executive Service positions included many features that we identified as best practices for**

successful organizations. The Postal Service had also implemented diversity programs into its planning process, resulting in a slight increase of some diversity statistics. While there were some areas in need of improvement, overall we believe the Postal Service has done a good job in this area.

We are encouraged that the Postmaster General has identified the development of future leaders as one of the Postal Service's performance strategies in its Transformation Plan. This strategy includes the continued use of executive development programs, accountability for successor development, and a measurement system to evaluate the effectiveness of succession planning.

Oversight of Inspection Service

Unlike other federal law enforcement agencies that operate with appropriated funds, the Postal Inspection Service operates with postal revenues. The Postal Service needs to be accountable to postal ratepayers and customers for how these postal revenues are used. The OIG has express statutory responsibility to oversee the Inspection Service. Following are examples of some of our oversight activities.

- An OIG investigation revealed that the Inspection Service granted a sensitive clearance to an employee of a postal information technology contractor, despite having learned from the Office of Personnel Management that the contractor had a prior federal felony conviction for unlawful receipt of pornographic images of children.
- The OIG found the Inspection Service granted an interim clearance that allowed a contractor to begin working for the Postal Service even though the contractor admitted to having been fired from two previous jobs. The

contract employee was subsequently caught hacking into other computer systems, using postal computers.

- A review of Inspection Service investigative activity directed at fraud against other federal agencies revealed that these investigations primarily benefited other agencies with little benefit to the Postal Service. Only \$2.9 million of the \$491 million in reported fines and restitutions was actually owed to the Postal Service.**
- A recent review of the health examination program identified the Inspection Service had not adequately validated physical requirements or finalized medical standards for inspector positions. Management also did not ensure all postal inspectors obtained or completed periodic health examinations as required. As a result, management may have placed postal inspectors and others who are dependent upon their performance at risk. However, we also found that management did not use the health examination program as a punitive measure.**

Despite our mandate to provide oversight to the Inspection Service, the OIG, at times, has faced challenges in exercising its oversight responsibility, which include questioning of the OIG's authority and refusing unrestricted access to personnel and information. We have recently reorganized our Inspection Service oversight program with the goal to improve our effectiveness. We intend to have our efforts more closely reflect the approach of other inspectors general, e.g., Department of Justice and Treasury Inspector General for Tax Administration, which have oversight responsibility over major federal law enforcement organizations. The OIG will continue to work with the Inspection Service and senior postal management to resolve these challenges. We look forward to establishing an environment of cooperation with the new Chief Postal Inspector.

Terrorism Response

The American public expects the Postal Service to provide safe mail and a safe work environment for its employees. Following the discovery of anthrax in the mail, the OIG shifted resources and responded immediately in support of the Postal Service. Our reviews identified opportunities for improvement in the following areas.

- In an examination of contracts for decontamination and detection equipment, we identified contract provisions that deviated from standard contract language or were omitted from 11 contracts, totaling over \$100 million. While we understand the need to expedite purchases to protect the mail, employees, and the public from the anthrax threat, we believe the Postal Service was unnecessarily exposed to increased financial risk because it did not properly document important contract decisions, including determinations of price reasonableness.**
- We found that hazardous mail transportation and facility leasing requirements were not well understood at the area and local level, resulting in improper transportation of potentially contaminated mail and more than \$600,000 in wasted funds for leasing facilities which, ultimately, could not be used for decontamination purposes.**
- We found that management allowed a contractor to both decontaminate a postal facility and then verify that the work was done properly. Because of the sensitivity of this situation, good internal controls provide that the two functions be conducted by separate contractors to provide reasonable assurance that the decontamination process was effective.**

- **We identified three organizations with alleged ties to terrorist activities who were mailing at nonprofit rates and had funds in bulk mail accounts. We referred the information to Postal Service officials, including the Inspection Service, as well as the Federal Bureau of Investigation Counter-Terrorism Unit. Subsequently, the Postal Service froze the funds and has requested guidance from the Department of the Treasury for a final determination on the disposition of these funds.**

In the OIG's anthrax capping report we commended the communication efforts, safety, and self-initiated actions taken by the Postal Service, and concluded that the Postal Service communicated an extensive amount of information on mail handling received from health experts to ensure the safety and health of its employees. The Postmaster General showed extraordinary leadership during this very difficult time.

OIG Challenges

We continue to educate Postal management on our independence and authority. However, management challenges this independence and authority in various ways: by directly attempting to limit our independence, withholding information we request, omitting required statements in contracts, trying to direct our work, and failing to support our role and mission.

When the General Accounting Office sought to change government auditing standards to the detriment of non-presidentially appointed inspectors general, we led the fight to ensure that our independent status and role was maintained. We occasionally have problems obtaining information from postal management that is complete, relevant, and timely. The OIG generally can resolve these issues after bringing them to the attention of senior management, but these situations

create a confrontational environment and unnecessarily delay our work. Senior Postal management needs to do more to keep this from reoccurring.

We have encountered difficulty in obtaining contractor records because some Postal Service contracts either have restrictive language or do not include adequate provisions for access to records. For example, the Postal Service entered into a major agreement that did not have an access to records clause. In another case, the Postal Service agreed to language in a contract that attempted to prohibit disclosure of the company's information to anyone without the contractor's prior consent. These contract clauses are contrary to the OIG's statutory authority to have unrestricted access to all Postal Service records.

Postal managers often do not share our perspective on the role of an OIG and believe that OIG auditors should generally work in the financial management area and not review Postal Service performance, mission and policy areas. For example, when we initiated an audit of the Postal Service sexual harassment prevention program, we met with considerable resistance from management. These officials stated that a review of this nature was not an appropriate undertaking for the OIG and questioned what value we could add. This type of resistance from postal management compounds our difficulty in obtaining the necessary cooperation from other personnel to effectively evaluate postal programs and operations.

As stated above, leadership in assuring that Postal Service supports the role and authority of the OIG is critical to our effectiveness. In addition to assuring access to records, additional support is needed in the area of management comments to our reports. Some managers agree with our recommendations but try to discredit the overall report by disputing the facts contained in the report, even though the facts are supported by evidence. Postal Service management recently established a postal unit for facilitating the audit process, which is a step in the

right direction but still needs improvement. We believe it is incumbent upon the Governors, Postmaster General, and other senior postal officials to provide leadership in support of the OIG's statutory mission, role and authority.

In addition, the OIG is facing the following challenges that impact our continued relevance to Congress and the Postal Service:

- The Postal Service is the only major federal agency where the Inspector General serves a statutory term. The Inspector General's seven-year term will end in January 2004, and the Governors will need to identify a successor. Because the Inspector General is not appointed by the President and confirmed by the Senate, Congressional oversight and awareness of the hiring of the next Inspector General may be limited. In addition, unlike other government officials such as the Comptroller General and the Director of the Federal Bureau of Investigation who serve fixed terms, there are no provisions in the law to protect the Inspector General from forced retirement at a reduced annuity.

The Office of Personnel Management has provisions for government senior executives that when not recertified (similar to the term limit for Postal Service Inspector General), the executive may retire without taking a reduced annuity. Without these protections highly qualified career senior executives from other agencies will be deterred from seeking the position if they are not eligible for full retirement at the end of their term. This may increase the possibility of someone with close ties to Postal management being appointed to the position, which could have an adverse impact on the actual or perceived independence of the OIG.

- The OIG is challenged to continue to attract and retain talented staff. This is particularly crucial now when agencies such as the Transportation

Security Administration are recruiting many of our employees because of their experience and expertise, and have pay and benefits packages superior to the OIG. The OIG continues to aggressively hire experienced staff as well as train entry-level professionals needed to provide quality audit and investigative services to its stakeholders.

Conclusion

The OIG believes Congress needs to help the Postal Service define its role for the future so it can fulfill the needs of its ratepayers, employees, and the American public. The Postal Service cannot renew itself without congressional oversight and attention, as well as a public debate about the continued relevance of the Postal Service. During the public debate over its future, the Postal Service must remain strong enough to continue its mission. Regardless of the outcome of this debate, the OIG will continue to provide independent assessments of ways to improve the Postal Service's public accountability, services, and operations.

We would like to thank you for the opportunity to provide this written statement.