June 13, 2003

LEE R. HEATH
CHIEF POSTAL INSPECTOR

SUBJECT: Audit Report – Postal Inspection Service Tracking of Investigative Workhours and Activity (Report Number SA-AR-03-003)

This report presents the results of our audit of the Postal Inspection Service Tracking of Investigative Workhours and Activity (Project Number 03BG004OA000). This audit was self-initiated. Our objective was to evaluate how the Postal Inspection Service tracks direct workhours and activity conducted by inspectors during the course of an investigation.

The audit revealed that Postal Inspection Service investigative workhours for jacketed cases were adequately accounted for in the Inspection Service Data Base Information System. Our audit also revealed the Postal Inspection Service was not able to identify the total workhours related to conducting specific criminal investigations. This occurred because management has not established a documented process requirement for tracking all related workhours for jacketed cases, although 46 percent or 1.4 million workhours of all criminal investigative workhours are expended in area cases used to develop jacketed cases for investigation.

We recommended the Postal Inspection Service develop and implement a documented process to track total related workhours using existing Inspection Service Data Base Information System capabilities, allowing the Postal Inspection Service the ability to determine total related workhours expended for individual area cases that resulted in jacketed cases. Postal Inspection Service management disagreed with our recommendation. The Office of Inspector General (OIG) views the disagreement of this recommendation as unresolved and plans to pursue it through the formal audit resolution process. Management's comments and our evaluation of these comments are included in the report.

The OIG considers the recommendation significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. This 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
for Technology/Oversight

Attachment

cc: James J. Rowan, Jr.
Larry C. Visos
Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction	This report presents the results of our self-initiated audit of the Postal Inspection Service tracking of investigative workhours and activity. Our overall objective was to evaluate how the Postal Inspection Service tracks direct workhours and activity conducted by inspectors during the course of an investigation.
Results in Brief	The audit revealed that Postal Inspection Service investigative workhours for all reviewed jacketed cases were adequately accounted for in the Inspection Service Data Base Information System. Based on audit work conducted and testimonial evidence, we determined the Postal Inspection Service adequately accounted for investigative workhours contained in related jacketed investigations in the Inspection Service Data Base Information System. The audit also revealed the Postal Inspection Service was not able to identify the total workhours involved in conducting specific criminal investigations. At least 46 percent of investigative workhours classified as area cases were not being individually tracked in the Inspection Service Data Base Information System. This occurred because management had not established a documented process for the tracking of total related investigative workhours.
Summary of Recommendation	We recommended the Postal Inspection Service develop and implement a documented process to track total investigative workhours for jacketed cases using existing Inspection Service Data Base Information System capabilities, which would allow the Postal Inspection Service to determine workhours expended in area cases that resulted in jacketed cases.
Summary of Management's Comments	Postal Inspection Service management disagreed with the recommendation. Management was concerned that any estimates of attributed workhours expended in the preliminary stages of an investigation to a specific jacketed case would degrade the integrity of their internal reporting systems. Further, management stated that a

recommendation in a prior Office of Inspector General (OIG) audit report, Postal Inspection Service Fraud Against Business and Consumer Programs and the Customer Initiative Group (Report Number SA-AR-03-001, dated March 31, 2003) contradicted our current recommendation. Management's comments, in their entirety, are included in the appendix of this report.

Overall Evaluation of Management's Comments

Postal Inspection Service management's comments were not responsive to the recommendation. We recommended the Postal Inspection Service develop and implement a process to track total investigative workhours, because during our audit we noted that approximately 46 percent of investigative workhours classified as area cases were not being individually tracked in the Inspection Service Data Base Information System. Management believed estimating area case workhours would degrade the integrity of their internal reporting systems even though they currently do not have a system in place to account for these preliminary workhours as they relate to specific jacketed cases.

Additionally, management stated that a recommendation in a prior OIG audit report, Postal Inspection Service Fraud Against Business and Consumer Programs and the Customer Initiative Group contradicted our current recommendation. Management said the OIG "recommended that the Inspection Service not jacket an excessive number of cases that bore no material outcome." There is no contradiction by the OIG between this report and the prior report. In the report referred to by management, the OIG recommended increasing management's oversight of the case selection process and ensuring that the Inspection Service Manual was adhered to regarding fraud allegations selected for investigation.

In addition, management stated "area cases provide the Inspection Service with the means to more efficiently and effectively avoid jacketing an excessive number of cases that bear little or no results." This statement is not reflective of our recommendation to develop a process to track total investigative workhours.

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

INTRODUCTION

Background

The Postal Inspection Service is authorized by federal laws and regulations to investigate and enforce over 200 federal statutes related to crimes against the United States mail, the Postal Service, and its employees. To assist in carrying out these responsibilities, the Postal Inspection Service classifies its criminal investigative work under various programs, such as security, fraud, internal crimes, and external crimes. In carrying out these investigations, postal inspectors use two types of cases to document their investigative activities: area cases and jacketed cases.

Area cases were used as needed to conduct preliminary investigations within each criminal program. Inspectors charged workhours to area cases when reviewing allegations and complaints that had not reached a point where an inspector determined it was possible to prosecute or take administrative action against a suspect.

A team leader assigned to a criminal program may use an area case that every team member charges workhours to while conducting preliminary investigative activity related to a specific criminal program. These inspectors normally conduct preliminary investigative activity of multiple allegations or complaints under this area case. In addition, an inspector may discontinue or suspend a preliminary investigative activity without formally documenting the activity.

Area cases represented almost half of the Postal Inspection Service's criminal investigative efforts for criminal programs. From October 1, 1997, through September 30, 2002, postal inspectors charged approximately 47 percent of criminal investigative hours to area cases, with the remaining 53 percent of criminal investigative hours charged to jacketed cases.

Jacketed cases were used when an investigation under an area case resulted in evidence gathered to support potential administrative or prosecutive action against a suspect. When an investigation is jacketed, the Inspection Service Data Base Information System generated a new case number, allowing the Postal Inspection Service to track investigative workhours and activity.

Objective, Scope, and Methodology

Our overall objective was to evaluate how the Postal Inspection Service tracked direct workhours and activity conducted by inspectors during the course of an investigation. To accomplish this objective, we used a statistically selected sample and reviewed 158[1] investigations closed between September 1997 and August 2000.[2] Specifically, we reviewed associated criteria, closed case files, Postal Inspection Service data base case summary reports, and program workhours. We also interviewed inspectors at the Detroit Division. We also reviewed Inspection Service Data Base Information System reports and interviewed Postal Inspection Service headquarters personnel from the Finance and Administrative Services Division, Security Division, and the Career Development Division. As a result of discussions with Postal Inspection Service management, we interviewed inspectors at the New Jersey, Chicago, and Florida Divisions.

The audit was conducted from October 2002 through May 2003 in accordance with generally accepted government auditing standards. We reviewed management controls as they related to the audit objective. Specifically, we reviewed policies and procedures related to the investigative activity to ensure Postal Inspection Service management's program objectives were met. We further assessed the accuracy of data contained in the Inspection Service Data Base Information System and determined that it was sufficient to support our audit conclusions. This determination was made based on our investigative case file reviews and Postal Inspection Service officials using the system as a management tool. We discussed our conclusions and observations with Postal Inspection Service management officials and included their comments, where appropriate.

[1] Our original sample included 161 closed case files. We did not review three closed case files because Postal Inspection Service officials jacketed these cases in error. The three cases should not have been jacketed as fraud against business or consumer case files.

[2] The sample was selected from a universe of 2,124 individual cases that were closed between September 13, 1997, and August 29, 2000. The sample used a stratified design; we selected 80 cases for fraud against consumers and 81 cases for fraud against businesses. The sample selection for cases was random within each stratum. No projections were made.

Prior Audit Coverage

The Office of Inspector General's (OIG) management advisory report entitled, Review of Area Case Investigations (Report Number OV-MA-00-003, dated August 25, 2000), revealed opportunities to strengthen the management and oversight of area case investigations. We determined that supervisory oversight was generally limited to team leaders who used informal procedures to manage area case investigations at the sample divisions reviewed. In addition, Postal Inspection Service division and headquarters management did not have an effective means of monitoring area case investigative activities.

The OIG suggested that the chief postal inspector issue guidance and implement a system to manage and track the status of area case investigations. Management agreed with our suggestions and has made some reporting requirement changes to the area case management process.

AUDIT RESULTS

Adequate Accounting for Jacketed Investigative Workhours

Postal Inspection Service investigative workhours for all reviewed jacketed cases were adequately accounted for and we determined that required documentation was appropriately contained in the Inspection Service Data Base Information System. Additionally, testimonial evidence obtained from inspectors during the audit indicated these team leaders conducted proper and timely reviews of cases and related workhours. As a result, the Postal Inspection Service can adequately account for the investigative workhours performed by postal inspectors on related jacketed criminal investigations.

U.S. Postal Inspection Service Manual, Chapter 5, Section 530 – *Mail Fraud,* provides fraud inspectors with procedures and techniques for prioritizing and jacketing cases, and performing mail fraud investigations. During our review, there was adequate management oversight and adherence to the case jacketing procedures in accounting for jacketed investigation workhours as outlined in the U.S. Postal Inspection Service Manual.

Based on work conducted for our audit report entitled, Postal Inspection Service Fraud Against Business and Consumer Programs and Customer Initiative Group (Report Number SA-AR-03-001, dated March 31, 2003), and testimonial evidence from inspectors interviewed at Postal Inspection Service headquarters and the Detroit, New Jersey, Chicago, and Florida Divisions, we determined the Postal Inspection Service adequately accounted for investigative workhours contained in related jacketed investigations in the Inspection Service Data Base Information System.

Postal Inspection Service Not Able to Attribute All Workhours Expended For Specific Criminal Cases

The Postal Inspection Service was not able to identify the related area case workhours expended to jacket individual cases[3] because at least 46 percent of investigative workhours classified as area cases were not being individually attributed to jacketed cases. This condition existed because Postal Inspection Service management had not established a requirement for the tracking of area case investigative workhours that related directly to a jacketed case.

In fiscal years (FY) 2001 and 2002, postal inspectors spent, on average, at least 3 million direct workhours or $170 million[4] each year conducting investigative activities in their criminal programs area and jacketed cases. During the same period, at least 46 percent of those direct workhours, or 1.4 million workhours or $79 million[5] each year were used conducting investigative activities in criminal programs area cases.[6]

In addition, our review of case files from calendar year 1997 to 2000 identified 5 of 158 cases that were jacketed under an incorrect subject code and these cases were actually an area case investigation rather than a jacketed investigation. These five cases totaled 12,203 workhours of the 32,642 workhours for the 158 cases. Although, we were not testing to determine if cases were jacketed in error, it could be an indicator that workhours spent conducting area case investigations could be higher than 46 percent.[7]

[3] A jacketed case signifies the initiation of a formal criminal investigation.
[4] The hourly rate used in the projected cost was based on the year-to-date average inspector hourly rate of $56.55 obtained from the National Payroll Hours Summary Report for accounting period 06-2001, ending February 23, 2001.
[5] Ibid.
[6] An area case is used as needed to conduct preliminary investigations. Inspectors charge workhours to area cases when reviewing allegations and complaints that have not reached the point where an inspector determines it is possible to prosecute or take administrative action against a subject.
[7] The five cases were: 581-1139138-FB(1), 581-1217820-FB(1), 544-1239670-FC(1), 544-1255396-FC(1), and 545-1298511-FC(2).

As a result of our benchmarking with the:

- Internal Revenue Service – Criminal Investigation Division
- Federal Bureau of Investigation
- Bureau of Alcohol, Tobacco and Firearms
- Drug Enforcement Agency

we determined these agencies[8] spent as little as 5 percent and no more than 20 percent of their workhours conducting preliminary investigative activities prior to initiating a formal criminal investigation. In addition, three of the four agencies accounted for these workhours in the jacketed cases. In contrast, postal inspectors spent 46 percent of their investigative workhours under area case investigations when reviewing allegations and complaints without attributing any of those workhours to a specific jacketed case.

Postal Inspection Service management attributed the 46 percent of preliminary investigative workhours, as compared to other law enforcement agencies, to their decentralized investigative management style. This decentralized style allowed the individual team leaders to be accountable for the amount of workhours the inspectors spent on preliminary investigations in area cases.

The U.S. Postal Inspection Service Manual did not contain specific details regarding the accountability of area case investigative workhours related to jacketed cases. As a result, the total amount of workhours involved in conducting a specific criminal investigation from area case workhours to jacketed case workhours were not required to be accounted for.

Although inspectors adequately documented workhours expended on conducting jacketed criminal investigations, the workhours spent on individual area case investigations

[8] Our benchmarking also included the Social Security Administration – OIG and the United States Secret Service; however, it was determined that these agencies do not record the amount of workhours they expend on preliminary investigations.

were not tracked as they related to a specific jacketed case. As a result, the Postal Inspection Service cannot identify the total workhours involved in conducting specific criminal investigations from area case, to jacketed case, and final disposition.

We recognize the Postal Inspection Service had a decentralized investigative management style with 18 separate divisions that are responsible for performing the mission of the Postal Inspection Service. Based on testimonial evidence from Postal Inspection Service team leaders, we were able to determine the individual team leaders are adequately managing the area case investigative process and have an understanding of how preliminary investigative workhours are charged. However, headquarters management is ultimately responsible for the accountability of investigative workhours. We have concluded that the span of control between headquarters and the team leaders in the 18 field divisions was too broad for the Postal Inspection Service to fully assess the workhour relationship between area case investigation workhours and related jacketed cases.

We believe allowing inspectors to estimate area case workhours used in developing a jacketed case would provide management with more effective tracking of investigative workhours and allow for improved resource allocation without significant cost. We recognize this process will not be exact. However, it will provide management a better measurement tool than previously existed.

Recommendation

We recommend the chief postal inspector:

1. Develop and implement a documented process to track total investigative workhours for jacketed cases using existing Inspection Service Data Base Information System capabilities, which allows the Postal Inspection Service the ability to determine total workhours expended for individual area cases that resulted in jacketed cases.

Management's Comments

Postal Inspection Service management disagreed with the recommendation. Management was concerned that any estimates of attributed workhours expended in the

preliminary stages of an investigation to a specific jacketed case would degrade the integrity of their internal reporting systems. Further, management stated that a recommendation in a prior OIG audit report, Postal Inspection Service Fraud Against Business and Consumer Programs and the Customer Initiative Group (Report Number SA-AR-03-001, dated March 31, 2003) contradicted our current recommendation.

Evaluation of Management's Comments

Postal Inspection Service management's comments were not responsive to the recommendation. We recommended the Postal Inspection Service develop and implement a process to track total investigative workhours, because during our audit we noted that approximately 46 percent of investigative workhours classified as area cases were not being individually tracked in the Inspection Service Data Base Information System. Management believed estimating area case workhours would degrade the integrity of their internal reporting systems even though they currently do not have a system in place to account for these preliminary workhours as they relate to specific jacketed cases.

Additionally, management stated that a recommendation in a prior OIG audit report, Postal Inspection Service Fraud Against Business and Consumer Programs and the Customer Initiative Group contradicted our current recommendation. Management said the OIG "recommended that the Inspection Service not jacket an excessive number of cases that bore no material outcome." There is no contradiction by the OIG between this report and the prior report. In the report referred to by management, the OIG recommended increasing management's oversight of the case selection process and ensuring that the Inspection Service Manual was adhered to regarding fraud allegations selected for investigation.

In addition, management stated "area cases provide the Inspection Service with the means to more efficiently and effectively avoid jacketing an excessive number of cases that bear little or no results." This statement is not reflective of our recommendation to develop a process to track total investigative workhours.

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

APPENDIX. MANAGEMENT'S COMMENTS

UNITED STATES POSTAL INSPECTION SERVICE

Deputy Chief Inspector
Headquarters Operations

May 12, 2003

Mr. Ronald D. Merryman
Office of the Inspector General
U.S. Postal Service
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Postal Inspection Service Tracking of Investigative Workhours and Activity (Report Number SA-AR-03-DRAFT)

Your draft report recommends that the Inspection Service attribute estimated workhours expended in the preliminary stages of an investigation to a specific case once jacketed. You recognized this process would not be exact. We are concerned that estimates like these would degrade the integrity of our internal reporting systems and therefore we disagree with the recommendation.

Your finding asserted that Inspection Service management, specifically our headquarters management, would have a better management tool if all workhours expended in connection with a jacketed investigation, including those worked under an area case, were known and tracked. As acknowledged in your report, Inspection Service team leaders are adequately managing the area case investigative process and have an understanding of how preliminary investigative workhours are changed. We are satisfied with the process in place as a means of ensuring that our resources are properly allocated and the workload is fairly distributed. We believe that management oversight beginning at the team leader level, continuing with the Inspector in Charge, and on up through headquarters, needs to be maintained at its current level of program review.

A prior OIG audit report (Report Number SA-AR-03-001, dated March 31, 2003), copy attached, cited the Inspection Service for jacketing cases and pursuing investigations that resulted in no prosecutive or civil/administrative action taken. In that report, you recommended that the Inspection Service not jacket an excessive number of cases that bore no material outcome. Area cases provide the Inspection Service with the means to more efficiently and effectively avoid jacketing an excessive number of cases that bear little or no results. Your recommendation to us now contradicts the one made to us in the earlier report.

We recognize there are opportunities for improvement with regard to area case reporting. We have two ongoing internal reviews on case management that include the documentation of area cases. Our current internal reporting system, ISDBIS, is moving to a Web-based application that will provide us with enhanced capabilities for the collection and reporting of information, including data in connection with area case activity.

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If you have any questions or require further explanation, please contact Inspector in Charge Larry Visos at (202) 268-4279.

James J. Rowan, Jr.

Attachment

cc: Susan Ducheck

OFFICE OF INSPECTOR GENERAL

March 31, 2003

LEE R. HEATH
CHIEF POSTAL INSPECTOR

SUBJECT: Audit Report – Postal Inspection Service Fraud Against Business and Consumer Programs and the Customer Initiative Group (Report Number SA-AR-03-001)

This report presents the results of our audit of the Postal Inspection Service Fraud Against Business and Consumer Programs and Customer Initiative Group (Project Number 00JA011OV003). Our overall objective was to determine the effectiveness of the Postal Inspection Service's fraud prevention activities, fraud program goals, fraud complaint system, case selection and jacketing procedures for fraud investigations, and the customer initiative group. This report is the second report addressing the Postal Inspection Service's fraud program.

The audit revealed that 29 of 153 fraud against business and consumer cases reviewed resulted in investigations that were closed or declined with no action taken, resulting in a projected cost to the Postal Inspection Service of at least $727,000 in resources expended on these investigations. Our audit also revealed that the Postal Inspection Service's Fraud Complaint System, an automated database of fraud complaints, will become redundant with another federal government fraud complaint system. In addition, we found that the Postal Inspection Service did not have a process in place to measure the effectiveness of the Business Mailing Industry Task Force.

We made four recommendations and Postal Inspection Service management disagreed with each of our recommendations. The Office of Inspector General (OIG) considers these recommendations as unresolved. However, we do not plan to pursue these issues through formal audit resolution, but will conduct follow-up audit work in these areas in the future. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact

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for Ronald D. Merryman
Acting Assistant Inspector General
for eBusiness

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James J. Rowan, Jr.
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Restricted Information

EXECUTIVE SUMMARY

Introduction

This report presents the results of our self-initiated audit of the Postal Inspection Service fraud against business and consumer programs and customer initiative group. Our overall objective was to determine the effectiveness of the Postal Inspection Service's fraud prevention activities, fraud program goals, fraud complaint system, case selection and jacketing procedures for fraud investigations, and the customer initiative group. This report is the second report addressing the Postal Inspection Service's fraud program.

Results in Brief

The audit revealed that of 153 closed fraud against business and consumer case files reviewed, 29 of these investigations were closed or declined with no action taken, resulting in a projected cost to the Postal Inspection Service of at least $727,000 expended on resources conducting fraud against business and consumer investigations.

The audit also revealed that the Postal Inspection Service's Fraud Complaint System will become redundant with the Federal Trade Commission's Consumer Sentinel upon the completion of a Memorandum of Understanding between these two agencies. To date, the Postal Inspection Service has expended over $2.7 million on maintenance and development costs on a fraud complaint system that will ultimately be redundant.

Our audit also disclosed that the Postal Inspection Service did not have a process in place to measure the effectiveness of the Business Mailing Industry Task Force.

Summary of Recommendations

We recommended increased management oversight of the case selection process, and adherence to the Inspection Service Manual regarding fraud allegations selected for investigation. In addition, we recommended Postal Inspection Service management devise and implement a plan to ensure the completion of the Memorandum of Understanding between the Federal Trade Commission and the Postal Inspection Service, which allows for the diminished use of the Fraud Complaint System for response letters to complainants and temporary data storage for transfer to the Federal Trade Commission's Consumer Sentinel, and, determine the attributable cost avoidance for

the Postal Service and report the same to the chief financial officer.

We also recommended that a process be devised and implemented by fiscal year (FY) 2004 to measure and report the effectiveness of the Business Mailing Industry Task Force in order to determine whether: (1) the task force is fulfilling its stated goal, (2) Postal Inspection Service resources are being appropriately utilized, and (3) the task force has been a success.

Summary of Management's Comments

Postal Inspection Service management disagreed with our recommendation to increase management oversight of the case selection process, and ensure adherence to the Inspection Service Manual regarding fraud allegations selected for investigation stating that the position of team leader is appropriately authorized to determine when information warrants further investigation.

Postal Inspection Service management disagreed with our recommendation to devise and implement a plan to ensure completion of the Memorandum of Understanding between the Federal Trade Commission and the Postal Inspection Service, which would allow for the diminished use of the Fraud Complaint System. Management stated their responsibility to protect consumers using the mail from fraud did not allow them to discontinue or even diminish the role of the Fraud Complaint System. In addition, management's comments did not address our recommendation to determine the attributable cost avoidance for the Postal Service and report the same to the chief financial officer, stating that deleting information stored in the Fraud Complaint System would save data memory and increase system efficiencies, but would not produce any cost savings.

Postal Inspection Service management disagreed with our recommendation to devise and implement a process to measure and report the effectiveness of the Business Mailing Industry Task Force during FY 2004, commenting that any measurement system had to be agreed to by the governing board of the Business Mailing Industry Task Force. Management's comments, in their entirety, are included in Appendix D of this report.

Overall Evaluation of Management's Comments

Postal Inspection Service management's comments regarding increased management oversight of the case selection process, and adherence to the Inspection Service Manual regarding fraud allegations selected for investigation were not responsive to the recommendation. We reported 19 percent of fraud against business and consumer case files were closed or declined with no prosecutive or civil/administrative action taken. Management commented that in FY 2002 alone, 21 percent of fraud cases were closed with no action taken.[1] With the percentage of fraud cases closed with no action taken increasing, we believe it is in the Postal Inspection Service's interest to increase oversight of the case selection process beyond the current team leader level.

Postal Inspection Service management's comments regarding the diminished use of the Fraud Complaint System were not responsive to the recommendation. We did not recommend the discontinuance of the Fraud Complaint System. Rather, we advised management to redefine the current role of the Fraud Complaint System from an investigative tool to a temporary repository of fraud complaints. Further, we believe a redefined role for the Fraud Complaint System would not adversely affect the Postal Inspection Service's mission of deterring and investigating fraud, as inspectors would still be able to respond to, analyze, share, and delete the fraud complaint data.

Postal Inspection Service management's comments regarding our recommendation to determine the attributable cost avoidance for the Postal Service and report the same to the chief financial officer were not responsive to the recommendation. Management interpreted cost savings associated with the Fraud Complaint System as deleting information which would save data memory and increase system efficiencies but would not produce any cost savings. In our report, we identified cost savings as not having the need for additional development costs related to the Fraud

[1] Postal Inspection Service management stated in part, ". . . . of the 954 fraud cases we closed in FY 2002 alone. . . 21 percent (251) were closed without action." Based on these totals and the calculations provided by Postal Inspection Service management, we could not verify the accuracy for the 21 percent of fraud cases closed with no action, which could be as high as 26 percent (251 of 954).

Complaint System, and the expenditure of funds to correct current reporting deficiencies.

Postal Inspection Service management's comments regarding our recommendation to devise and implement a measurement process specifically to measure the effectiveness of Postal Inspection Service resources expended on the Business Mailing Industry Task Force were not responsive to the recommendation. Management addressed the challenges of implementing a measurement system for the Business Mailing Industry Task Force. However, in a meeting with the inspector-in-charge of Group 3 – Integrity,[2] prior to the issuance of the draft audit report, we explained our recommendation was for Postal Inspection Service management to devise and implement a measurement process specifically to measure the effectiveness of Postal Inspection Service resources expended on the Business Mailing Industry Task Force.

The OIG considers these recommendations as unresolved. However, we do not plan to pursue these issues through formal audit resolution, but will conduct follow-up audit work in these areas in the future.

[2] Formerly known as the Fraud, Child Exploitation, Asset Forfeiture, and Money Laundering group.

INTRODUCTION

Background

The Postal Inspection Service is authorized by federal laws and regulations to investigate and enforce over 200 federal statutes related to crimes against the United States mail, the Postal Service, and its employees. Under this authority, the Postal Inspection Service investigates crimes in which the United States mail is used to further a fraud scheme, whether originating through the mail, by telephone, or on the Internet.[3]

The Postal Inspection Service's fraud program is their second largest criminal program[4] and is designed to protect the Postal Service and the American public from fraudulent schemes where the use of the mail is an essential part of the scheme. The Postal Inspection Service categorizes its fraud program into three broad victim types:

- Fraud against business – designed to protect the business community from being victimized by mail fraud, and emphasizes working with the business community to educate, deter, and investigate allegations of fraud.
- Fraud against consumer – designed to protect the general public from mail fraud, and emphasizes consumer awareness in the prevention of fraud.
- Fraud against government – designed to protect federal, state, and local government agencies that fall prey to mail fraud scams.

Within the fraud program, the Postal Inspection Service developed a central repository of fraud complaints known as the Fraud Complaint System. This system is an automated database of complaints designed to collect information directly from businesses and consumers about possible mail fraud. The data in the Fraud Complaint System is only accessible by the Postal Inspection Service and may be used to generate fraud investigations.

[3] Title18, United States Code, Section 1341, Mail Fraud Statute, defines fraud as a scheme that uses the United States mail to obtain money or property by means of false or fraudulent representation. In addition, the Violent Crime Control and Law Enforcement Act of 1994 broadened Title18, United States Code, Section 1341, to include delivery "by any private or commercial interstate carrier."
[4] Based on a workhour comparison of other Postal Inspection Service criminal programs.

The Postal Inspection Service determined they had a need to join forces and share best practices with the business mailing industry. As a result, they partnered with the financial services, manufacturing, and direct marketing industries to form the Business Mailing Industry Task Force.

Objective, Scope, and Methodology

Our overall objective was to determine the effectiveness of the Postal Inspection Service's fraud prevention activities, fraud program goals, fraud complaint system, case selection and jacketing procedures for fraud investigations, and the customer initiative group. Specifically, we determined whether fraud allegations were appropriately selected for investigation and whether the Postal Inspection Service's Fraud Complaint System was properly utilized. We also reviewed the Postal Inspection Service's customer initiative group. This report is the second report addressing the Postal Inspection Service's fraud program.

To accomplish these objectives, we statistically selected and reviewed 153[5] fraud against business and consumer investigations closed between September 1997 and August 2000.[6] Specifically, we reviewed associated criteria, closed case files, Postal Inspection Service database case summary reports, and program workhours. We interviewed Postal Inspection Service Headquarters personnel from Group 3 – Integrity,[7] and the Information Technology Division. We also interviewed Postal Inspection Service division personnel located in eight divisions, as well as support personnel and fraud technicians located at a Postal Inspection Service Operations Support Group. We interviewed officials from the Federal Trade Commission to determine how their fraud complaints were obtained, reported, and utilized. Additionally, we interviewed Postal Inspection Service personnel associated with the customer initiative group.

[5] Our original sample included 161 closed case files. We did not review eight closed case files because Postal Inspection Service officials jacketed these cases in error. Five of the eight cases were determined to be area case files jacketed under an incorrect subject code; the remaining three cases should not have been jacketed as fraud against business or consumer case files.
[6] See Appendix A for the detailed sampling plan.
[7] Formerly known as the Fraud, Child Exploitation, Asset Forfeiture, and Money Laundering group.

This audit was conducted from September 2001 through March 2003 in accordance with generally accepted government auditing standards. We reviewed internal controls as they related to the audit objectives. Specifically, we reviewed policies and procedures related to the fraud against business and consumer programs to ensure Postal Inspection Service management's program objectives were met. We further assessed the accuracy of data contained in the Inspection Service Database Information System (ISDBIS) and determined that it was sufficient to support our audit conclusions. We discussed our conclusions and observations with Postal Inspection Service management officials and included their comments, where appropriate.

Prior Audit Coverage

Office of Inspector General (OIG) report, Inspection Service Fraud Against Government Program (Report Number OV-AR-01-004, dated September 28, 2001), identified that the Postal Inspection Service participated in fraud against government investigations because the fraudulent activity involved information passing through the United States mail, but otherwise did not impact the Postal Service. The report also identified that the Postal Inspection Service reported that its investigations under the fraud against government program assisted in obtaining $491 million in fines and restitution, when in fact only $2.9 million of these funds were to be provided back to the Postal Service. Finally, the report identified that the accuracy of arrest and conviction statistics reported by the Postal Inspection Service could not be determined because inspectors did not fully document the extent of their involvement in fraud against government investigations.

The OIG recommended Postal Inspection Service management require the separate reporting of fines and restitution due to the Postal Service, fully document the investigative activity of inspectors conducting task force and joint investigations, and ensure that arrest and conviction statistics are only reported when the Postal Inspection Service motivates and materially contributes to the investigation. Management partially agreed with our recommendations and stated they would explore the feasibility and cost effectiveness of modifying their existing database information system, and would conduct a case file improvement initiative.

AUDIT RESULTS

Fraud Investigations Closed With No Action

Our review of 153 closed fraud against business and consumer case files identified 29 of these investigations were closed or declined with no prosecutive, civil, or administrative action taken,[8] resulting in a projected cost to the Postal Inspection Service of at least $727,000.[9]

This occurred because of inadequate management oversight of fraud allegations selected for investigation. Specifically, approving officials and inspectors did not follow established guidance related to the case selection process, relying more upon their personal experiences and knowledge when selecting allegations to be investigated rather than the Inspection Service Manual.

Examples of investigations found during our review included:

- Inspectors worked 422 hours on a case involving a false billing scheme only to have the case dismissed by the assistant United States attorney at the request of the inspector. Case documents noted the inspector was to seek an administrative action (voluntary discontinuance), but no evidence was found in the case file to support whether one was sought.

- An inspector investigating a case involving a vacation scheme worked 260 hours and kept the case open for 675 days only to request that the case be closed based upon the "known attitude" of the United States attorney. The case was kept open for an additional 12 months with no investigative action, of which it took 5 of those months to close the case.

[8] See Appendix A (*Results - Cases Declined or Closed Without Remedy*) for projection specific information.
[9] The hourly rate used in the projected cost was based on the year-to-date average inspector hourly rate of $56.55 obtained from the National Payroll Hours Summary Report for accounting period 06-2001, ending February 23, 2001. See Appendix B for the complete listing of 29 cases that were closed or declined with no action taken.

- Inspectors worked 135 hours and spent nearly 2½ years investigating a health care scheme that was ultimately declined for prosecution by the assistant United States attorney due to the lack of potential for conviction.

During our interviews conducted with fraud inspectors from eight divisions, we were told that personal experiences and "gut instinct" were relied upon more than consulting the Inspection Service Manual when determining which allegations to select for investigation.

The Inspection Service Manual provides fraud inspectors with procedures and techniques for prioritizing and jacketing cases and performing mail fraud investigations. Specifically, the Inspection Service Manual requires that inspectors must distinguish between evidence which points merely to a civil breach of contract from that which signals the existence of a fraudulent scheme. Additionally, the Inspection Service Manual advises inspectors to continually assess the potential merits of a case and not retain or needlessly pursue cases when there has been no actionable violation.

In a discussion with Postal Inspection Service management, the OIG was informed that the Inspection Service Manual was intended to provide a fundamental reference on points of general importance in the mechanics and policies of the Postal Inspection Service, but should not be used as a guide to determine what types of investigations to open. Further, Postal Inspection Service management agreed with our reported condition, and suggested that this condition should be monitored as an important indicator to alert the Postal Inspection Service of situations where cases were initiated when no effective action could be pursued, where resources could have been used elsewhere, and as a review in certain cases to determine if all reasonable actions were pursued.

We believe that personal experiences and "gut instincts" play a role in the process of selecting cases for investigation, and policies and procedures are equally important elements. We also concur with Postal Inspection Service management's suggestion of enhancing their

monitoring of the reported condition, thus providing a better opportunity for success in investigations.

Recommendation

We recommend the chief postal inspector:

1. Increase management's oversight of the case selection process and ensure the Inspection Service Manual is adhered to regarding fraud allegations selected for investigation.

Management's Comments

Postal Inspection Service management disagreed with the recommendation. Specifically, they disagreed to increase management oversight beyond the current team leader level. Management stated the position of team leader was appropriately authorized to determine when information warrants further investigation. Further, they disagreed with the emphasis the recommendation placed on using the Inspection Service Manual more than relying upon "personal experiences and knowledge when selecting allegations to be investigated."

Evaluation of Management's Comments

Postal Inspection Service management's comments were not responsive to the recommendation. We reported 19 percent of fraud against business and consumer case files were closed or declined with no prosecutive or civil/administrative action taken. Management commented that in fiscal year (FY) 2002 alone, 21 percent of fraud cases were closed with no action taken.[10] With the percentage of fraud cases closed with no action taken increasing, we believe it would be in the Postal Inspection Service's interest to increase oversight of the case selection process beyond the current team leader level.

In addition, we did not recommend Postal Inspection Service management emphasize using the Inspection Service Manual more than relying upon "personal experiences and knowledge when selecting allegations to be investigated." In our report, we recognized personal experiences, "gut instincts," and policies and procedures as equally important elements, all playing a role in the process of selecting cases for investigation. Further, we did not

[10] Postal Inspection Service management's comments stated in part, ". . . .of the 954 fraud cases we closed in FY 2002 alone. . . .21 percent (251) were closed without action." Based on these totals and the calculations provided by Postal Inspection Service management, we could not verify the accuracy for the 21 percent of fraud cases closed with no action, which could be as high as 26 percent (251 of 954).

recommend that a greater emphasis be placed on the Inspection Service Manual over inspector experience.

The OIG considers this recommendation as unresolved. However, we do not plan to pursue this through formal audit resolution, but will conduct follow-up audit work in this area in the future.

Postal Inspection Service – Fraud Complaint System Redundant	The Postal Inspection Service's Fraud Complaint System, an automated database of fraud complaints, will become redundant. Specifically, the Fraud Complaint System will mirror the Federal Trade Commission's Consumer Sentinel database. In addition, the Postal Inspection Service has expended over $2.7 million on maintenance and development costs for their system. In the mid-1980's the Postal Inspection Service developed the Fraud Complaint System, designed to collect data directly from consumers about possible incidents of consumer fraud and accessible by Postal Inspection Service personnel only. Complaints are received by mail or through the Internet via a fraud complaint form. These complaints are individually acknowledged with a response letter from the Postal Inspection Service. In FYs 2001 and 2002, the Postal Inspection Service received approximately 105,000 and 73,000 fraud complaints, respectively. Currently there are approximately 676,000 fraud complaints stored in the Fraud Complaint System. Postal Inspection Service officials could not provide the total operating costs associated with the Fraud Complaint System from December 1999 through April 2002; therefore, we were not able to determine total operating costs. However, we determined that the Postal Inspection Service had spent over $2.7 million from December 1999 to April 2002 on maintenance and development costs associated with the system. These costs did not include the associated overhead for the letter responses to complainants.
Federal Trade Commission – Consumer Sentinel	In 1997, the Federal Trade Commission established Consumer Sentinel as a law enforcement database to be used by the Federal Trade Commission and more than 475 law enforcement agencies in Australia, Canada, and the United States.[11] Consumer Sentinel gives law enforcement access to over 700,000 complaints including consumer complaints from the Better Business Bureau, the

[11] As of this report, member United States agencies included such agencies as: Federal Bureau of Investigation; Department of Justice; Federal Deposit Insurance Corporation – OIG; Internal Revenue Service – Criminal Investigations; Secret Service; Small Business Administration – OIG, and United States Attorney offices nationwide.

National Fraud Information Center, and Canada's PhoneBusters.[12]

In March 2001, the Postal Inspection Service and Federal Trade Commission signed a Memorandum of Understanding, in which both parties agreed that mail fraud complaints received by the Postal Inspection Service would be input into Consumer Sentinel in four phases. The memorandum established specified target dates ranging from March to August 2001 for data transfer completion. To date, three of the four phases outlined in the memorandum's *Proposed Complaint Data Transfer Schedule* have exceeded their completion target dates by more than 1 year.[13] Postal Inspection Service management attributed the delays to the lack of a full-time Consumer Sentinel manager, as well as time and resource constraints for both the Federal Trade Commission and the Postal Inspection Service. Postal Inspection Service management told the OIG that the original Memorandum of Understanding was being updated and will have revised timelines and target dates for concluding each of the remaining phases.

In further discussions with Postal Inspection Service management, we were informed that the Federal Trade Commission did not have the necessary funding in place to absorb all of the Postal Inspection Service's fraud complaints. However, in subsequent discussions with an official from the Federal Trade Commission involved in the daily operations of Consumer Sentinel, we were told the issue is not one of capacity, but rather cost. We were told Consumer Sentinel's capacity could be upgraded to accept any volume of complaints provided by the Postal Inspection Service (both historical and future), but there is no funding to cover the letter response costs for the Postal Inspection Service's 60,000 – 100,000 fraud complaints received annually.

In discussing this issue further with the same Federal Trade Commission official, we were told that if the Postal Inspection Service were to continue processing their complaints in the same manner they currently do, which entails providing a letter response to every complainant, the

[12] A Canadian government agency that collects and disseminates telemarketing complaints.
[13] See Appendix C for copy of original schedule.

Consumer Sentinel would be able to accept a biweekly data download of all Postal Inspection Service fraud complaints just as it does from other major contributors. This would allow the Postal Inspection Service to redefine the current role of the Fraud Complaint System from an investigative tool to a temporary repository of fraud complaints kept for a specified period of time and forwarded to the Consumer Sentinel for all law enforcement use. This would preclude the need for additional development costs related to the Fraud Complaint System. In addition, the Postal Service would not have to expend funds to correct current reporting deficiencies with the Fraud Complaint System.

Whereas the Fraud Complaint System is a database owned and maintained by the Postal Inspection Service for their use only, the Consumer Sentinel database allows the approximately 475 approved users, including the Postal Inspection Service, direct on-line access to a clearinghouse of consumer fraud related complaint data and other investigative and coordinative tools for law enforcement agencies. The benefit of the Postal Inspection Service utilizing Consumer Sentinel is that Consumer Sentinel receives fraud complaints from numerous data contributors, including the Postal Inspection Service, whereas the Fraud Complaint System focuses on fraud complaints received predominantly from Postal Service customers.[14]

An additional benefit was observed during our audit fieldwork when we observed the Postal Inspection Service's participation in the National Consumer Protection Week at the Chicago, Illinois Post Office. It was noted that several of the Postal Inspection Service displays contained fraud statistics and graphs directly from Consumer Sentinel.

Although the Postal Inspection Service is in the process of updating the Memorandum of Understanding, unless the usage of the Fraud Complaint System is modified to provide for only response letters and temporary data storage, the Fraud Complaint System will be redundant. In addition, the Postal Inspection Service will be able to reduce the cost of maintaining the Fraud Complaint System.

[14] As of this report, contributing members included such organizations as: National Consumers League, Phone Busters, Better Business Bureaus, and the Internet Fraud Complaint Center.

Recommendation	We recommend the chief postal inspector: 2. Devise and implement a plan to ensure the completion of the Memorandum of Understanding between the Federal Trade Commission and the Postal Inspection Service, which allows for the diminished use of the Fraud Complaint System for response letters to complainants and temporary data storage for transfer to the Federal Trade Commission's Consumer Sentinel.
Management's Comments	Postal Inspection Service management disagreed with the recommendation. Specifically, management stated they disagreed with our recommendation for them to conclude an agreement "which allowed for the diminished use of the Fraud Complaint System for response letters to complainants." In addition, management stated that their responsibility to protect consumers using the mail from fraud did not allow them to discontinue or even diminish the role of the Fraud Complaint System.
Evaluation of Management's Comments	Postal Inspection Service management's comments were not responsive to the recommendation. We did not recommend the discontinuance of the Fraud Complaint System. Rather, we advised Postal Inspection Service management to redefine the current role of the Fraud Complaint System from an investigative tool to a temporary repository of fraud complaints, which would be kept for a specified period of time, and then forwarded to the Consumer Sentinel for all law enforcement use. The completion of the Memorandum of Understanding with the Federal Trade Commission would not adversely affect the Postal Inspection Service's mission of deterring and investigating fraud as inspectors would still be able to respond to, analyze, share, and delete the fraud complaint data. The OIG considers this recommendation as unresolved. However, we do not plan to pursue this through formal audit resolution, but will conduct follow-up audit work in this area in the future.

Recommendation	We recommend the chief postal inspector: 3. Once implementation plans for the use of the Federal Trade Commission's Consumer Sentinel have been agreed to, determine the attributable cost avoidance for the Postal Service and report the same to the chief financial officer.
Management's Comments	Postal Inspection Service management's comments did not address the recommendation. Specifically, management commented that deleting information stored in the Fraud Complaint System would save data memory and increase system efficiencies, but would not produce any cost savings.
Evaluation of Management's Comments	In Postal Inspection Service management's comments related to the recommendation, they interpreted cost savings associated with the Fraud Complaint System as deleting information which would save data memory and increase system efficiencies but would not produce any cost savings. In our report, we identified cost savings as not having the need for additional development costs related to the Fraud Complaint System, and the expenditure of funds to correct current reporting deficiencies. The OIG considers this recommendation as unresolved. However, we do not plan to pursue this through formal audit resolution, but will conduct follow-up audit work in this area in the future.

Measurement Process Needed for Business Mailing Industry Task Force	During our review we determined that the Postal Inspection Service did not have a process in place to measure the effectiveness of the Business Mailing Industry Task Force. As a result, Postal Inspection Service management cannot determine whether: (1) the task force is fulfilling its stated goal, (2) Postal Inspection Service resources are being appropriately utilized, and (3) the task force has been a success.
Background	The Postal Inspection Service determined they had a need to join forces and share best practices with the business mailing industry. As a result, they partnered with the financial services, manufacturing, and direct marketing industries to form three task forces: • Credit Card Mail Security[15] • Rebate Fraud • Mail Order Security In FY 2000, the Rebate Fraud and Mail Order Security Task Forces merged to become the Business Mailing Industry Task Force coordinated under the inspector-in-charge of Group 3 – Integrity.[16]
Postal Inspection Service Cannot Measure the Effectiveness of the Business Mailing Industry Task Force	Although Postal Inspection Service management informed the OIG the goal of the Business Mailing Industry Task Force was to eliminate fraud from the mailing industry, management does not have a process in place to measure the effectiveness of the task force. From the inception of the Business Mailing Industry Task Force, the Postal Inspection Service has been the primary contributor providing resources such as personnel, developing publications, and creating a website. Personnel from the Postal Inspection Service working with the task force consist of representatives from the Postal Inspection Service Fraud program, one representative from each Postal Inspection Service division, and the manager and staff at an Inspection Service Operations Support group.

[15] We were told the Credit Card Mail Security Task Force was coordinated under the Mail Theft criminal program; therefore, this task force was excluded from this review.
[16] Formerly known as the Fraud, Child Exploitation, Asset Forfeiture, and Money Laundering group.

Publications created by the Postal Inspection Service to educate the business mailing industry for the prevention of mail fraud included:

- The Promotion Industry Guidelines for Mail-In Offers.
- Fighting Mail Order Fraud and Theft.
- Consumer and Business Guide to Preventing Mail Fraud.

In support of the task force, the Postal Inspection Service developed and deployed a website to communicate business mailer information among the business mailing industry task force members in association with the Postal Inspection Service.[17]

During our review, Postal Inspection Service management told us the Business Mailing Industry Task Force did not have a measuring process to determine its effectiveness. We also learned that the two previous task forces (Rebate Fraud and Mail Order Security), reported successes in combating mail fraud.[18] However, Postal Inspection Service management assigned to the Business Mailing Industry Task Force informed us they did not incorporate any measurement processes from the previous task forces into the Business Mailing Industry Task Force. Postal Inspection Service management explained the reason the task force did not have a measurement process was because the task force was so new, and also to allow task force members to have input into creating a measurement process.

A Postal Inspection Service official responsible for the day-to-day operations of the task force told us he envisioned the future of the Business Mailing Industry Task Force becoming self-sufficient, operating similar to a company with a board of directors, and having less Postal Inspection Service participation.

The Postal Inspection Service has dedicated numerous resources over the past years to the Business Mailing

[17] Costs associated with Postal Inspection Service personnel, development of publications and the website were not assessed.
[18] As reported in the OIG's April 1, 2001 – September 30, 2001 Semiannual Report to Congress, page 107.

Industry Task Force. Although the Postal Inspection Service envisions having a smaller role in the future, they will still continue to provide resources in support of the task force. We believe that until Postal Inspection Service management measures the effectiveness of the task force, they will not be able to determine whether: (1) the task force is fulfilling its stated goal, (2) Postal Inspection Service resources are being appropriately utilized, and (3) the task force has been a success.

Recommendation

We recommend the chief postal inspector:

4. Devise and implement a process to measure and report the effectiveness of the Business Mailing Industry Task Force during FY 2004.

Management's Comments

Postal Inspection Service management disagreed with the recommendation. Management commented that any measurement system had to be agreed to by the governing board of the Business Mailing Industry Task Force.

Evaluation of Management's Comments

Postal Inspection Service management's comments were not responsive to the recommendation. Management addressed the challenges of implementing a measurement system for the Business Mailing Industry Task Force. However, in discussions with the inspector-in-charge, Group 3 – Integrity, prior to the issuance of the draft audit report, we explained our recommendation was for Postal Inspection Service management to devise and implement a measurement process specifically to measure the effectiveness of Postal Inspection Service resources expended on the Business Mailing Industry Task Force.

The OIG considers this recommendation as unresolved. However, we do not plan to pursue this through formal audit resolution, but will conduct follow-up audit work in this area in the future.

APPENDIX A
STATISTICAL SAMPLING FOR FRAUD AGAINST BUSINESS AND CONSUMER PROGRAMS

PURPOSE OF THE SAMPLING

One of the objectives of this audit was to assess the Postal Inspection Service's fraud program regarding fraud against consumers and businesses, specifically with respect to cases that were declined by the district attorney or otherwise closed without a remedy. In support of this objective, the audit team employed a stratified sample design that allowed statistical projection of a review of individual cases within the fraud against consumers and businesses programs.

DEFINITION OF THE AUDIT UNIVERSE

The audit universe consisted of individual cases that were closed between September 13, 1997, and August 29, 2000, based on the listing in the Inspection Service Database Information System. The subject code for area cases was excluded from the audit coverage. From the database, the OIG audit team identified the list of cases that met the timeframe criterion, resulting in an audit universe of 944 cases of fraud against consumers and 1,180 cases of fraud against businesses, with cases coded as area cases excluded from the universe. The database also provided a total of 743,281 workhours for the fraud against consumers program and 609,509 workhours for the fraud against businesses program, for FYs 1998-2000, for those subject codes that were not area cases. The Postal Inspection Service was the source of the information in the database.

We recognize that there is about a 1-month discrepancy in the total period covered by the cases and the workhours; we did not attempt to make any workhour adjustments for that 1-month period.

SAMPLE DESIGN AND MODIFICATIONS

This audit used a stratified sample design, with cases for fraud against consumers and fraud against businesses each further allocated into two categories based on the subject codes of the cases. The OIG audit team allocated the subject codes to the strata based on the OIG audit team assessment of the subject code's "probable utility to the postal service" (high versus low). A total of 80 cases of fraud against consumers was randomly selected for review, to provide a two-sided 95 percent confidence interval with approximately 13 percent precision, based on auditor expectations of approximately a 50 percent level of compliance on one or more attributes for cases involving fraud against consumers. The sample selection for cases of fraud against consumers was random within each stratum, with 50 cases from stratum I ($N_I = 788$) and 30 cases from stratum II ($N_{II} = 156$). A total of 80 cases of fraud against businesses was randomly selected for review, to provide a

two-sided 95 percent confidence interval with approximately 13 percent precision, based on auditor expectations of approximately a 50 percent level of compliance on one or more attributes for cases involving fraud against businesses. The sample selection for cases of fraud against businesses was random within each stratum, with 50 cases from stratum I (N_I = 1,082) and 30 cases from stratum II (N_{II} = 98). The team elected to accept the above level of precision because of resource limitations that prohibited executing the larger sample as required to achieve tighter precision.

The sample size was based on the evaluation of attributes associated with the case files. The team later decided to include the workhours associated with cases, which is a variable rather than an attribute. Workhour stratification of the universe might have been useful, but the individual case workhour information was not accessible until individual case records were reviewed. The workhour data associated with cases involving schemes were combined for the two fraud programs, using four strata for the analysis, which produced a larger effective sample size for the combined audit universe and helped somewhat with the overall precision. However, precision for the variable was considerably poorer than that planned for the attribute.

Upon examination of the sample files, the team determined that some cases were area cases even though they were not coded as area cases in the universe database. Because the problem was a result of miscoding, we could not remove other such cases from the audit universe. Also, three cases in the sample had been jacketed in error. Again, there was no way to remove other such instances from the audit universe. We, therefore, analyzed the workhour data as coming from an unknown subpopulation of workhours.

STATISTICAL PROJECTIONS OF THE SAMPLE DATA

METHODOLOGY

Sample attribute data was projected using the formulas for estimation of a population proportion for a stratified sample, as described in Chapter 5 of Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, c.1996.

The population of workhours included the hours attributable to the miscoded area cases. Therefore, the workhour projections are to an unknown subpopulation of the total hours. Sample workhour data was projected using the formulas for estimation of a population total for a stratified sample, in conjunction with the methodology for an unknown subpopulation, as described in Chapters 5 and 11 of Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, c.1996. However, because of the large uncertainty interval obtained from the sample, we report only the lower bound for the workhour measure.

RESULTS

Cases declined or closed without remedy

Based on projection of the sample results, we are 95 percent confident that 240 to 523 cases were declined or closed without remedy (11.3 percent to 24.6 percent of the audit universe). The unbiased point estimate is that 381 of the cases, or 18 percent of the universe of cases, were declined or closed without remedy.

Cases without documentation of reason for declination or closure without remedy

Based on projection of the sample results, we are 95 percent confident that 25 to 173 cases lacked documentation of reason for declination of closure without remedy (1.2 percent to 8.1 percent of the audit universe). The unbiased point estimate is that 99 of the cases, or 3.5 percent of the universe of cases, lacked documentation of reason for declination of closure without remedy.

Workhours for cases declined or closed without remedy (unknown subpopulation)

From the sample data, we are unable to obtain sufficient precision to make a projection of workhours associated with cases that were closed or declined. We present only the lower bound of the 95 percent confidence interval; we consider that to be a conservative value because examination of a larger sample would be expected to produce a projection with tighter bounds and a point estimate that was not below the lower bound of this review.

Based on the sample results, we are 95 percent confident that at least 12,860 workhours were spent on cases that were declined or closed without remedy in the fraud against consumers and fraud against businesses programs.

APPENDIX B
LISTING OF 29 INVESTIGATIONS THAT WERE CLOSED OR DECLINED WITH NO ACTION TAKEN

The following Postal Inspection Service fraud against business and fraud against consumer investigations were closed or declined with no action taken:

Fraud Against Business	Fraud Against Consumer
593-1216110-FB(2)	468-1236007-FC(2)
601-1190244-FB(2)	538-1199315-FC(2)
656-1267382-FB(2)	465-1211395-FC(2)
593-1208768-FB(2)	527-1203994-FC(2)
601-1182137-FB(2)	538-1274186-FC(2)
601-1201243-FB(2)	545-1290811-FC(2)
605-1221057-FB(2)	539-1242886-FC(1)
605-1230708-FB(2)	498-1191603-FC(2)
609-1223824-FB(2)	493-1215394-FC(2)
601-1216763-FB(2)	539-1230287-FC(2)
610-1301805-FB(2)	468-1182264-FC(2)
601-1208366-FB(2)	564-1194343-FC(2)
592-1240071-FB(2)	538-1265459-FC(2)
603-1241924-FB(2)	465-1234989-FC(1)
	485-1251666-FC(2)

APPENDIX C
MEMORANDUM OF UNDERSTANDING – PAGE 9
PROPOSED COMPLAINT DATA TRANSFER SCHEDULE

Proposed Complaint Data Transfer Schedule

Below is a proposed schedule reflecting target dates for the transfer of consumer complaints from the Postal Inspection Service's FCS and Inspection Service Operations Support Group (ISOSG) to the FTC pursuant to the *Memorandum of Understanding.* The dates below reflect best efforts estimates and may be revised by the mutual consent of the Postal Inspection Service and the FTC. All appropriate complaints transferred through this process will be made available to law enforcement users of Consumer Sentinel.

I *Phase I* Begin March 22, 2001 with a completion target of April 6, 2001.

FCS complaints with no loss specified dated between August 14, 2000 and the present cross-walked to the FTC.

II *Phase II* May 1, 2001 or sooner

1. "Alert" to be entered into Consumer Sentinel for all cases opened by the Inspection Service. This will reduce case overlap and duplicative efforts by outside agencies.

2. Written complaints with no loss specified will start being mailed from the ISOSG to the FTC. These complaints will be processed and entered according to the MOU. A response on joint Inspection Service/FTC letterhead will be sent.

III *Phase III* May 15, 2001

FCS complaints up to $3,000 per complaint cross-walked to the FTC.

IV *Phase IV* August 1, 2001 or best effort for sooner completion

FCS complaints over $3,000 cross-walked to the FTC. A note to contact an Inspection Service representative for information about the complaint will be placed in the comment field with the consumer's comments.

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APPENDIX D. MANAGEMENT'S COMMENTS

UNITED STATES POSTAL INSPECTION SERVICE

Deputy Chief Inspector
Headquarters Operations

February 24, 2003

Mr. Ronald D. Merryman
Acting Assistant Inspector General
For eBusiness
Office of the Inspector General
U.S. Postal Service
1735 N Lynn Street
Arlington, VA 22209-2020

Subject: Audit of the Inspection Service Fraud Against Business and Consumer Programs and the Customer Initiative Group (Report Number SA-AR-03)

The following comments are in response to your draft audit report, received January 16, 2003, on the Inspection Service Fraud Against Business and Consumer Programs and Customer Initiative Group (Business Mailing Industry Task Force). The audit commenced on December 19, 2001. The audit results report three areas for further consideration: (1) Fraud investigations closed with no action, (2) Fraud Complaint System redundancies, and (3) Lack of a measurement process for the Business Mailing Industry Task Force (BMITF). I will respond to each in the order presented.

Fraud Investigations Closed Without Action

Recommendation 1: Increase management's oversight of the case selection process and ensure the Inspection Service Manual is adhered to regarding fraud Allegations selected for investigation.

The ISM documents the fundamental operational and investigative processes and procedures of the agency. It serves as a basic reference manual and was never meant to replace the experience, expertise, and good judgment of postal inspectors. Inspectors are trained to draw upon their experience and that of their colleagues to determine whether to open an official investigation of a specific complaint or allegation. A number of factors are considered in making that determination including the availability of evidence or information indicating fraud, the attitude of the United States attorney's office in the judicial district regarding the federal prosecution of certain schemes, the egregious nature of the violation, and the likelihood of finding additional victims.

In many instances our investigations are initiated at the request of the federal prosecutors who become aware of a possible mail fraud, or at the request of Postal Service management. Another factor that may cause an inspector to open a case is if it appears we can successfully resolve the matter by intervention and use of our civil administrative authority. Any one or combination of these factors may lead an inspector to initiate a case. The decision must always be approved by the team leader or manager in charge. The

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team leader remains an appropriate level of authority and experience to approve such decisions.

Although division management and headquarters monitor trends in the number of cases closed without action, we do not discourage inspectors from pursuing potential fraud schemes merely because there are no assurances of a prosecution or that pursuing the matter will be difficult. Although every case opened does not result in a prosecution, most do, and many others reach a reasonable alternative resolution due to our pursuing the investigation. This is the nature of fraud investigations and of our law enforcement mission. Your audit reported 29 or 153 cases reviewed as being closed without action. Twenty-nine is a rather small number of cases and is not, in our opinion, disproportionate to the total of 153. To illustrate, of the 954 fraud cases we closed in FY 2002 alone, 79 percent (929) were closed with action while only 21 percent (251) were closed without action.

The one case you cite involving the vacation scheme being worked 260 hours, yet taking 675 before closure due to the "known attitude" of the United States attorney is not as noteworthy when you consider the nature of the average investigative workload. An inspector may open a case and only put a small amount of time in relative to the days the case was open. Many explanations exist, the most obvious being that upon opening a case the facts indicate a possible fraud to the extent further investigation was warranted. Gathering those facts may require agencies, business or individuals getting back with information which sometimes can take many days. The inspector is most likely working other cases during this "down" time, therefore showing less investigative hours. The information comes back with no indication of a fraud and the case is closed citing the "known attitude." Every inspector understands their performance evaluations are based in large part on the successful resolution of investigations, and so few will dwell on a case that is going nowhere, they will move on to where they can do the most good.

We believe that management oversight beginning at the team leader level, continuing with the inspector in charge, and on up through headquarters needs to be maintained at its current level of program review. However, we will not discourage individual initiative used in deciding whether to pursue an investigation or limit consideration to what is outlined in the ISM. In the final analysis, sometimes there is no certainty to "distinguish between evidence which points merely to a civil breach of contract from that which signals the existence of a fraudulent scheme." Inspectors must rely not only on their experiences and the ISM, but also on their "investigative sense" in differentiating between a poor business practice and a fraud. That "sense" is honed by experience and using an individual's innate ability.

Therefore, we disagree with Recommendation # 1 to increase management oversight beyond the level of team leader now in effect. The position of team leader is appropriately authorized to determine when information warrants further investigation for the reasons stated. We also disagree with the emphasis the recommendation places on using the Inspection Service Manual (ISM) more than relying upon "personal experiences and knowledge when selecting allegations to be investigated."

Fraud Complaint System (FCS) Redundancies

Recommendation #2 Devise and implement a plan to ensure the completion of the memorandum of understanding (MOU) between the Federal Trade Commission and the Inspection Service, which allows for the

diminished use of the Fraud Complaint System for response letters to complaints and temporary data storage for transfer to the Federal Trade Commission's Consumer Sentinel.

#3 Once implementation plans for the use of the Federal Trade Commission's Consumer Sentinel have been agreed to, determine the attributable cost avoidance for the Postal Service and report the same to the chief financial officer.

The Inspection Service has maintained a working partnership with the Federal Trade Commission (FTC) to combat consumer fraud. We have produced a number of successful national initiatives such as Project Know Fraud and the Cross-Border Fraud Task Force. A MOU to do just what you recommend in your audit was already in place for over a year before the audit began. During your audit and through the present time, we are modifying the MOU to allow for changes in technology and for the increased demands and priorities both agencies face that did not exist earlier. Both agencies are unified in this effort to the degree individual resources and responsibilities permit.

It is well-demonstrated that the Postal Inspection Service supports the concept of consolidating fraud complaints received by all agencies to better serve consumers and efficiently utilize resources. In fact, the current fraud staff at headquarters was first responsible for proposing the sharing initiative. However, the many divergent law enforcement organizations have different funding and appropriations requirements, as well as specific intelligence needs to fulfill their missions. Moreover, current technology will not allow the vision of one universal database to be realized in the near term, although we will continue to work toward that eventuality. The Inspection Service is one of only a few federal agencies committed to the concept at the present time.

Since the last meeting with your audit team on this issue, the Federal Trade Commission (FTC) advised us that they do not have the resources to process the 60,000 plus Postal Service fraud complaints we receive each year unless we fund them for that purpose. Our partnership with the FTC will continue to focus on better sharing of intelligence and analysis of complaints, leveraging resources for efficiencies and economies of scale with fraud prevention programs and enforcement initiatives. The primary strategy is to utilize the enforcement and regulatory powers of both agencies whenever beneficial. However, we do not agree that the FCS is a redundancy to Consumer Sentinel for the reasons I will explain.

The vast majority of FCS complaints received via mail or email pertain to low value losses that are not likely to be accepted for federal criminal prosecution unless they are shown to be part of an ongoing pattern of fraudulent activity. Some complaints may be attractive for civil administrative action by either the FTC, the Inspection Service, a state attorney general's office, or as part of a joint action by some or all of these agencies. Thus, there are many excellent reasons for us to share our complaint information with Consumer Sentinel and provide postal inspectors access to it.

Our responsibility to protect consumers using the mail, from fraud, does not allow us to discontinue or even diminish the role of the FCS for the foreseeable future. Individuals writing to the postmaster general, the USPS, or the Postal Inspection Service do so for only one reason - they believe they have been defrauded through the mail. Each complainant has an expectation and is entitled to a response from those responsible for enforcing postal law. If the Inspection Service did not respond via the FCS or some other means, the Postal Service would then need to address that responsibility in some other, yet similar

manner. If a complainant does not receive a timely response it is not uncommon for the matter to result in a congressional inquiry requiring further research and response to the complaint. Currently there is no satisfactory alternative to fulfill this responsibility as effectively as the FCS. It makes sound operational sense to maintain the FCS, as:

- It provides us the ability to log and categorize fraud intelligence information that is unique to the Postal Service.
- Cases have been initiated as a result of FCS information.
- Our civil administrative action program including voluntary discontinuances and the consumer complaint program (CCP) rely upon the FCS.
- The largest financial investment in the system is behind us and now we should see the return on investment for minimal additional investment.

We recognize there is a value in continuing to review our use of the FCS and identify areas for increasing its efficient application. Any movement towards decreasing our dependency on the FCS must be gradual and not disrupt the effective fulfillment of our fraud mission. The current process under the MOU with FTC calls for us to retain all complaints for a period of six months to allow time for inspectors to review them for possible investigation or to determine if they relate to ongoing investigations under different names. There are two compelling reasons for this policy: these complaints fall within our jurisdiction and it is our responsibility to determine if we can do something with them, and we need time to ensure that a particular complaint does not relate to other investigations prior to sharing with other agencies. Moreover, this process minimizes the possibility of any investigation being compromised by a unilateral action on the part of one agency without the knowledge of another engaged in the same investigation.

For the reasons given we intend to continue our current FCS strategy. Further, we believe the FCS enhances our ability to respond effectively to our traditional consumer fraud responsibilities as outlined in the Postal Service five-year plan. Therefore, we do not agree with your recommendation for us to conclude an agreement "which allows for the diminished use of the Fraud Complaint System for response letters to complaints" for the detailed reasons stated (Recommendation #2).

We are looking at possibilities such as implied in your audit where after the complaint data has been responded to, analyzed and shared with FTC, may then be deleted at some specified point. This would save data memory, increase system efficiencies, but will not, however, produce any cost savings (Recommendation #3). As explained above, we have a responsibility to respond to complaints we receive. In our MOU discussions it was clear that to transfer this responsibility to another entity still requires us to fund the work. We continuously seek to streamline the process, but ultimately it remains our responsibility and a cost of doing business.

Measurement Process for Business Mailing Industry Task Force (BMITF)

Recommendation #4: Devise and implement a process to measure and report the effectiveness of the Business Mailing Industry Task Force during FY 2004.

The Inspection Service was the driving force behind the creation of the Confidence in the Mail initiatives. During the early years the group's focus was on the actual reduction in mail losses from theft and fraud through sharing best practices and information. Success came slowly as many of these businesses competed against one another and so sharing

strategies, even relating to security was unprecedented for most. The benefits of the initiative became evident early through better information-sharing and enhanced communications among the business mailers and law enforcement. However, a quantifiable, objective measurement seemed illusive. Measurement was addressed at several of the meetings and later when the Inspection Service formed a separate working group just to identify a means to measure the success of the initiative and explore future strategic application for the Postal Service. Although a number of proposals were made, the BMITF did not agree to endorse any of them at the time, nor did they disagree, and the matter was tabled.

We can certainly point to the tangible accomplishments such as the Best Practices Manuals, establishment of the shared databases, and better communications that has led to speedier detection and apprehension of criminals. We can qualify the groups accomplishments, but no procedure has been identified that all members can agree will enable us to quantify successes.

Since the initial goal of the Confidence in the Mail Initiative (now the BMITF) read "to decrease fraud and mail losses in measurable terms," we do not disagree with your conclusion regarding the importance of measuring its effectiveness. However, as we pointed out during the audit, this concept has been long a part of our strategy for the initiative and we have to question why you offered such a recommendation to be completed by the end of FY 2004. The Inspection Service is committed to the idea of identifying a means to measure the success of this group but cannot act independently. We believe, as we did when we first formed a separate working group to identify a means to measure the success of the initiative, that it makes good business sense to do so. The Inspection Service will continue to reintroduce this issue through our representatives on the BMITF. Whether it can be accomplished by the end of FY 2004 is unknown, as any measurement system must be agreed to by the governing board of the BMITF. Therefore, we can not agree with your recommendation (Recommendation #4) as stated.

If you have any questions or require further explanation please contact Inspector in Charge Larry Maxwell at (202) 268-5015 or Assistant Chief Inspector Andy Clemmons at (202) 268-5445.

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Deputy Chief Inspector

cc: Ms. Stroud
Mr. Thompson