



# **FY 2010 BUDGET**

**Office of Inspector General  
United States Postal Service**

---

# Office of Inspector General

## Mission

The mission of the U. S. Postal Service Office of Inspector General (OIG) is to promote integrity and accountability by delivering optimal value to our stakeholders.

The U. S. Postal Service (Postal Service) is currently facing unprecedented challenges in this economy, specifically, increasing cost and declining revenues. The OIG has developed guiding principles to help employees, customers, and stakeholders understand how the OIG will work internally and externally to deliver the OIG mission and help the Postal Service in these challenging times.

- Achieving Results – Sustain the OIG performance culture with increasingly challenging and satisfying work that adds value to the Postal Service
- Respecting and Developing People – Treat everyone fairly and respectfully through words and actions, ensure professional growth, and support diversity
- Operating with Integrity – Be a model of ethical behavior
- Encouraging Innovation – Promote creativity in executing the OIG mission
- Developing and Retaining Knowledge – Create an environment that supports gathering, sharing and retaining knowledge with interactive networks and tools

The OIG, through its guiding principles, has set challenging goals to add value to postal operations by identifying cost reduction opportunities and supporting Postal Service efforts to generate revenue. The OIG will improve operational integrity and reduce the risk of loss by detecting and preventing vulnerabilities to fraud, waste and abuse. Also, the OIG will conduct objective, independent, timely, and high-quality investigations of misconduct and fraud to recover funds for the Postal Service in fines, restitutions, recoveries, settlements, and cost avoidance.

The OIG's requested funding will be used to provide critical audit and investigative services, assuring the efficiency, effectiveness, and integrity of Postal Service programs and operations.

## Program Summary by Appropriations Account

Dollars in Thousands

| Appropriation                       | FY 2008          | FY 2009          | FY 2010          |
|-------------------------------------|------------------|------------------|------------------|
| Salaries and Expenses               | <b>Budget</b>    | <b>Budget</b>    | <b>Request</b>   |
| Audit                               | \$70,602         | \$71,807         | \$97,759         |
| Investigations                      | \$164,739        | \$167,549        | \$146,638        |
| <b>Total Appropriated Resources</b> | <b>\$235,341</b> | <b>\$239,356</b> | <b>\$244,397</b> |

## Fiscal Year (FY) 2010 Goals

The OIG strategic goals are:

- Add value to Postal Service operations
- Preserve integrity and security for the Postal Service
- Continually improve OIG products and services
- Pursue a highly satisfying, performance-based culture within the OIG

These strategic goals serve as a focus for the OIG in FY 2009 and beyond. In FY 2008, the OIG identified potential financial impact on Postal Service operations of about \$1.2 billion, recovered over \$25.7 million to the Postal Service, and identified over \$207 million in workers' compensation program and contract fraud cost avoidance. These results were identified by conducting over 450 audits and evaluations, and more than 7,600 investigations.

In FY 2009, the OIG continues to focus on achieving its strategic goals. While we cannot predict savings that will be identified in audits and investigations, the risk-based approach to planning assures that we cover most of Postal Service's FY 2009 projected budget of \$79 billion. In addition, the OIG will increase its focus on investigating healthcare disability fraud and contract fraud allegations.

The FY 2010 goals are to complete over 400 audits, including all our mandated audits, and increase total investigative financial, criminal and administrative outcomes in all areas. This work in both audit and investigations will remain focused on Postal Service's high risk areas and will achieve OIG strategic goals.

## **Section 1 – Purpose**

---

### **1A – Description of OIG Mission**

The mission of the OIG is to promote integrity and accountability by delivering optimal value to its stakeholders. To fulfill this mission, the OIG has two primary offices, the Office of Audit (OA) and the Office of Investigations (OI), to conduct OIG work.

In FY 2010, the OIG will continue to address the mandated requirements related to the Postal Service financial statements, and the investigative work in internal crimes that was transitioned to the OIG from U.S. Postal Inspection Service in 2006. These two areas comprise a major percentage of the OIG's workload and, as such, need resources to provide the necessary coverage. While these areas are important to the Postal Service, many other areas also require audit and investigative oversight.

**Office of Audit.** OA's first audit priority is to address mandated requirements related to financial statements, information security, and cost and revenue systems, and to determine how well the Postal Service is meeting its mission of providing high quality, affordable, universal service. OA plans to focus its attention on four of the most critical management challenge/risk areas of cost savings, revenue generation and protection, financial reporting, and contract management.

#### **Cost Savings**

The Postal Service continually examines opportunities to reduce costs to keep products affordable and competitive. Several key cost savings initiatives involve using automation to reduce manual processing, optimizing the facility network, and increasing flexibility in transportation. The Postal Service operates one of the largest transportation and logistics networks in the world, accepting, processing, and transporting more than 200 billion pieces of mail annually. The mail processing network has over 613 facilities, uses mechanized and automated equipment, and costs about \$13 billion annually in salaries to operate. Transportation, which is primarily contracted out, costs about \$8 billion annually.

The OIG has been working with the Postal Service to examine opportunities to streamline the existing network as well as strengthen its strategic network realignment initiatives. Over the last several years, the OIG's streamlining reviews have identified opportunities to improve efficiency in mail processing and reduce nearly 3.5 million work hours that would produce almost \$1.1 billion in savings over 10 years. In addition, we have identified opportunities to reduce transportation and logistical support network costs by about \$600 million.

### Revenue Generation and Protection

The Postal Service's future financial health depends on its ability to generate sufficient revenue to support its operations. In the past, mail volume growth paid for expansion of the delivery network, but technology is transforming the use of mail and the current economic downturn has dramatically reduced mail volume. Additionally, the Postal Service can no longer raise rates to make up for any shortfall, as the Postal Accountability and Enhancement Act (Postal Act) of 2006 caps rate increases for the major mail classes at inflation. The OIG has dedicated teams of auditors to review revenue issues at the Postal Service, and identify ways to generate more revenue and prevent revenue leakage. These auditors focus on those areas that generate significant segments of Postal Service revenue, how the Postal Service forecasts its long-term volume and revenue, and how effectively the Postal Service ensures it collects all revenue it is owed. Further, as part of our annual financial statement audits, auditors review business mail and Periodical postage statements and authorizations for nonprofit mailers and Periodical publications; observe mail acceptance, verification, and clearance processes; and evaluate post office box and caller service fees. The OIG conducts tests to ensure that revenue is properly collected, recorded and supported, as appropriate.

### Financial Reporting and Controls

The passage of the Postal Act of 2006 had a significant impact on the Postal Service's financial reporting structure and responsibilities. The Postal Act requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act (SOX); comply with Securities and Exchange Commission (SEC) financial reporting requirements by filing forms 10-K, 10-Q and 8-K with the Postal Regulatory Commission (PRC); segregate market dominant and competitive product lines for financial reporting purposes; and compute estimated income tax on the results of operations from competitive product lines. Further, the Postal Act requires the Postal Service to submit an annual report to the PRC that analyzes costs, revenues, rates, and quality of service for all products.

In support of the independent auditor's opinion on the financial statements of the Postal Service, the OIG performs the vast majority (over 90 percent) of audit work on the general ledger accounts, internal controls and financial reporting systems. The new mandates have required an expansion of our financial audit objectives and scope. Specifically, performing the audit of internal controls over financial reporting (SOX) is requiring a significant increase in the scope of documentation and testing of key internal controls and changes in the timing of testing. The SEC financial reporting requires additional audit work and the segregation of product lines requires the OIG to analyze and test the statement of operation, balance sheet and cash flows. Further, the computation of income tax liability will require additional time at year-end to reconcile the differences between Generally Accepted Accounting Principles reporting and the standards set forth by the Department of Treasury to verify the estimated tax liability.

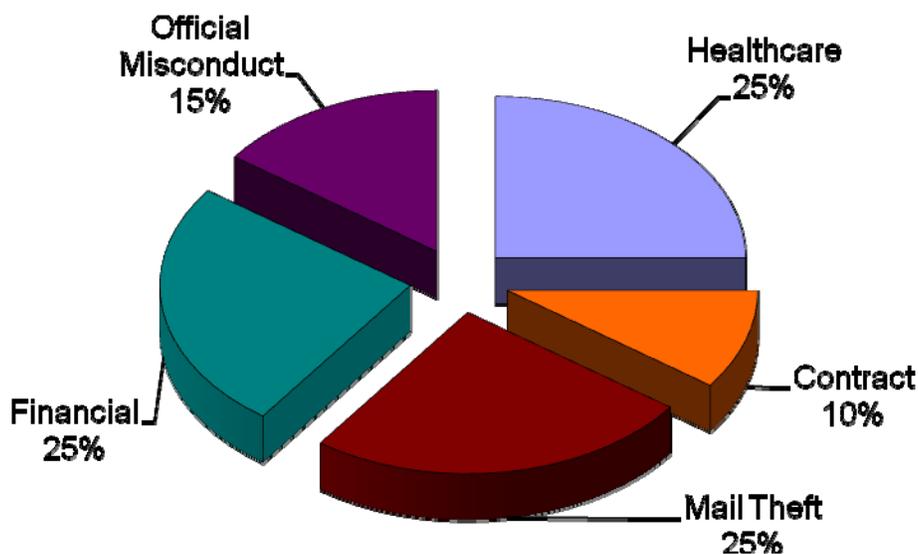
Finally, the OIG now regularly audits the dozens of data collection systems and procedures utilized in collecting information and preparing the annual report which the Postal Service submits to the PRC.

### Contract Management

The Postal Service manages more than \$40 billion in postal contracts. These contracts range from multimillion-dollar national contracts for services such as transportation networks and IT infrastructures, to local contracts for supplies and services at individual postal facilities. The sheer volume of contracts and their huge dollar value present challenges to the Postal Service. The OIG annually performs 20 to 25 contract program audits that review major contracts and/or major contract oversight processes. Additionally, the OIG coordinates annually 25 to 35 Defense Contract Audit Agency audits that review specific contract controls, pricing, and costs. These audits have resulted in annual questioned costs ranging from \$32 million to over \$500 million. In addition, during the last 2 years, Engineering audits identified savings opportunities associated with operational improvements and program losses due to contractor non-compliance exceeding \$200 million.

**Office of Investigations.** OI organizes its work into five major investigative programs -- contract fraud, financial fraud, healthcare fraud, general crimes/employee misconduct, and internal mail theft -- and distributing resources among these program areas allows OI to more efficiently respond to allegations and facilitate data-driven decisions:

### **Investigative Workhour Allocation**



- Contract Fraud
  - frauds by contractors, kickbacks, bribes, conflicts of interest
- Financial Fraud
  - embezzlement investigations (embezzlements of money, stamps or other products)
  - disbursement card investigations (misuse of government disbursement cards or financial systems)
- Healthcare Fraud
  - claimant healthcare fraud investigations (committed by employees)
  - provider healthcare fraud investigations (committed by healthcare providers)
- General Crimes/Employee Misconduct
  - narcotics investigations (illegal sale, use, possession)
  - computer crime investigations (intrusions, thefts of software/data, misuse)
  - other misconduct investigations (other thefts, falsifications, misconduct or illegal activity related to employment)
- Internal Mail Theft (theft, delay or destruction of mail)

The five programs are aligned with OI Postal Service Risk Assessment, which defines the risk universe and helps focus investigative coverage. Contract Fraud, Financial Fraud, and Healthcare Fraud programs address the Postal Service's Financial Risk. The General Crimes/Employee Misconduct and Internal Mail Theft programs address the operational risk of mail security.

### Contract Fraud

The Contract Fraud program involves employee and contractor fraud. The Postal Service manages more than \$40 billion in postal contracts. These contracts range from multimillion-dollar national contracts for services such as transportation networks and IT infrastructures to local contracts for supplies and services at individual postal facilities. The sheer volume of contracts and the huge dollar value provide opportunities for contractors and employees to defraud the Postal Service. We aid the Postal Service by assessing its management of acquisitions and contracts and investigating allegations of contract improprieties.

### Financial Fraud

The Financial Fraud program involves two main types of cases: embezzlement investigations (money, stamps or other products) and disbursement card investigations (misuse of government disbursement cards or financial systems).

The program objectives are to protect postal financial revenue and assets from theft or misuse; review internal controls and identify problems and solutions to prevent the loss of postal revenue and assets; investigate and initiate administrative, civil, or criminal actions against individuals and firms responsible for the theft or misuse of postal revenue and assets; and provide guidance to postal management on reducing risk.

Financial fraud investigations include:

- embezzlement of postal funds
- theft of postal products and service
- IMPAC card fraud
- Voyager card fraud
- Indemnity claim fraud
- eTravel fraud
- eBuy fraud

### Healthcare Fraud

One of the primary risks addressed under the Healthcare Fraud program is workers' compensation fraud. OI investigates two types of cases under this program: claimant fraud and healthcare provider fraud.

The Postal Service funds workers' compensation benefits for employees who sustain job-related injuries. Administered by the Department of Labor (DOL), the workers' compensation program provides benefits to claimants and beneficiaries and payments to healthcare providers. The Postal Service later reimburses the DOL in a process known as "chargeback billing." The Postal Service recorded about \$1.2 billion in payments during FY 2008 to the DOL for workers' compensation expenses. The majority of claimants receive workers' compensation benefits from legitimate job-related injuries. However, a small percentage of postal employees and health-care providers abuse the system. These schemes cost the Postal Service millions of dollars each year in compensation payments, medical costs, administrative expenses, and enforcement costs. OI works closely with Postal Service injury compensation units and management to identify instances of suspected claimant fraud.

OI initiates criminal investigations when individuals or healthcare providers are suspected of defrauding the workers' compensation program. Criminal prosecutions are an effective deterrent to fraud and permanently prevent the payment of any additional compensation. OI refers any case that may require administrative action to the Postal Service and the DOL. OI agents work closely with injury compensation specialists from the Postal Service on all phases of these investigations.

## General Crimes/Employee Misconduct

The OIG takes seriously any conduct by postal employees that deteriorates the public's trust and reflects negatively on the Postal Service and OI is responsible for investigating misconduct by all postal employees. Postal employee misconduct includes misuse of postal computers; destruction or theft of postal property; falsifying official documents/forgery; theft of funds; abuse of authority; sabotage of operations; narcotics and alcohol abuse; and general miscellaneous employee misconduct.

## Internal Mail Theft

OI addresses mail security through the Internal Mail Theft program. Responsibility for investigation of internal mail theft was transferred to the OIG from the Postal Inspection Service in 2006. Under this program, the OI investigates mail theft by postal employees and postal contractors. The purpose of the Internal Crimes Mail Theft program is to protect the Postal Service and its customers from theft, rifling, destruction, mistreatment, or obstruction of the mail. Deterrence and prosecution of these crimes is achieved through the identification, arrest, and prosecution of those responsible. The Postal Service depends on the public's confidence in the sanctity of the mail, and the Postal Service and the public expect and demand a certain level of investigative service in this area.

## **1B – Program History and Future Outlook**

The OIG was established pursuant to provisions of the *Omnibus Consolidated Appropriations Act* of 1997, Public Law 104-208, on September 30, 1996. General OIG authority is derived from the Inspector General Act of 1978, as amended, codified at 5 U.S.C. Appendix §§ 1-12, which provides statutory responsibility to protect the integrity of Postal Service programs and operations, and to ensure that the mail service is administered with maximum economy and efficiency. The Postal Act of 2006 is the first major legislative change to the Postal Service since 1971.

A number of important provisions of the Postal Act of 2006 impact the OIG. The Act:

- Requires the OIG to submit to Congress and the Postal Service, within 6 months of enactment, a report that details and assesses Postal Service progress in improving safety, reducing workplace injuries, and identifying opportunities for improvement. We issued this report<sup>1</sup> on May 16, 2007, and are continuing further work in this issue area at the request of congressional staff.

---

<sup>1</sup> *Postal Service's Workplace Safety and Workplace-Related Injury Reduction Goals and Progress* (Report Number HM-AR-07-002).

- Requires the OIG, within 1-year of enactment, to study and submit to the President, the Congress, and the Postal Service a report concerning how the Postal Service administers the assessment of revenue deficiencies for Nonprofit Standard Mail. We issued this report<sup>2</sup> on November 29, 2007.
- Applies certain provisions of the Sarbanes-Oxley Act to the Postal Service, and requires the Postal Service to conform to certain aspects of SEC reporting, both of which are requiring the OIG to conduct substantial audit work as mentioned previously.
- Requires the OIG to audit regularly the data collection systems and procedures the Postal Service uses in collecting information used for its report to the PRC as mentioned previously.

We completed the first two required audits on time, and will be performing annual SOX-and SEC reporting-specific work, assessing the adequacy of internal control systems relevant to the collection of information for the report to the PRC over a 5- to 7-year period, and identifying opportunities for improvement.

Additional Postal Act of 2006 provisions that could impact the OIG's work require the Postal Service to:

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

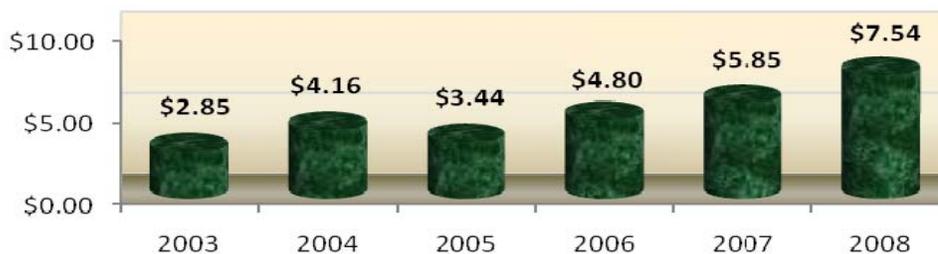
---

<sup>2</sup> *Postal Accountability and Enhancement Act, Section 709, Assessment of Certain Rate Deficiencies* (Report Number FF-AR-08-030).

The OIG's audit and investigative plans are directly linked to the Postal Service's strategic goals – focus on what matters most to customers, leverage our strengths, and embrace change. Each of these strategic goals presents significant challenges to the Postal Service. As such, the OIG's focus in FY 2009, and in the following years, is to conduct audits and investigations that will assist the Postal Service in trying to achieve these goals.

In FY 2008, OIG efforts resulted in 455 audits and evaluations being completed with potential monetary benefits of about \$1.2 billion identified; and 7,679 completed investigative cases, 928 arrests and indictments, 3,699 administrative actions referred, \$25.7 million in monetary recoveries to the Postal Service, and over \$207 million in workers' compensation and contract fraud cost avoidance. As a result, the OIG's return-on-investment (ROI) was \$7.54, up from \$5.85 in FY 2007. The following chart shows the OIG's ROI since FY 2003.

### Return on Investment



In FY 2010, the OA will concentrate on areas that present a high risk to the Postal Service. We have identified these high risk categories as strategic, financial, and operational. We plan to commit about half of our resources to the financial area, which includes a review of the field financial areas as well as the audit work in response to the newly mandated Sarbanes-Oxley requirements. Also, the OIG will continue conducting audits of data collection systems and procedures, which were mandated in the Postal Act of 2006.

In FY 2010, the OI plans to continue investigating reports of fraud, waste and abuse, and other criminal activity within the Postal Service with the goal of increasing the overall impact of its work to the Postal Service. Responsibility for investigating the internal crimes area was transitioned from the Inspection Service in FY 2006. The OIG received 345 additional positions to conduct this work.

With the passage of Public Law 110-409, Inspector General Reform Act of 2008, each Inspector General is to include in their respective budgets the amount that

is needed for training and the amount needed for support of the Council of the Inspectors General on Integrity and Efficiency. For FY 2010, we have budgeted \$1.9 million for training. As for support of the Council, this amount has not yet been established by the Council. When this amount is established, appropriate funding will be set aside for support of the Council.

The requested FY 2010 direct funding level will allow the OIG to maintain performance at a level generally consistent with FY 2009, with only a small increase in resources

## Section 2 – Budget Adjustments and Appropriation Language

---

### 2.1 - Budget Adjustments Table

Dollars in Thousands  
Appropriation: OIG Salaries &  
Expenses

|                               | FTE   | Amount        |
|-------------------------------|-------|---------------|
| FY 2008 Appropriation         | 1,170 | \$235,341,000 |
| FY 2009 Approved Budget       | 1,194 | \$239,356,000 |
| FY 2010 Budget Request to OMB | 1,194 | \$244,397,000 |

### 2A – Budget Increases and Decreases Description

#### Changes from 2009 to 2010 –

**Maintaining Current Levels .....\$ 5,041,000 / 0 FTE**

*Personnel Increase* + \$5,041,000 / 0 FTE Funds are requested for anticipated January 2010 pay increase, pay-for-performance increase, and benefits costs.

## 2.2 - Operating Levels Table

Dollars in Thousands

| Appropriation Title: OIG Salaries & Expenses  | FY 2008<br>Budget | FY 2009<br>Request | FY 2010<br>Request<br>Level |
|---|-------------------|--------------------|-----------------------------|
| <b>FTE</b>                                    | 1,190             | 1,194              | 1,194                       |
| <b>Object Classification:</b>                 |                   |                    |                             |
| 11.1 Full-time Permanent Positions            | \$126,160         | \$130,541          | \$140,255                   |
| 11.3 Other than Full-time Permanent Positions | 250               | 260                | 200                         |
| 11.5 Other Personnel Compensation             | 4,000             | 4,100              | 4,620                       |
| 11.8 Special Personnel services payments      | 533               | 550                | 566                         |
| 11.9 Personnel Compensation (Total)           | <b>\$130,943</b>  | <b>\$135,451</b>   | <b>\$145,641</b>            |
| 12.0 Personnel Benefits                       | 40,000            | 40,272             | 40,450                      |
| 13.0 Benefits to Former Personnel             | 0                 | 0                  | 0                           |
| 21.0 Travel                                   | 7,106             | 5,668              | 5,440                       |
| 22.0 Transportation of Things                 | 1,000             | 721                | 743                         |
| 23.1 Rental Payments to GSA                   | 0                 | 0                  | 0                           |
| 23.2 Rent Payments to Others                  | 8,075             | 8,946              | 8,745                       |
| 23.3 Communications, Utilities, & Misc.       | 2,894             | 2,981              | 2,250                       |
| 24.0 Printing and Reproduction                | 150               | 155                | 194                         |
| 25.1 Advisory & Assistance Services           | 16,982            | 16,282             | 14,600                      |
| 25.2 Other Services                           | 390               | 408                | 414                         |
| 25.3 Purchase of Goods/Serv. From Govt. Accts | 0                 | 0                  | 0                           |
| 25.4 Operation & Maintenance of Facilities    | 300               | 310                | 320                         |
| 25.5 Research & Development Contracts         | 0                 | 0                  | 0                           |
| 25.6 Medical Care                             | 0                 | 0                  | 0                           |
| 25.7 Operation & Maintenance of Equipment     | 2,767             | 2,850              | 2,250                       |
| 25.8 Subsistence & Support of Persons         | 0                 | 0                  | 0                           |
| 26.0 Supplies and Materials                   | 1,734             | 1,786              | 1,400                       |
| 31.0 Equipment                                | 16,000            | 16,316             | 14,750                      |
| 32.0 Lands and Structures                     | 7,000             | 7,210              | 7,200                       |
| 33.0 Investments & Loans                      | 0                 | 0                  | 0                           |
| 41.0 Grants, Subsidies                        | 0                 | 0                  | 0                           |
| 42.0 Insurance Claims & indemnities           | 0                 | 0                  | 0                           |
| 43.0 Interest & Dividends                     | 0                 | 0                  | 0                           |
| 44.0 Refunds                                  | 0                 | 0                  | 0                           |
| <b>Total Budget Authority</b>                 | <b>\$235,341</b>  | <b>\$239,356</b>   | <b>\$244,397</b>            |
| <b>Budget Activities:</b>                     |                   |                    |                             |
| Audits  | \$ 70,602         | \$ 71,807          | \$ 97,759                   |
| Investigations                                | \$164,739         | \$167,549          | \$146,638                   |
| <b>Total Budget Authority</b>                 | <b>\$235,341</b>  | <b>\$239,356</b>   | <b>\$244,397</b>            |

## 2B – Appropriation Language

### Appropriation Language

#### OFFICE OF INSPECTOR GENERAL SALARIES AND EXPENSES (INCLUDING TRANSFER OF FUNDS)

For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, [\$239,356,000] up to \$244,397,000, to be derived by transfer from the Postal Service Fund and expended as authorized by section 603(b)(3) of the Postal Accountability and Enhancement Act (Public Law 109-435): *Provided, That unobligated balances remaining in this account on October 1, 2009 shall be transferred back to the Postal Service Fund: Provided further, That unobligated balances remaining in this account on October 1, 2010 shall be transferred back to the Postal Service Fund.*

## 2C – Legislative Proposals

Discussion has been held with, and language submitted to, Congress requesting a change to Section 411 of Title 39 to authorize the OIG to furnish property both real and personal, and services, to the Postal Service, and to authorize the Postal Service to furnish property and services to the OIG. The furnishing of property and services under this section shall be under such terms and conditions, including reimbursability, as the Postal Service and the head of the agency concerned or the Inspector General of the Postal Service shall deem appropriate. This change is essential for the OIG to enter into an intra-agency agreement with the Postal Service.

## Section 3 – Budget and Performance Plan

---

### 3.1 – Appropriation Detail Table

| Dollars in Thousands                       | FTE          | FY 2008          | FTE          | FY 2009          | FTE          | FY 2010          |
|--|--------------|------------------|--------------|------------------|--------------|------------------|
| Resources Available for Obligation         |              |                  |              |                  |              |                  |
| <b>New Appropriated Resources:</b>         |              |                  |              |                  |              |                  |
| Audit                                      | 431          | \$ 70,602        | 435          | \$ 71,807        | 479          | \$97,759         |
| Investigations                             | 759          | \$164,739        | 759          | \$167,549        | 715          | \$146,638        |
| <b>Subtotal New Appropriated Resources</b> | <b>1,190</b> | <b>\$235,341</b> | <b>1,194</b> | <b>\$239,356</b> | <b>1,194</b> | <b>\$244,397</b> |

#### **3A – Audit** (\$97,759,000 from the Postal Service Fund):

The Office of Audit conducts audits and reviews of Postal Service operations to protect assets and revenue, ensure efficient and economical mail delivery, and safeguard the integrity of the postal system. To facilitate planning and managing audit work, OA designed its structure to address high-risk areas and cover the breadth of postal operations and activities. OA aligned its Directorates functionally with the Postal Service as follows:

#### **Mission Operations**

Network Processing  
 Transportation  
 Delivery  
 Network Optimization

#### **Financial Accountability**

Field Financial  
 Financial Reporting

#### **Support Operations**

Supply Management  
 Human Capital  
 Inspection Service & Facilities  
 Engineering  
 Capital Investments

#### **Revenue and Systems**

Sales & Service  
 Cost, Revenue & Rates  
 Information Systems  
 Risk Analysis Research Center

In FY 2007, OA enhanced its risk assessment approach, and divided the Postal Service's risk universe into three risk categories -- strategic, financial and operational. Within each category, OA identified and rated risk factors according

to likelihood of occurrence and impact if they did occur. The assessment considers the concerns of Congress, Governors, and key stakeholders. OA used the results to identify and prioritize audit work for FY 2008 and FY 2009, and will use this approach to plan work each year.

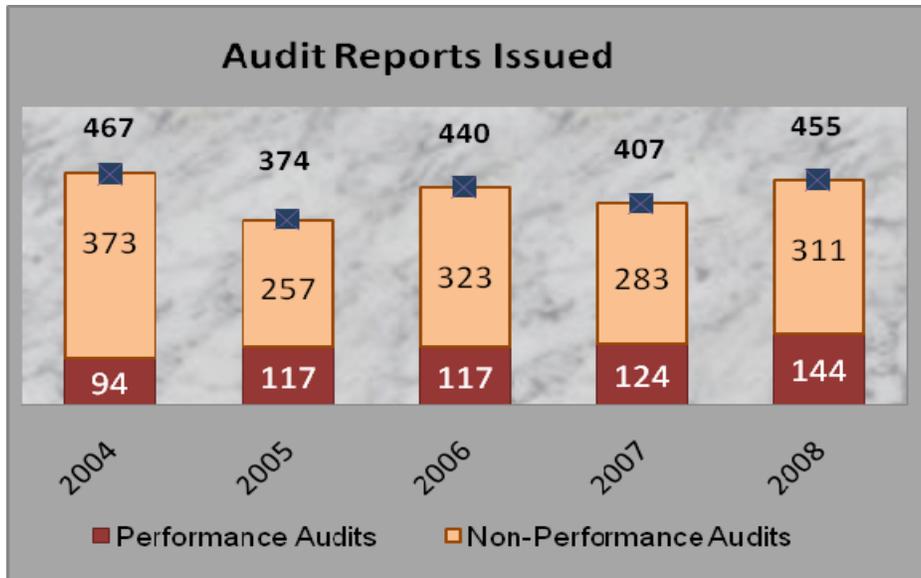
In addition, each program director provides key input to an Issue Area Assessment, which highlights concerns and challenges in their respective areas of responsibility. Furthermore, OA annually works with the Postal Service to identify areas that, with examination, could yield savings and optimize the value added to the Postal Service. This process produces a Value Proposition, which is an agreement between audit director and Postal Service Vice President, to conduct a specific body of work in a specific period. The agreement includes the area of focus, objectives/goals, scope of work, OIG resources, Postal Service resources, anticipated value, and deliverables.

Based on a risk assessment model, Issue Area Assessments, and Value Propositions, OA develops an Annual Audit Plan. The plan, however, is a living document that allows unplanned work based on new legislation; new requests from Postal Service management, Governors, and Congress; and strategic changes by the Postal Service and in the business environment.

### 3.2.1 – Audit Budget and Performance Plan

| Dollars in Thousands                       | FY 2008         | FY 2009         | FY 2010         |
|--|-----------------|-----------------|-----------------|
| <b>Audit Budget Activity</b>               |                 |                 |                 |
| <b>Resource Level</b>                      |                 |                 |                 |
| Financial Resources                        |                 |                 |                 |
| Appropriated Resources                     | \$70,602        | \$71,807        | \$97,759        |
| <b>Total Operating Level</b>               | <b>\$70,602</b> | <b>\$71,807</b> | <b>\$97,759</b> |
| Human Resources                            |                 |                 |                 |
| Appropriated FTE                           | 431             | 435             | 479             |
| <b>Total FTE (direct and reimbursable)</b> | <b>431</b>      | <b>435</b>      | <b>479</b>      |

*Description of Performance.* In FY 2008, OA completed 455 audits and evaluations, completed all legislatively mandated audits by the required dates and identified potential monetary benefits (cost savings and/or funds put to better use) totaling about \$1.2 billion. The following chart shows the breakout between performance and non-performance reports issued.



In FY 2009, OA is continuing to conduct audits and evaluations that will provide Postal Service management, Governors, and other stakeholders with the necessary information to make informed decisions regarding Postal Service operations. OA will continue to identify audits based on the risk-based audit approach incorporated into the audit planning efforts in FY 2007. These audits and evaluations will target the Postal Service’s strategic goals – focus on what matters most to customers, leverage our strengths, and embrace change.

Similarly for FY 2010, OA will continue to identify audits and evaluations based on the risk-based audit approach that was incorporated into the audit planning effort. Audits related to the financial statement area will be completed as well as audits and evaluations directly targeting the strategic goals of the Postal Service. These efforts will be on identifying potential savings to the Postal Service to assist them in meeting their future financial responsibilities.

**3B – Investigations (\$146,638,000 from the Postal Service Fund):** The Office of Investigations conducts administrative, civil, and criminal investigations of alleged employee misconduct, and fraud and misconduct by contractors, against the Postal Service. These investigations are aligned to the program areas of contract fraud, financial fraud, general crimes/employee misconduct, healthcare fraud, and internal mail theft.

### 3.2.2 – Investigations Budget and Performance Plan

| Dollars in Thousands                       | FY 2008          | FY 2009          | FY 2010          |
|--|------------------|------------------|------------------|
| <b>Investigations Budget Activity</b>      |                  |                  |                  |
| <b>Resource Level</b>                      |                  |                  |                  |
| Financial Resources                        |                  |                  |                  |
| Appropriated Resources                     | \$164,739        | \$167,549        | \$146,638        |
| <b>Total Operating Level</b>               | <b>\$164,739</b> | <b>\$167,549</b> | <b>\$146,638</b> |
| Human Resources                            |                  |                  |                  |
| Appropriated FTE                           | 759              | 759              | 715              |
| <b>Total FTE (direct and reimbursable)</b> | <b>759</b>       | <b>759</b>       | <b>715</b>       |

*Description of Performance:* In FY 2008, OI completed over 7,600 cases and is directly responsible for 928 arrests and indictments. Over \$25.7 million was recovered by the Postal Service through criminal prosecution, civil litigation, and other administrative actions. Additionally, over \$207 million in workers' compensation costs and contract fraud loss was avoided due to the direct investigative work of the OIG. Additionally, a portion of the work performed by OI is a direct result of our hotline operations. The following chart shows the increase of our hotline contacts since FY 2003.



As a result of the investigations associated with these hotline contacts, the OIG identified over \$12 million in cost avoidance, fines, restitutions and settlements in FYs 2007 and 2008.

In FY 2009 and FY 2010, OI expects its current high volume of work to remain stable and will continue to focus its resources on allegations with the most potential impact to the Postal Service. In addition, the OIG plans to increase its focus on investigating healthcare disability fraud and contract fraud allegations.

Overall, resources required to support OIG operations for FY 2010 are \$244,397,000 from the Postal Service Fund.

## Section 4 – Supporting Materials

---

### 4.1 – Human Resources Table

#### 4.1 -- Human Resources Table

##### Changes in Full Time Equivalents

| <u>Direct FTE</u>  | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> |
|--|----------------|----------------|----------------|
| <u>Base: Year-end Actual from Prior Year</u>             | <u>1,170</u>   | <u>1,190</u>   | <u>1,194</u>   |
| <u>Increases</u>   |                |                |                |
| Reason: Legislatively mandated work                      | <u>20</u>      | <u>4</u>       |                |
| <u>Subtotal, Increases</u>                               | <u>1,190</u>   | <u>1,194</u>   | <u>1,194</u>   |
| <u>Year-end Actual/Estimated FTEs</u>                    | <u>1,190</u>   | <u>1,194</u>   | <u>1,194</u>   |
| <u>Net Change from prior year SOY to budget year EOY</u> | <u>20</u>      | <u>4</u>       | <u>0</u>       |

### 4A – Human Capital Strategy Description

With the current economic situation that the Postal Service is experiencing, the OIG has adjusted its hiring process in filling its investigative and audit positions.

Another way to alleviate the shortage of Information Technology (IT) personnel is to hire contractors to perform much of the IT support work instead of hiring full-time government employees. This procedure has allowed the OIG to obtain market place skills and abilities with fewer dollars. Also, it allows the OIG to keep pace with what is happening in the IT community by hiring personnel with current skills and abilities and also allows the OIG to compete the IT support contract when needed.

## 4.2 – Summary of IT Resources Table

Dollars in Thousands

### Information Technology Investments

|  | <b>FY 2008<br/>Budget</b> | <b>% Change<br/>from FY 08<br/>Requested<br/>to<br/>FY 09</b> | <b>FY 2009<br/>Budget</b> | <b>% Change<br/>from FY 09<br/>Requested<br/>to<br/>FY 10</b> | <b>FY 2010<br/>Requested</b> |
|--|---------------------------|---|---------------------------|---|------------------------------|
| Major Investments                                  | \$0                       |   | \$0                       |   | \$0                          |
| Subtotal, Major IT Investments                     | \$0                       |   | \$0                       |   | \$0                          |
| Non-Major IT Investments                           | \$13,500                  | 3.3%  | \$13,945                  | 1.7%  | \$14,186                     |
| <b>NONE - OIG STEADY STATE<br/>OPERATING COSTS</b> |                           |   |                           |   |                              |
| Infrastructure Investments                         | \$0                       |   | \$0                       |   | \$0                          |
| Enterprise Architecture                            | \$0                       |   | \$0                       |   | \$0                          |
| <b>Total IT Investments</b>                        | <b>\$13,500</b>           |   | <b>\$13,945</b>           |   | <b>\$14,186</b>              |

## **4B – Information Technology Strategy**

Currently, we have OIG employees in 103 offices across the U.S., with plans for 110 offices by FY 2010. Technology has become a critical part of our audit and investigative programs. The Chief Information Technology Office (CIO) has been successful in ensuring that the OIG has the cutting-edge technology to support auditors, investigators, and support personnel. Providing these groups with computers and other electronic equipment to perform their duties and responsibilities - whether in an office setting, on the road, or working from alternate sites and locations - has allowed the OIG staff to efficiently complete their work. IT funding has also enhanced the OIG's ability to perform computer forensics during investigations and computer retrievals during audits of the Postal Service systems. The funding also strengthens our IT infrastructure by allowing us to purchase the necessary security software - anti-virus detection/protection, anti-spam detection, anti-spy detection, intrusion detection/prevention, monitoring and patch management, and disaster recovery. This funding is critical to ensure that the OIG IT systems operate in a secure manner, and the information collected during audits, and investigations is not susceptible to computer attacks and terrorist activities. Maintaining the OIG IT infrastructure and security program at an acceptable level requires on-going upgrades of tools, technologies, and personnel support. We have leveraged our ability to maintain the IT at a high proficiency level with a balance of federal employees and contractors. This employee mix provides the OIG with a unique ability to add expertise quickly if funding is available or reduce contractors if funding becomes limited. The program continues to be managed and operated in an efficient and effective manner.