August 20, 2003

LEE R. HEATH
CHIEF POSTAL INSPECTOR

SUBJECT: Audit Report – Postal Inspection Service Resource Allocations for Fiscal Year 2003 (Report Number SA-AR-03-005)

This report presents the results of our self-initiated audit of the Postal Inspection Service Resource Allocations for Fiscal Year (FY) 2003 (Project Number 03BN002OA000). Our objective was to determine the adequacy of the Postal Inspection Service's FY 2003 budgeting process.

The audit revealed that the Postal Inspection Service was not required to use a zero-based budget process that is required by other Postal Service Headquarters units and the Postal Inspection Service did not provide adequate justifications for budget submissions. The audit also revealed that justifications for eight Postal Inspection Service programs were adequate and the Postal Inspection Service tracked and monitored variances between actual and planned expenditures.

We recommended the chief postal inspector, in consultation with the Postal Service chief financial officer and executive vice president, develop a zero-based budget process starting with FY 2004. We also recommended the chief postal inspector develop guidance and provide training to enable budget officials to develop adequate budget justifications.

Management did not agree or disagree with recommendation 1 to develop a zero-based budget process starting with FY 2004 or recommendation 2 to develop guidance and provide training to enable budget officials to develop adequate budget justifications. Management stated they applied a historical based budget methodology to funding allocations and requests with the full support and concurrence of Postal Service management and this approach ensured operational requirements were met. Management's comments for recommendation 2 satisfy the intent of the recommendation. Management stated that in FY 2003 a National Administrative Committee was created with a mission to improve and add value to administrative functions including training in developing budget justifications. We view the disagreement on recommendation 1 as unresolved and plan to pursue it through the formal audit resolution process. Management's comments and our evaluation of these comments are included in the report.

The Office of Inspector General (OIG) considers recommendation 1 as significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Michael L. Thompson, director, Inspection Service Audits, at (703) 248-2100 or me at (703) 248-2300.

Ronald D. Merryman
Deputy Assistant Inspector General
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Attachment

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EXECUTIVE SUMMARY

Introduction

This report represents the results of our self-initiated audit of Postal Inspection Service resource allocations. Our objective was to determine the adequacy of the Postal Inspection Service's fiscal year (FY) 2003 budgeting process.

Results in Brief

The Postal Inspection Service did not prepare a zero-based budget. Therefore, it is not known if requirements have been properly identified or developed for its $487.5 million FY 2003 budget.[1]

The audit also revealed that justifications supporting $25.1 million of nonpersonnel budget line items totaling $36.8 million[2] were not adequate. In some cases, no justifications were provided. This occurred because the Postal Inspection Service did not provide budget officials with guidance or training for developing adequate justifications.

The Postal Inspection Service provided adequate justifications for $23.8 million for eight Postal Inspection Service programs such as security, equipment, and database development. In addition, we determined that the eight programs were consistent with the Postal Inspection Service's FY 2003 Annual Performance Plan.

We also found that the Postal Inspection Service's Finance and Administrative Services group tracked and monitored variances between actual and planned expenditures for their $76.3 million nonpersonnel budget.

We did not review personnel costs or staffing because this area was concurrently reviewed as part of another Office of Inspector General audit.

Summary of Recommendations

We recommended management establish a process to implement a zero-based budget process. We also recommended that management establish guidance and

[1] The budget included personnel costs of $387.4 million, nonpersonnel costs of $76.3 million, and program costs of $23.8 million.

[2] The Postal Inspection Service's nonpersonnel budget for FY 2003 is $76.3 million. Field offices are not responsible for relocation costs, accident costs, rent, depreciation, and exceptional funding totaling $39.5 million. The balance was $36.8 million.

provide training to assist field and headquarters' managers in developing adequate justifications for their specific budget line item requests beginning with the FY 2004 budget.

Summary of Management's Comments

Management did not agree or disagree with our recommendation to establish a process to implement a zero-based budget process beginning with FY 2004. Management stated they applied a historical based budget methodology to funding allocations and requests with the full support and concurrence of Postal Service management and this approach ensured operational requirements were met.

Management also did not agree or disagree with our recommendation to establish guidance and provide training to assist field and headquarters managers in developing adequate justifications for their specific budget line item requests beginning with the FY 2004 budget. Management said that in FY 2003 a National Administrative Committee was created with a mission to continuously improve and add value to the administrative functions of the Postal Inspection Service and administrative specialists would be provided training in developing budget justifications for their respective FY 2004 division budget line items. Management's comments, in their entirety, are included in Appendix C of this report.

Overall Evaluation of Management's Comments

Management did not agree or disagree with recommendations 1 and 2. We agree that Postal Inspection Service management applied a historical based budget methodology in preparing their budget request for FY 2003 and that Postal Service management accepted this methodology. We do not agree, however, that this approach ensured that operational requirements were met. A zero-based budget process would provide a better understanding of needs and requirements because it requires budget preparers to review in detail their operations in order to plan for the upcoming year. By considering each line item activity in the budget, Postal Inspection Service management would be better able to determine the effects of extraordinary or nonrecurring items instead of relying on a historical review of budget data.

We view the disagreement on recommendation 1 as unresolved and plan to pursue it through the formal audit resolution process.

Management's comments for recommendation 2 satisfy the intent of the recommendation. By creating a National Administrative Committee to focus on making improvements in the Postal Inspection Service's administrative functions, management has taken the initial steps to ensure that field and headquarters managers will receive training and best practices in developing adequate justifications for their specific budget line item requests.

INTRODUCTION

Background

As the law enforcement and security arm of the Postal Service, the Postal Inspection Service is responsible for ensuring the integrity of the mail. The Postal Inspection Service also provides investigative, security, and preventive services, and enforces approximately 200 federal laws that protect the mail, Postal Service employees, customers, and assets. To meet its responsibilities, as of September 2002, the Postal Inspection Service maintained a staff of 4,007, which included 1,873 inspectors, 1,341 Postal Service police officers, and 793 professional and support personnel. The professional and support personnel include forensic specialists, information technology experts, and financial analysts. The Postal Inspection Service is comprised of headquarters, 18 field divisions with 114 subordinate domiciles, 4 operation support groups, and 4 forensic laboratories.

Within the Postal Inspection Service, the Finance and Administrative Services group administers the operating and capital budgets of the Postal Inspection Service.

According to the U.S. Postal Inspection Service Manual Section 171.31, the budget is the Postal Inspection Service's primary operational planning and control process. The Postal Inspection Service's fiscal year (FY) 2003 operating budget was $487.5 million. The budget included personnel costs of $387.4 million, nonpersonnel costs of $76.3 million,[3] and program costs of $23.8 million.[4]

Objective, Scope, and Methodology

Our overall objective was to determine the adequacy of the Postal Inspection Service's FY 2003 budgeting process.

To accomplish the objective, we interviewed officials from Postal Service and Postal Inspection Service Headquarters. We also interviewed Postal Inspection Service budget officials at all 18 divisions, and the Memphis and South San Francisco Inspection Service Operations

[3] Nonpersonnel costs are broken into three categories: supplies and services, other expenses, and miscellaneous. The other expenses category includes travel, training, and vehicle maintenance. The miscellaneous category includes printing, fuel, and information technology.

[4] The FY 2003 budget included funding for eight programs. The programs included security initiatives, background checks, equipment replacement, contract fraud analysts, security infrastructure, database development, cluster box program, and business systems reengineering.

Support Groups.[5] We reviewed the Postal Inspection Service's FY 2003 budget, associated criteria, and related documentation. We analyzed data related to the Postal Inspection Service's FY 2003 budget to determine the adequacy of budget justifications.

This audit was conducted from October 2002 through August 2003 in accordance with generally accepted government auditing standards. We reviewed management controls related to the Postal Inspection Service's budget. We reviewed data from the Inspection Service's National Consolidation Workbook. We did not assess the reliability of the data from this system as part of our review. We did not identify any material internal control weaknesses. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

The Review of the United States Postal Inspection Service Budget Process (Report Number OV-AR-00-005, dated September 29, 2000), revealed that the Postal Inspection Service's management did not link budgetary resources to performance-related goals and functions. In addition, management did not prepare a strategic plan and annual performance plan in accordance with the Government Performance and Results Act of 1993. Postal Inspection Service management did not issue a written request for estimated operating expenses with additional instructions to field divisions when planning and formulating the annual administrative operating budget. Finally, management controls were inadequate to ensure that Postal Inspection Service budgetary resources were linked to performance-related goals and functions.

The first two recommendations from the prior audit involved staffing and were reviewed in another Office of Inspector General (OIG) audit. The prior audit's third recommendation addressed preparation of an annual performance plan. The deputy chief inspector stated that the Postal Inspection Service would prepare an annual performance plan that allocated resources based on performance-related goals and functions. During our audit,

[5] The South San Francisco Postal Inspection Service Operations Support Group closed on March 31, 2003, and its functions were transferred within the Postal Inspection Service.

we found that the Postal Inspection Service issued annual performance plans in FYs 2002 and 2003.

The prior audit's fourth recommendation addressed issuing written requests and directions for estimating operating expenses. The deputy chief inspector stated the Postal Inspection Service would issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual administrative budget. During our audit, we found that the Postal Inspection Service had subsequently issued written requests with limited guidance when requesting estimated operating expenses. The issue of providing guidance is further addressed in this audit report.

AUDIT RESULTS

Zero-Based Budget Process Not Used

The Postal Inspection Service did not use a zero-based budget process[6] to prepare its $487.5 million FY 2003 budget. Instead, the budget was prepared from the top down. The Postal Inspection Service is the only Postal Service Headquarters group that does not use a zero-based approach to prepare their budget.[7]

Postal Service Corporate Budget officials stated they used the zero-based budget process because it provided them a better understanding of needs and requirements. Zero-based budgeting requires budget preparers to review in detail their operations in order to plan for the upcoming year. By considering each line item activity in the budget, the Postal Inspection Service would be better able to determine the effects of extraordinary or nonrecurring items instead of relying on a historical review of budget data.

On September 10, 2002, the Postal Service's chief financial officer provided the Postal Inspection Service with its FY 2003 authorized budget, which totaled $487.5 million, for administrative activities and programs. The authorized budget amount was based on discussions between Postal Inspection Service management and Postal Service Finance. Included in the authorized budget was $387.4 million for salaries and benefits based on a planned complement level of 4,007 employees. We did not review personnel costs or staffing because this area was being concurrently reviewed by another OIG audit.

During October 2002, the Postal Inspection Service's Finance and Administrative Services group emailed budget workbooks to Postal Inspection Service administrative specialists at headquarters and field units. These administrative specialists and their budget managers were instructed to prepare budget requests, narrative justifications, and accounting period fund allocations for $36.8 million[8] in nonpersonnel costs. Examples of

[6] Zero-based budgeting is the process of preparing an operating plan or budget that starts with no authorized funds. In a zero-based budget, each activity to be funded must be justified every time a new budget is prepared.
[7] The Postal Inspection Service budget is included in the Postal Service's Headquarters budget. The Postal Service field sites do not use a zero-based budget process.
[8] The Postal Inspection Service's nonpersonnel budget for FY 2003 is $76.3 million. Field offices are not responsible for relocation costs, accident costs, rent, depreciation, and exceptional funding totaling $39.5 million. The balance was $36.8 million.

nonpersonnel costs included supplies, travel, training, and vehicle maintenance.

We found that administrative specialists and budget managers relied on historical data and new funding requests to prepare their $36.8 million budget requests. Specifically, at the beginning of the budget process, Postal Inspection Service management asked headquarters and field managers to submit requests for new projects or expenses not currently funded, new contractual commitments, and any anticipated budget line increases.

In addition, during the audit we found the Postal Inspection Service did not finalize their budget until December 2002, approximately 100 calendar days after the beginning of the fiscal year. On October 7 and 17, 2002, the Postal Inspection Service Finance and Administrative Services group sent budget approval letters to field and headquarters offices, respectively, providing total funding for each division and headquarters group for FY 2003. Separate letters were issued due to a reorganization of Postal Inspection Service headquarters units. On October 10 and 21, 2002, divisions and headquarters groups were directed to allocate their funds by accounting period for each budget line for the fiscal year. Appendix A shows a timeline of the Postal Inspection Service's FY 2003 budget process.

During our review, Postal Service Corporate Budget officials contacted the Postal Inspection Service to discuss plans to implement a zero-based budget in FY 2004. As of April 15, 2003, no formal plan had been implemented. According to the same Postal Service officials, this was not done in the past because the Postal Service did not have available staff to work with the Postal Inspection Service in the process. However, Postal Service Corporate Budget officials stated as of April 14, 2003, they hired additional staff to work with the Postal Inspection Service in developing a zero-based budget.

Because the Postal Inspection Service did not prepare a zero-based budget, it is not known if requirements have been properly identified or developed.

Recommendation	We recommend the chief postal inspector, in consultation with the chief financial officer and executive vice president: 1. Establish a process to implement a zero-based budget process beginning with FY 2004.
Management's Comments	Management did not agree or disagree with the recommendation. Management stated they applied a historical based budget methodology to funding allocations and requests with the full support and concurrence of Postal Service management and this approach ensured operational requirements were met. Management also stated that the Postal Service budget model being applied to the Postal Inspection Service for FY 2004 is based on historical weighting and projected on-board complement numbers. Management further stated the Postal Inspection Service does not own the budget process and any recommendation to implement a new process should have been directed to the owner of the process. Management also stated that beginning in FY 2003, the Postal Inspection Service began examining line budget methodologies as part of a zero-based budget approach. The Postal Inspection Service further stated in their management comments that the data collected during the process was misrepresented by the OIG as justification for their FY 2003 budget. Their FY 2003 budget was based upon historical projections and management input. Management further stated that the line justification data collected during the FY 2003 budget call was to identify local methodologies that may be used as a basis for development of a zero-based budget approach. Management went on to say that the OIG evaluators took the data out of context representing that it was the basis of our FY 2003 budget request.
Evaluation of Management's Comments	Management 's comments were not responsive. We agree that Postal Inspection Service management applied a historical based budget methodology in preparing their budget request for FY 2003 and that Postal Service management accepted this methodology. We do not agree however, that this approach ensured that operational

requirements were met. It is not known if Postal Inspection Service requirements were properly identified or developed for the FY 2003 budget. A zero-based budget process would provide a better understanding of needs and requirements because it requires budget preparers to review in detail their operations in order to plan for the upcoming year. By considering each line item activity in the budget, Postal Inspection Service management would be better able to determine the effects of extraordinary or nonrecurring items instead of relying on a historical review of budget data.

Postal Service Corporate Budget officials use a zero-based budget process for all departments in their headquarters budget. The Postal Inspection Service budget is included in the Postal Service's Headquarters' budget.[9] According to Postal Service Corporate Budget officials, a zero-based methodology was not required of the Postal Inspection Service because the Postal Service did not have available staff to work with the Postal Inspection Service in the process. As noted in our report, the Postal Service hired additional staff to work with the Postal Inspection Service to develop a zero-based budget for FY 2004. Therefore, our recommendation to the chief postal inspector in consultation with the Postal Service chief financial officer and executive vice president to establish a process to implement a zero-based budget process was appropriate.

Postal Inspection Service management was incorrect in its assertion that our audit report "misrepresented" the data collected during the FY 2003 budget process as ". . . .justification for [the Postal Inspection Service's] FY 2003 budget." In fact, based on the Postal Inspection Service's September 26, 2002 Management Communication and the directions included with budget workbooks, it was used as justification for the FY 2003 budget. This is clearly supported by the following excerpts from the Management Communication and budget workbooks:

a. The September 26, 2002, Management Communication from the Inspection Service stated: ". . . .each line budget is to be justified in writing as

[9] Postal Service field sites do not use a zero-based budget process.

part of the submission process. The justification does not have to be lengthy but it must clearly convey the rationale behind the request. We will not accept taking last year's results and adding XX% increase as a justification method for developing line budgets. It is critical that our budget submission process includes deliberate tracking, strong analysis, and sound justification. We cannot afford organizationally to perpetuate practices that result in yearly base budget inflation that is absent of solid operational reasons."

b. In addition, directions for the budget workbooks emailed to Postal Inspection Service administrative specialists at headquarters and field units stated: . . . ."the justification for funding should be thorough, complete and sufficient in detail to support the requested amount. You can type as much information as you would like. A separate narrative is to be prepared for each line. Narrative justifications based on historical trend will not be accepted and your request for the item(s) will not be approved."

We view the disagreement on recommendation 1 as unresolved and plan to pursue it through the formal audit resolution process.

Nonpersonnel Budget Justifications Were Not Adequate

The Postal Inspection Service did not adequately justify $25.1 million of line item submissions for budgeted nonpersonnel expenses of $36.8 million.[10] This represented 61 percent of the 518 budget line submissions for the $36.8 million allocated as nonpersonnel expense in the FY 2003 budget.

Postal Inspection Service Management Communication, dated September 26, 2002, required written justifications for each budget line item request as part of the budget submission process. It stated that justifications need not be lengthy, but must clearly convey the rationale for the request. However, neither the Management Communication nor the U.S. Postal Inspection Service Manual provided any guidance on developing these justifications.

We reviewed and analyzed 518 justifications for Postal Inspection Service budget line submissions totaling $36.8 million for FY 2003. We developed the following questions to determine whether the justifications were adequate. We considered the justification to be adequate if we could answer yes to any three of the four questions:

- Did a narrative exist?
- Was the narrative specific?
- Did the narrative justify the need for the request?
- Was the justification quantified?

Our analysis showed that approximately 61 percent of the justifications prepared for the $36.8 million in budget line submissions were not adequate. We found that the justifications ranged from two divisions that provided over 92 percent adequate justifications to five headquarters groups that did not provide any justifications. Appendix B depicts the level of justifications for the Postal Inspection Service's field operations east, west, and south; operations support groups; and headquarters reviewed by the OIG.

[10] The Postal Inspection Service's nonpersonnel budget for FY 2003 is $76.3 million. We did not review justifications for budget submissions of $6.8 million for relocation costs, $365 thousand for accident costs, $9 million for rent, and $21.3 million for depreciation; field offices are not responsible for these amounts. We also did not review $2.1 million designated for exceptional funding items. Items that warrant exceptional funding must be of a unique occurrence, need, or nonrepetitive nature. The balance after deducting the above amounts was $36.8 million.

We also found, through interviews with administrative specialists, that training was not provided on how to prepare adequate justifications. While we did not specifically ask about training during our interviews, administrative specialists[11] at eight divisions addressed it as a need.

Recommendation

We recommend the chief postal inspector:

2. Establish guidance and provide training to assist field and headquarters managers in developing adequate justifications for their specific budget line item requests beginning with the FY 2004 budget.

Management's Comments

Management did not agree or disagree with the recommendation. Management said that in FY 2003 a National Administrative Committee was created with a mission to continuously improve and add value to the administrative functions of the Postal Inspection Service. In addition, at the August 2003 National Administrative Committee meeting administrative specialists would be provided training in developing budget justifications for their respective FY 2004 division budget line items. When the FY 2004 division budgets are reviewed, management will provide feedback to the divisions on their justifications and guidance to those divisions whose justifications have opportunities for improvement.

Evaluation of Management's Comments

Management's comments are responsive to the intent of our recommendation. By creating a National Administrative Committee to focus on making improvements in the Postal Inspection Service's administrative functions, management has taken the initial steps to ensure that field and headquarters managers will receive training and best practices in developing adequate justifications for their specific budget line item requests. Management's actions taken or planned should correct the issues identified in the report.

[11] Administrative specialists assisted with the coordination and preparation of their division's nonpersonnel budget. This included obtaining supporting justifications for budget line item submissions.

Program Budget Justifications Were Adequate

In September 2002, the Postal Service's chief financial officer authorized and released $23.8 million in funding to the Postal Inspection Service for eight programs.[12] These programs were for such areas as security, equipment, and database development.

We reviewed the justifications for the eight programs and applied the same criteria we used for our review of the nonpersonnel justifications. We considered the justification to be adequate if we could answer yes to any three of the four questions:

- Did a narrative exist?
- Was the narrative specific?
- Did the narrative justify the need for the request?
- Was the justification quantified?

We found that the Postal Inspection Service provided adequate justifications for each program proposal. In addition, we determined the eight programs were consistent with the Postal Inspection Service's FY 2003 Annual Performance Plan.[13]

[12] The programs included security initiatives, background checks, equipment replacement, contract fraud analysts, security infrastructure, database development, cluster box program, and business systems reengineering.
[13] The FY 2003 Annual Performance Plan sets forth the operational and management challenge objectives, which will receive national attention during the fiscal year.

Expenditures Were Compared to Budget Plan

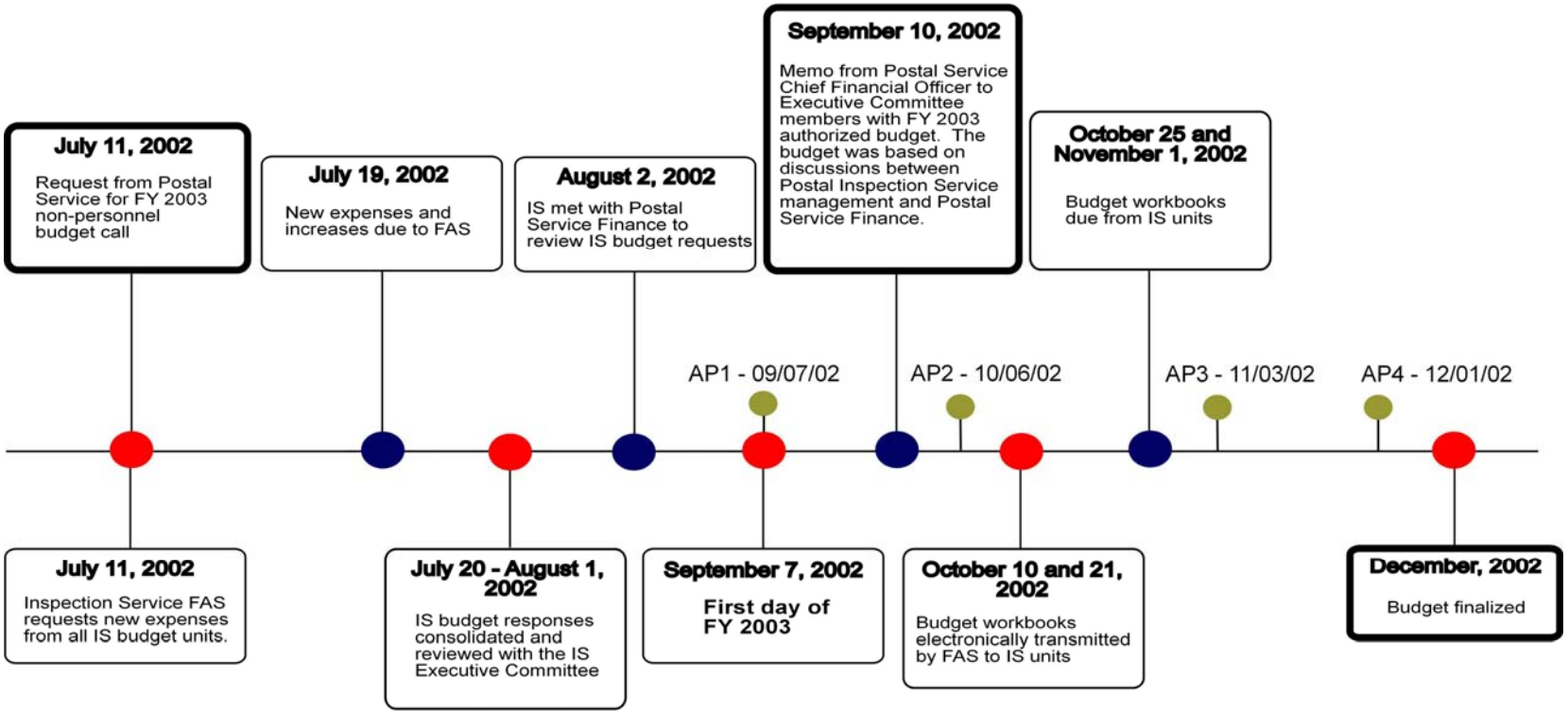
During our audit, we noted that Postal Inspection Service headquarters tracked and monitored FY 2003 variances between actual and planned expenditures for their $76.3 million nonpersonnel budget. Specifically, the Finance and Administrative Services group developed reports for use by managers at division and headquarters levels to identify variances. The reports showed variances by accounting period, year to date, and the same period last year. In addition, budget lines were color-coded to highlight variances.

At the end of each accounting period, reports were sent electronically from the Finance and Administrative Services group to budget managers for review. During our audit, these reports became available on the Postal Inspection Service intranet for managers to review.

Variances between actual and planned expenditures were discussed during quarterly meetings attended by deputy chief inspectors and division managers. In addition, when necessary, Finance and Administrative Services personnel contacted inspectors in charge both at headquarters and in the field individually for more detailed information regarding expenditure variances.

We believe these efforts by the Finance and Administrative Services group improved Postal Inspection Service accountability for nonpersonnel expenditures and helped to ensure that budget plans were followed.

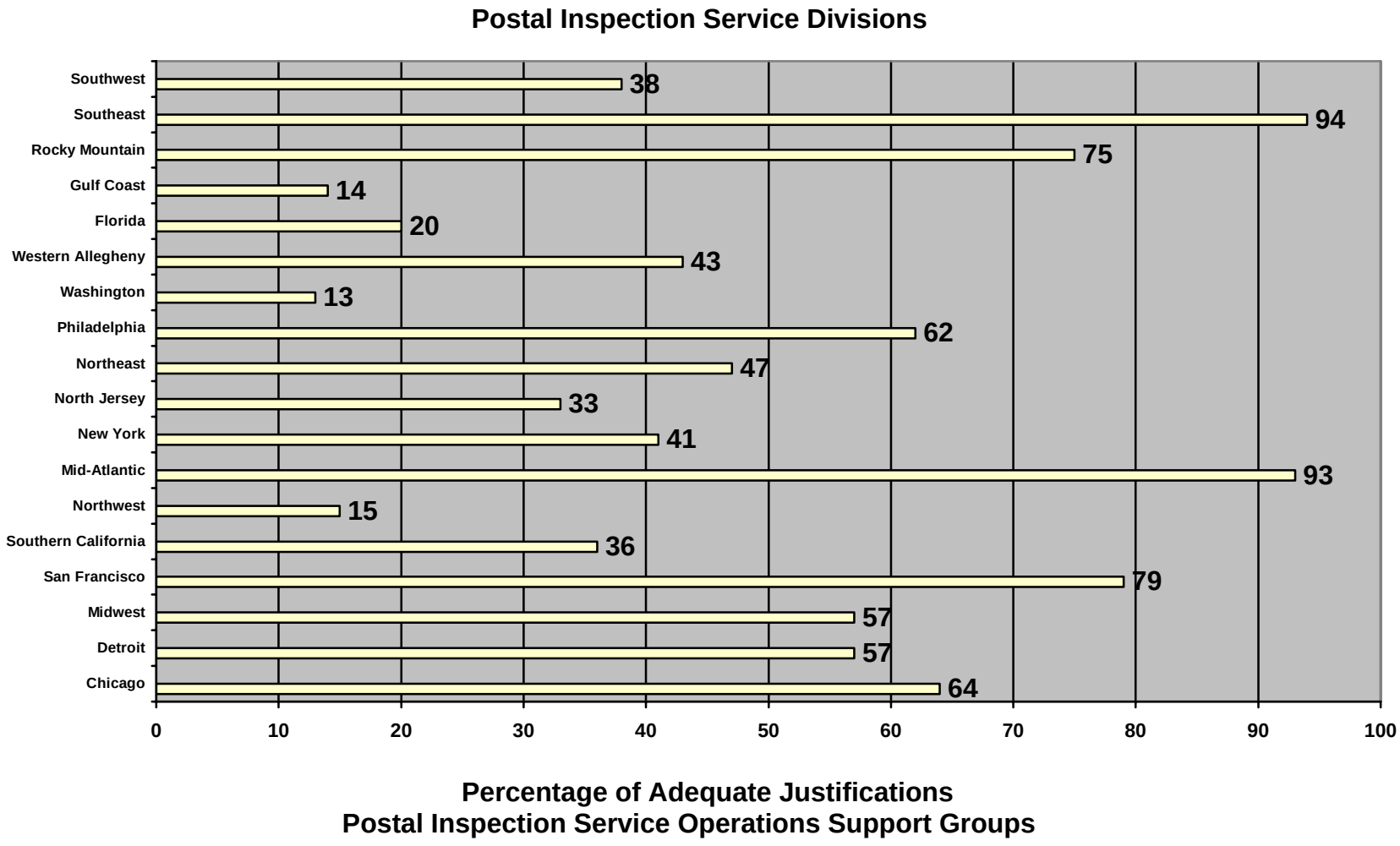
APPENDIX A
POSTAL INSPECTION SERVICE
FY 2003 BUDGET PROCESS TIMELINE

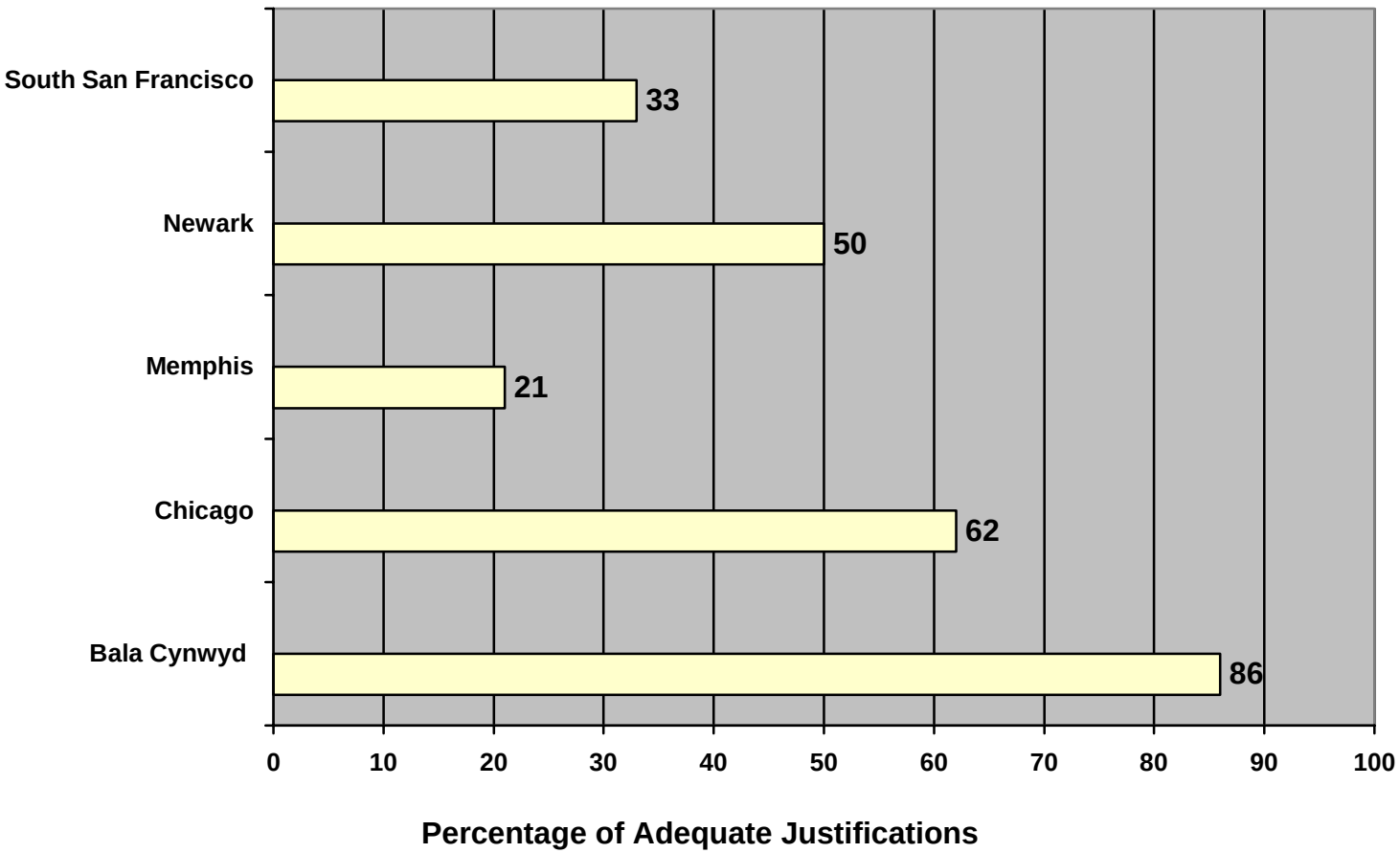


Legend

FAS - Finance and Administrative Services
IS - Postal Inspection Service
AP - Accounting Period (FY 2003)

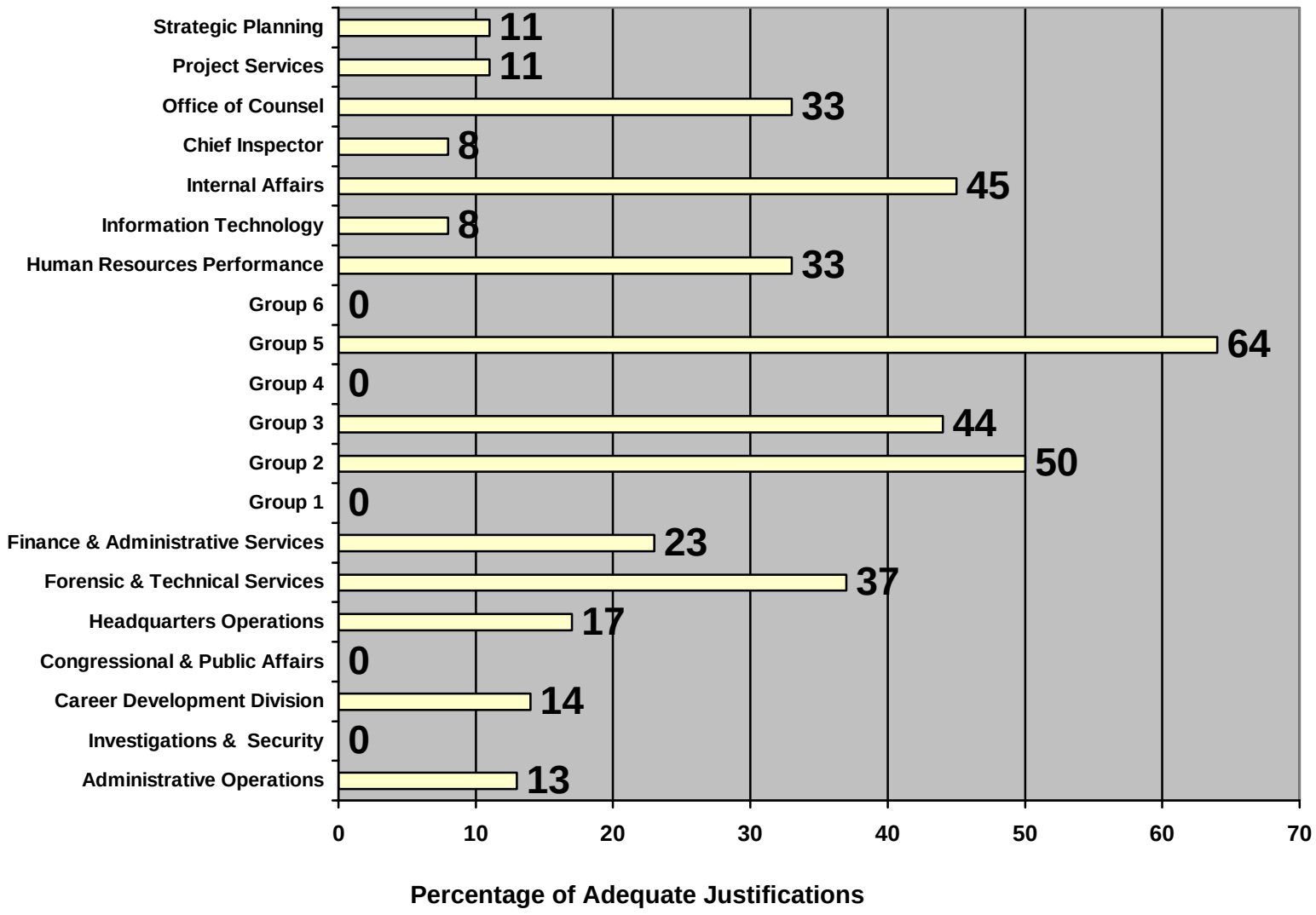
APPENDIX B
PERCENTAGE OF ADEQUATE JUSTIFICATIONS FOR POSTAL INSPECTION SERVICE FY 2003 NONPERSONNEL BUDGET LINE SUBMISSIONS





Postal Inspection Service Headquarters Offices

Postal Inspection Service Resource Allocations for Fiscal Year 2003



Budget Line Requests			
	Number of Budget Requests Submitted	Number of Adequate Requests	Percentage of Adequate Requests
Divisions			
Chicago	14	9	64.3
Detroit	14	8	57.1
Florida	15	3	20.0
Gulf Coast	14	2	14.3
Mid-Atlantic	14	13	92.9
Midwest	14	8	57.1
New York	17	7	41.2
North Jersey	18	6	33.3
Northeast	17	8	47.1
Northwest	13	2	15.4
Philadelphia	14	9	64.3
Rocky Mountain	12	9	75.0
San Francisco	14	11	78.6
Southeast	16	15	93.8
Southern California	14	5	35.7
Southwest	13	5	38.5
Washington	15	2	13.3
Western Allegheny	14	6	42.9
Postal Inspection Service Operations Support Groups			
Bala Cynwyd	15	13	86.7
Chicago	13	8	61.5
Memphis	14	3	21.4
Newark	10	5	50.0
South San Francisco	9	3	33.3

Budget Line Requests			
	Number of Budget Requests Submitted	Number of Adequate Requests	Percentage of Adequate Requests
Headquarters Offices			
Administrative Operations	8	1	12.5
Investigations and Security	8	0	0.0
Career Development Division	14	2	14.3
Congressional and Public Affairs	11	0	0.0
Headquarters Operations	6	1	16.7
Forensic and Technical Services	16	6	37.5
Finance and Adminstrative Services	13	3	23.1
Group 1	8	0	0.0
Group 2	6	3	50.0
Group 3	9	4	44.4
Group 4	8	0	0.0
Group 5	11	7	63.6
Group 6	6	0	0.0
Human Resources Performance	9	3	33.3
Information Technology	12	1	8.3
Internal Affairs	11	5	45.5
Chief Inspector	13	1	7.7
Office of Counsel	9	3	33.3
Project Services	9	1	11.1
Strategic Planning	9	1	11.1
Total:	519	202	38.9[14]

[14] Percentage of adequate requests 38.9%
Percentage of inadequate requests 61.1%
100.0%

APPENDIX C. MANAGEMENT'S COMMENTS

UNITED STATES POSTAL INSPECTION SERVICE

Deputy Chief Inspector
Headquarters Operations

July 16, 2003

Mr. Ronald D. Merryman
Deputy Assistant Inspector General
for Technology/Oversight
Office of the Inspector General
U.S. Postal Service
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Management's Comments – Postal Inspection Service Resources Allocations for FY2003 (Report SA-AR-03-DRAFT)

The following comments are in response to the recommendations in the draft audit report pertaining to the adequacy of the Postal Inspection Service's FY2003 budget process.

Recommendation #1

"Establish a process to implement a zero-based budget process beginning with FY2004."

The Inspection Service budget reflects our operating plans in quantitative terms of dollars, complement, and equipment required to accomplish our goals in all of our investigative, security and administrative operations. The budget is an integral component of our operational planning process. All levels of Postal Service and Inspection Service management are involved in the budget process because the Inspection Service is essential to ensuring a stable and sound postal system.

The annual budget call is issued by postal finance. Instructions include specific assumptions, due dates, and guidelines to use in preparing the budget. We continue to respond timely to budget instructions and timelines provided to us and have instituted stringent internal controls to effectively manage funding allocations. We have always fully complied with postal budgetary requirements and will continue to be responsive to the Postal Service's financial needs.

In compliance with the postal budgetary policies we have applied a historical based budget methodology to our funding allocations and requests with the full support and concurrence of postal management. This approach has ensured operational requirements were met. Therefore, we disagree in principle with the finding cited in your report that the budget approach implemented by postal finance is a zero-based approach.

The USPS budget model being applied to the Inspection Service for FY2004 is based on historical weighting and projected on-board complement numbers. Postal finance has developed and applied general methodologies for each budget line to calculate funding allocations. It is not a budget built from the ground up, rather, it is a top-down process that first calculates the agency-wide line budgets. Then, the Inspection Service's budget is

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allocated in two parts for our headquarters and field operations. Policies and procedures relative to the budget are controlled and managed by postal finance. As discussed during the audit, the Inspection Service does not own the budget process. Any recommendation to implement a new budget process should have been directed to the owner of the process.

Beginning in FY2003, the Inspection Service began examining line budget methodologies as a part of a zero-based budget approach. The data collected during this process was misrepresented by the OIG as justification for our FY2003 budget. Our FY2003 budget was based upon historical projections and management input. The line justification data collected during the FY2003 budget call was to identify local methodologies that may be used as a basis for development of a zero-based budget approach. The OIG evaluators took the data out of context representing that it was the basis of our FY2003 budget request.

Upon approval of the FY2004 agency budget the Inspection Service will begin allocating the authorized funding internally down through the organization to individual finance numbers. Consideration is provided to those organizations with special funding needs. Postal finance is scheduled to finalize the Inspection Service FY2004 budget by the end of July 2003.

Recommendation #2

"Establish guidance and provide training to assist field and headquarters managers in developing adequate justifications for their specific budget line item requests beginning with the FY2004 budget."

In FY2003 a National Administrative Committee (NAC) was created with a mission to continuously improve and add value to the administrative functions of the Inspection Service. The NAC is composed of five administrative specialists and representatives from Finance and Administrative Services and the Procurement and Administrative Service Center.

As a result of the NAC's efforts, a new Capital Investment Committee (CIC) process has been developed for the Inspection Service. In August 2003, the NAC will provide training at the national administrative specialist meeting on the new CIC process. The training will include how to submit a CIC request, how to prepare the justification for the request, and how to prepare the business case scenario for contracting with a specific supplier. In addition, we will provide training during that meeting to assist the administrative specialists in developing budget justifications for the various line items in their FY2004 division budget. When the FY2004 division budgets are reviewed, we will provide feedback to the divisions on their justifications and guidance to those divisions whose justifications have opportunities for improvement.

If you have any questions or need additional information, please contact Chris Giusti, Inspector in Charge, Finance and Administrative Services Group, at (202) 268-5430.

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