

September 29, 2000

KENNETH C. WEAVER
CHIEF POSTAL INSPECTOR

SUBJECT: Transmittal of Audit Report – Review of the United States Postal
Inspection Service Budget Process (Report Number OV-AR-00-005)

This report presents the results of our audit of the Postal Inspection Service budget process (Project Number 00CA001OV000). Our objective was to evaluate the effectiveness of the Inspection Service's budget process. This report addresses our review of the planning and formulation of the Inspection Service's annual budget and is the first in a series of reports addressing the Inspection Service budget process. Follow-on reports will address the execution of the Inspection Service's annual budget and personnel staffing requirements.

The audit disclosed that Inspection Service management instituted a process for planning and formulating the Inspection Service's annual budget. However, the audit also disclosed that the Inspection Service budget process could be improved. Specifically, Inspection Service management did not link the Inspection Service's budgetary resources to performance-related goals and functions.

Management provided comments to the report and agreed with our recommendations. Management's comments and our evaluation are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact Cathleen Berrick, director, Oversight, or me at (703) 248-2300.

Debra D. Pettitt
Acting Assistant Inspector General
for Oversight and Business Evaluations

Attachment

cc: James K. Belz
John R. Gunnels

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	
Background	1
Objective, Scope, and Methodology	3
Part II	
Audit Results	4
Budget Process	4
Recommendations	9
Management's Comments	9
Evaluation of Management's Comments	10
Appendix. Management's Comments	17

EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of the planning and formulation of the Inspection Service's annual budget and is the first in a series of reports addressing the Inspection Service budget process. Follow-on reports will address the execution of the Inspection Service's annual budget and personnel staffing requirements. Our overall objective was to evaluate the effectiveness of the Inspection Service's budget process. Specifically, we evaluated the process used to plan and formulate the Inspection Service's annual administrative operating budget.

Results in Brief

Our audit disclosed that Inspection Service management instituted a process for planning and formulating the Inspection Service's annual budget. However, the audit also disclosed that the Inspection Service budget process could be improved. Specifically, Inspection Service management did not link the Inspection Service's fiscal year 2000 budgetary resources to performance-related goals and functions. This occurred because Inspection Service management did not establish a process for annually determining the Inspection Service's personnel requirements and for allocating these resources by location.

In addition, Inspection Service management did not prepare a strategic plan and annual performance plan in accordance with the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, Sections 2802 and 2803. Further, Inspection Service management did not issue a written request for estimated operating expenses with additional instructions to field divisions when planning and formulating the Inspection Service's annual administrative operating budget. Finally, management controls were not adequate to ensure that Inspection Service budgetary resources were linked to performance-related goals and functions. As a result, there is an increased risk that the Inspection Service may not be providing an appropriate level of service to all of its customers.

**Summary of
Recommendations**

We recommend that the chief postal inspector establish a process for annually assessing personnel requirements and allocating resources; prepare strategic plans and annual performance plans in accordance with the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code; and issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual budget.

**Management's
Comments**

The deputy chief inspector, Professional Standards and Resource Development, agreed with the recommendations and identified the following corrective actions.

- Although assessing personnel requirements and allocating resources requires a continuous assessment, the Inspection Service will endeavor to strengthen their current processes through an expanded program management function and the allocation of resources based on strategic direction.
- The Inspection Service will prepare future updates to the strategic plan that fully cover the five-year planning period and identify the resources required to meet goals and objectives.
- The Inspection Service will prepare an annual performance plan that allocates resources based on performance-related goals and functions.
- The Inspection Service will issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual administrative operating budget.

The deputy chief inspector provided additional comments on several report statements. Management's comments, in their entirety, are included in an Appendix of this report.

**Overall Evaluation of
Management's
Comments**

Management's comments were responsive to the recommendations. We believe that the corrective actions identified by management will help ensure that budgetary resources are linked to performance-related goals and functions.

INTRODUCTION

Background

The Postal Inspection Service is responsible for ensuring the integrity of the mail and Postal Service by providing investigative, security, and preventive services, and by enforcing federal statutes that protect the mail, postal employees, customers, and assets. To meet its wide-ranging responsibilities, the Inspection Service has a complement of 4,373 employees of which approximately 2,079 are postal inspectors, 1,446 are postal police officers, and 848 are support personnel.¹ The Inspection Service is comprised of a headquarters, 18 field operations divisions with subordinate domiciles, 5 operations support groups, and 5 forensic laboratories.

The Inspection Service's annual administrative operating budget reflects the Inspection Service's operating plan in quantitative terms of dollars required to accomplish its goals in all functional areas. The budget is the Inspection Service's primary operational planning and control tool.

At the beginning of fiscal year (FY) 2000, the Inspection Service's administrative operating budget was \$472.3 million. The budget included personnel costs of \$390.1 million and nonpersonnel costs of \$82.2 million. During FY 2000, the Inspection Service's personnel budget was reduced by \$4.5 million and its nonpersonnel budget was reduced by \$4.4 million in support of the Postal Service's management challenge and general reductions.

Budget Process

The Inspection Service Manual identifies the process to be used to plan, formulate, and execute the Inspection Service's annual administrative operating budget. The Inspection Service Manual requires that all levels of management be involved in the budget process due to its impact on all operating levels, activities, and planning. The Inspection Service's annual administrative operating budget process consists of the preparation, authorization, and control phases:

- **Preparation Phase.** Prior to the beginning of the fiscal year, Postal Service Finance and Administrative Services group officials issue the annual budget call to

¹Inspection Service complement figures as of April 21, 2000.

the chief postal inspector requesting estimated operating expense requirements for the Inspection Service for the next two fiscal years and capital investment plan for the next five fiscal years. The chief postal inspector issues a budget call with additional instructions to Inspection Service division and Operations Support group management.

- **Authorization Phase.** At the beginning of the fiscal year, the chief postal inspector provides each division and operations support group an authorized budget against which expenditures are made. Division and operations support group management may not exceed their authorized budgets unless they obtain prior approval. Readjustments to the authorized budget generally occur during mid-year, after accounting period 6 of the fiscal year.²
- **Control Phase.** Inspection Service officials at each division use the Budget Tracking System to monitor and control expenditures made against the authorized budget. Inspection Service officials at each division further monitor the division's financial performance as indicated in the Accounting Period Budget Status Report.

Government
Performance and
Results Act of 1993

The Government Performance and Results Act of 1993 was enacted to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. Title 39 of the U.S. Code, Sections 2802 and 2803, set forth Postal Service requirements related to the Government Performance and Results Act of 1993. Specifically, Title 39 requires the Postal Service to develop a strategic plan in which they define their mission, establish results-oriented goals, and identify the strategies they will use to achieve those goals for not less than a five-year period. Postal Service officials are required to update this plan every three years. Title 39 further requires that the strategic plan provide a description of the operational processes, skills, and technology, and human capital information, and other resources required to meet goals and objectives.

²An accounting period is a four-week period that forms one thirteenth of a Postal Service fiscal year. Accounting period 6 covered the period January 29, 2000, through February 25, 2000.

The Postal Service is also required to develop an annual performance plan to establish a link between budget requests and performance planning efforts. Title 39 requires that the annual performance plan:

- Identify annual performance goals and measures for each of the Postal Service's program activities.
- Discuss the strategies and resources needed to achieve the performance goals.
- Explain the procedures the Postal Service will use to verify and validate its performance data.

**Objective, Scope, and
Methodology**

Our overall objective was to evaluate the effectiveness of the Inspection Service's budget process. Specifically, we evaluated the process used to plan and formulate the Inspection Service's annual administrative operating budget. The audit was conducted from February through September 2000 in accordance with generally accepted government auditing standards. We reviewed management controls over the budgeting process as they relate to the audit objective.

To accomplish our objective, we interviewed personnel at Postal and Inspection Service headquarters concerning the planning and formulation of the Inspection Service's FY 2000 annual administrative operating budget. We also judgmentally selected 10 of 18 Inspection Service field divisions and interviewed managers, inspectors, and support personnel concerning their role in the budget process. We reviewed the FY 2000 administrative operating budget, Inspection Service Manual, Inspection Service Level of Service Review, Inspection Service Strategic Plan, division Budget Tracking System reports, Inspection Service Database Information System reports, staffing levels, division reports, and the Government Performance and Results Act of 1993.

We discussed our conclusions and observations with appropriate management officials and included their comments where appropriate.

AUDIT RESULTS

Budget Process

Inspection Service management instituted a process for planning and formulating the Inspection Service's annual budget. However, the Inspection Service budget process could be improved. Specifically, Inspection Service management did not link the Inspection Service's budgetary resources to performance-related goals and functions. This occurred because Inspection Service management did not establish a process for annually determining the Inspection Service's personnel requirements and for allocating these resources by location.

In addition, Inspection Service management did not prepare a strategic plan and annual performance plan in accordance with the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, Sections 2802 and 2803. Further, Inspection Service management did not issue a written request for estimated operating expenses with additional instructions to field divisions when planning and formulating the Inspection Service's annual administrative operating budget. Finally, management controls were inadequate to ensure that Inspection Service budgetary resources were linked to performance-related goals and functions. As a result, there is an increased risk that the Inspection Service may not be providing an appropriate level of service to all of its customers.

Linkage of Budgetary Resources to Goals and Functions

Inspection Service management did not link the Inspection Service's FY 2000 annual administrative operating budget to performance-related goals and functions. Rather, Inspection Service management based the Inspection Service's annual administrative operating budget on prior years' funding levels. In addition, Inspection Service management did not perform a comprehensive review of Inspection Service personnel requirements and assumed that the Inspection Service's current authorized complement was correct. As a result, Inspection Service management developed the Inspection Service's personnel budget based on the current on-board complement plus or minus anticipated gains or losses for FY 2000. Inspection Service management further allocated nonpersonnel costs based on previous year's expenses minus Postal Service mandated reductions, rather than current performance-related goals and functions.

Determination of
Inspection Service
Personnel Needs and
Allocations

Inspection Service management did not establish a process for annually determining the Inspection Service's personnel requirements and for allocating these resources by location. Specifically, Inspection Service management did not establish a process to determine annually whether the Inspection Service was operating under the appropriate staffing levels and mixture of positions, and whether staff was appropriately allocated among the headquarters and field operating units.

Inspection Service management conducted their most comprehensive study of inspector staffing requirements in 1994. However, this study did not fully assess Inspection Service staffing requirements. Specifically, officials conducting the study assumed that the overall complement of inspectors was correct and only assessed the allocation of inspectors among the Inspection Service divisions. Inspection Service management conducted additional staffing studies addressing various Inspection Service positions, duties, and functions. However, these studies either did not assess all Inspection Service positions or did not reflect recent changes affecting the organization.

Significant changes have occurred that should have impacted Inspection Service personnel requirements and allocations resulting in the need for redeployment of personnel, such as:

- **Creation of the Postal Service Office of Inspector General (OIG).** The creation of the Postal Service OIG in 1997 resulted in a redesignation of selected investigative functions from the Inspection Service to the OIG. In addition, Inspection Service management decided to divest the Inspection Service of all audit functions. These audit functions were subsequently transferred to the OIG. Although Inspection Service management agreed to reduce positions due to the creation of the OIG and divestiture of their audit function, Inspection Service management has not conducted a study to reassess their staffing requirements since 1994, three years before the OIG was created.
- **New Products and Services.** New products and services such as the Point-of-Service ONE, an electronic

retail sales device, as well as other highly automated systems, challenge the Inspection Service to provide enhanced internal security for automated environments, and protect new technologies from criminal attack.

- **Computers and Technology.** Computer enabled crime is rising and criminals have an increasingly sophisticated understanding of the capabilities of technology to assist them in their efforts to steal postal revenue and defraud postal consumers.
- **Population Demographics and Crime Trends.** The United States population is shifting from the older urban areas to the Western and Sunbelt states. In addition, Inspection Service management estimates that there will be a geographic shift in crime in the future. Specifically, crimes will be less neighborhood orientated and will increase more quickly in the Western and the Sunbelt states than in older urban centers.³

Considering these factors, there is an increased risk that the Inspection Service may not be operating under the appropriate staffing levels and mixture of positions, and may not be appropriately allocating staff.

Strategic and Annual
Performance Plans

As a Postal Service program activity, Inspection Service management identified their commitment to fulfilling the requirements of the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, Sections 2802 and 2803. Specifically, Title 39 of the U.S. Code, Sections 2802 and 2803, require that the Postal Service develop a strategic plan and annual performance plan to assist in strategic planning and performance management. In support of this effort, Inspection Service management identified, in their FY 1999 Annual Report of Investigations and FY 1998 through FY 2002 strategic plan, requirements of the Government Performance and Results Act of 1993 affecting the Inspection Service and their commitment to fulfilling those requirements.

Although the Inspection Service identified their commitment to fulfilling the requirements of the Government Performance and Results Act of 1993, as set forth in

³ United States Postal Inspection Service Strategic Plan, FY 1998 – 2002.

Title 39 of the U.S. Code, Inspection Service management did not prepare a strategic plan that covered the five-year planning period. In addition, Inspection Service management did not link the strategic plan to the Inspection Service budget by identifying resources required to meet goals and objectives.⁴ Specifically, as reported in the Inspection Service's FY 1999 Annual Report of Investigations, the FY 1998 through FY 2002 strategic plan did not completely cover the five-year planning period. For example, many of the targets were developed for only a two-year period and links between goals and all Inspection Service projects were not clearly established. More importantly, the FY 1999 Annual Report of Investigations identified that the strategic plan was not tied to the Inspection Service budget.

Furthermore, Inspection Service management did not prepare an annual performance plan in accordance with Title 39 of the U.S. Code. Although Inspection Service management prepared a FY 1998–2002 strategic plan, management did not prepare an annual performance plan that described (1) human and other resources needed and (2) how it proposed to align the Inspection Service's resources with its activities to support mission-related outcomes. Rather, the Inspection Service's annual plan was a one-page document that listed only goals, indicators, and targets.⁵ To develop a performance plan in accordance with Title 39 and the Government Performance and Results Act of 1993, Inspection Service management must allocate resources based on performance-related goals and functions.

Written Request for
Estimated Operating
Expenses

Inspection Service management did not issue a written request for estimated operating expenses with additional instructions to field divisions when planning and formulating the Inspection Service's annual administrative operating budget, as required by Inspection Service Policy. Specifically, Inspection Service management provided divisions with a nonpersonnel funding authorization based on prior year's funding levels. Inspection Service management did not provide field division management the

⁴ We did not assess whether the Inspection Service's efforts, including the development of a strategic plan, were appropriately incorporated into the Postal Service's efforts in support of Title 39 of the U.S. Code, Sections 2802 and 2803. The OIG will assess this incorporation during a future review.

⁵ Inspection Service management prepared and implemented action plans to achieve goals and targets.

opportunity to identify formally current requirements from which to base budget allocations. As a result, changes in division requirements, such as the addition of domiciles and reduction in travel requirements due to the loss of audit functions, were not fully considered in the planning and formulation of the divisions' operating budgets. Inspection Service headquarters management identified that they contacted division management to obtain verbal input for the budget but did not issue a written request for estimated operating expenses due to time constraints imposed by the Postal Service.

Management Controls	Management controls over the planning and formulation of the Inspection Service's annual administrative operating budget did not ensure that budgetary resources were linked to performance-related goals and functions. Specifically, management controls did not exist to ensure Inspection Service management annually determined the Inspection Service's personnel requirements and allocations, and developed a strategic plan and performance plan in accordance with the Government Performance and Results Act of 1993. In addition, established management controls, such as budget preparation policy identified in the <u>Inspection Service Manual</u> , were not effective in ensuring that Inspection Service management issue a written request for estimated operating expenses to field division management when planning and formulating the annual administrative operating budget.
---------------------	---

Level of Service to Customers	There is an increased risk that the Inspection Service may not be providing an appropriate level of service to all of its customers. The environment in which the Inspection Service operates has changed significantly in recent years. Accordingly, the needs of Inspection Service customers have also changed. Specifically, new products and services, technological advances, and population and crime shifts have affected customer requirements. In addition, the creation of the Postal Service OIG, which resulted in a redesignation of selective investigative functions, and the Inspection Service's divestiture of their audit function, has further impacted staffing requirements. However, Inspection Service management has not conducted a recent, comprehensive review of personnel requirements and allocations to reflect these changes. As a result, Inspection Service management may not be assured that
-------------------------------	--

the Inspection Service is providing the appropriate level of service to all Inspection Service customers.

Federal Law
Enforcement Strategic
Planning Model

Inspection Service management is in the process of developing and implementing a federal law enforcement strategic planning model to assist in strategic planning. Specifically, Inspection Service management hired a consultant to conduct a law enforcement environmental analysis in accordance with industry standards and identify strategic priority issues. The effort is scheduled to be completed in March 2001. We believe that this is a good initial step in identifying and prioritizing the Inspection Service's strategic requirements. However, we believe that additional efforts, such as a comprehensive personnel requirements and allocation study, development of an annual performance plan, and increased involvement of division management in the budget planning and formulation process, is required to provide assurance that the Inspection Service is providing an appropriate level of service to all of its customers.

Recommendation

We offer the following recommendations.

The chief postal inspector should:

1. Establish a process for annually assessing personnel requirements of each organizational element and allocate resources based on the relative priority of mission and functions.

**Management's
Comments**

The deputy chief inspector, Professional Standards and Resource Development, stated that the Inspection Service would endeavor to strengthen their current processes for establishing personnel requirements and allocating resources through an expanded program management function and the allocation of resources based on strategic direction. The deputy chief inspector further identified that Inspection Service resource requirements are assessed on a continuous basis and include consideration of the Inspection Service's mission, goals, stakeholder input, customer feedback, postal crimes, and other factors.

Evaluation of Management's Comments	Management's comments are responsive to our recommendation. We agree that an assessment of personnel requirements should be done on a continual basis. However, we also believe that the Inspection Service should annually assess personnel requirements to ensure that organizational changes impacting staffing are systematically considered and incorporated into the budgeting process.
Recommendation	2. Prepare future updates to the strategic plan that fully cover the five year planning period and identify the resources required to meet goals and objectives.
Management's Comments	The deputy chief inspector agreed with our recommendation and stated that Inspection Service management is preparing a new strategic plan for FY 2001-2006 that will include the Inspection Service's sustaining work and identify required budgetary resources. The deputy chief inspector further stated that the Inspection Service hired a consultant to help the Inspection Service renew its strategic focus.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation. The Inspection Service's efforts to revise their strategic plan and renew their strategic focus should help ensure the achievement of organizational goals and objectives.
Recommendation	3. Prepare an annual performance plan that allocates resources based on performance-related goals and functions.
Management's Comments	The deputy chief inspector agreed with our recommendation and stated that the Inspection Service will prepare an annual performance plan that allocates resources based on performance-related goals and functions. The deputy chief inspector also added that the one page document referenced in the report that listed goals, indicators, and targets was not intended to be a performance plan.

Evaluation of Management's Comments	Management's comments are responsive to our recommendation. Inspection Service officials identified during the audit that the one page document listing goals, indicators, and targets was the Inspection Service's annual performance plan.
Recommendation	4. Issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual administrative operating budget.
Management's Comments	The deputy chief inspector agreed with our recommendation and stated that the Inspection Service will issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual administrative operating budget. The deputy chief inspector further identified that although time constraints prevented management from requesting written budget estimates during the FY 2000 budget process, management consulted with field divisions to obtain associated input. The deputy chief inspector also stated that the Inspection Service issued written requests for estimated operating expenses and associated instructions to field division management during the FY 2001 budget process.
Evaluation of Management's Comments	<p>Management's comments are responsive to our recommendation. In addition, management's written requests for estimated operating expenses to division management during the FY 2001 budget process should help ensure that division changes are fully considered during the planning and formulation of the Inspection Service's operating budget.</p> <p>We identified in the report that Inspection Service management cited time constraints imposed by the Postal Service as a reason for not issuing written requests for estimated operating expenses. We further identified that headquarters management contacted division officials to obtain verbal input for the budget. However, we believe that management should have anticipated their annual budgeting requirement and planned accordingly to ensure that written requests for estimated operating expenses were</p>

issued as required. The issuance of written requests for estimated operating expenses would help ensure that division officials had the opportunity to fully consider and communicate division requirements in support of headquarters' budgeting efforts.

**Additional
Management
Comments**

The deputy chief inspector provided additional comments on several report statements and conclusions. These comments and our evaluation of the comments are summarized below.

The deputy chief inspector stated that the report did not list which management controls were inadequate and, therefore, management could not respond in a specific manner. However, the deputy chief inspector pointed out that the Inspection Service maintains an electronically accessible management tracking system that identifies organizational progress toward annual strategic improvement goals and targets. The deputy chief inspector further added that the Inspection Service uses additional program management tools to monitor overall performance and plans on strengthening and expanding their program management capacity during FY 2001.

**Evaluation of
Management's
Comments**

We identified in the report that management controls, specifically budget preparation policy identified in the Inspection Service Manual, were not effective in ensuring that Inspection Service management issue a written request for estimated operating expenses to field division management when planning and formulating the annual administrative operating budget. The additional controls identified by management are not directly related to the issuance of written requests for estimated operating expenses. However, these controls, as well as plans to strengthen these controls, should help ensure that budgetary resources are linked to performance-related goals and functions.

**Management's
Comments**

The deputy chief inspector disagreed with our conclusion that there is an increased risk that the Inspection Service may not be providing an appropriate level of service to all of its customers. The deputy chief inspector stated that our report contained no risk assessment data nor any stakeholder or customer input to support this conclusion. The deputy chief inspector further stated that the law enforcement environment is dynamic and somewhat controlled by reactionary forces.

**Evaluation of
Management's
Comments**

We continue to believe that because Inspection Service management did not link the Inspection Service's budgetary resources to performance-related goals and functions, there is an increased risk that management may not be providing an appropriate level of service to all of its customers. Although we did not conduct a risk assessment of the issues identified in the report and their affect on customer service, we believe that the issues identified, including the lack of a strategic plan an annual performance plan that complied with the Government Performance and Results Act of 1993 and lack of a written request for estimated operating expenses, increase the likelihood that the appropriate level of service may not be provided. In addition, management's assertion that the law enforcement environment is dynamic and somewhat controlled by reactionary forces further stresses the importance that budgetary resources, whenever possible, be linked to performance-related goals and functions.

**Management's
Comments**

The deputy chief inspector stated that although budgetary linkages to performance-related goals and functions may not have been clearly articulated, Inspection Service management committed administrative operating budgets to achieving such goals. The deputy chief inspector further stated that a dollar-for-dollar linkage between specific operating costs and performance-related goals and functions is not wholly possible since certain costs support multiple goals and functions. Finally, the deputy chief inspector added that management is capable of segregating inspector work hours by function each month, thereby linking resource commitments associated with each investigation and preventive function.

**Evaluation of
Management's
Comments**

Although Inspection Service management committed administrative operating budgets to achieving their overall goals, the linkage between the budget and specific goals and functions were not clearly established. We agree that a dollar-for-dollar linkage between specific costs, goals, and functions may not be possible or practical. However, an attempt must be made to establish linkages, as set forth in the Government and Performance and Results Act of 1993, under Title 39, to ensure organizational goals and objectives are appropriately budgeted for and met.

Segregating work hours by function establishes a linkage with investigations and preventive functions after those investigations and functions have been conducted. Linking work hours to functions after the functions have occurred, unless used as historical data for future planning, does not directly support the need for resource linkages during the planning and formulation of the annual budget.

**Management's
Comments**

The deputy chief Inspector stated that as a result of the Inspection Service's 1994 staffing study, a staffing baseline was established. Furthermore, with rare exception, the locations identified as understaffed in the study received additional staffing. The deputy chief inspector further stated that with rare exception, support staffing was increased to reflect a 1993 internal study. The deputy chief inspector also stated that the report did not identify a comprehensive security force analysis conducted in 1997 or identify specific benefits to be derived from simultaneously assessing all Inspection Service positions.

**Evaluation of
Management's
Comments**

Although the intent of the Inspection Service's 1994 staffing study was to establish a baseline for inspector staffing, Inspection Service officials identified that recommendations resulting from the study were not fully implemented. In addition, the report recognized that Inspection Service management conducted additional staffing reviews addressing various Inspection Service positions, duties, and functions. However, these reviews, including the 1993 support staff study and 1997 security force analysis, either did not reflect current organizational changes due to the timeframe during which they were conducted or did not include all Inspection Service positions. We believe that personnel requirements must be annually assessed and

allocated as part of the budgeting process. However, we do not believe, and did not identify in the report, that all Inspection Service positions must undergo a detailed assessment simultaneously. We referenced Inspection Service staffing studies to identify that the lack of a recent, comprehensive staffing review further stresses the need for an annual assessment of personnel requirements during the budgeting process.

**Management's
Comments**

The deputy chief inspector stated that the Inspection Service has responded to the significant changes affecting the organization that were identified in the report. Specifically, management identified a reduction of 245 positions as a result of the creation of the OIG, created Computer Crimes and Digital Evidence Units, and provided training in computer searches and internet investigations. The deputy chief inspector further stated that changes in population demographics did not necessarily parallel the existence of Postal crimes or Inspection Service workload.

**Evaluation of
Management's
Comments**

We agree that the Inspection Service has identified staffing reductions due to the creation of the OIG. However, we believe that the significant impact that the creation of the OIG has had on the Inspection Service, as well as continual changes affecting both organizations such as the revised designation of functions, warrants a comprehensive review and continual assessment.

The creation of the Computer Crimes and Digital Evidence Units and associated training should help the Inspection Service meet future challenges. However, the Inspection Service FY 1998 through FY 2002 strategic plan identified that computers and technology, new products and services, and population demographics and crime trends will continue to be challenges for the Inspection Service in the future. As a result, we believe that these areas should continually be reviewed and their impact on the Inspection Service, to include staffing requirements, assessed. We plan to conduct a separate review of Inspection Service staffing requirements, to include a review of significant changes affecting the organization, during FY 2001.

**Management's
Comments**

The deputy chief inspector stated that the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, requires compliance by the Postal Service rather than the Inspection Service. The deputy chief inspector stated, however, that the Inspection Service fully supports the intent of the Government Performance and Results Act and has endeavored to apply its principles within the Inspection Service as sound management practices.

**Evaluation of
Management's
Comments**

We agree, as identified in the report, that Title 39 of the U.S. Code requires the Postal Service, rather than the Inspection Service, to develop a strategic plan and annual performance plan in accordance with the Government Performance and Results Act of 1993. We further agree, and identified in the report, that as a Postal Service program activity, Inspection Service management identified their commitment to fulfilling the requirements of the Government Performance and Results Act in their FY 1999 Annual Report of Investigations and FY 1998 through FY 2002 strategic plan. We continue to assert that compliance with the Government Performance and Results Act of 1993 is a Postal Service requirement. However, we believe that the Inspection Service, due to their public commitment and reference to the Government Performance and Results Act, should comply with the Act's requirements.

APPENDIX. MANAGEMENT'S COMMENTS



UNITED STATES POSTAL INSPECTION SERVICE

PROFESSIONAL STANDARDS AND RESOURCE DEVELOPMENT

September 26, 2000

DEBRA D. PETTITT
ACTING ASSISTANT INSPECTOR GENERAL
FOR OVERSIGHT AND BUSINESS EVALUATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Audit Report – Review of the United States Postal Inspection Service
Budget Process (Report Number OV-AR-00-Draft)

This memorandum responds to the above subject draft report that presented the results of your review of the planning and formulation of the Inspection Service's annual budget. The report was identified as the first in a series of reports addressing the Inspection Service budget process. Your draft also indicated that follow-on reports would address the execution of the Inspection Service's annual budget and personnel staffing requirements. According to your report, the overall objective was to evaluate the effectiveness of the Inspection Service's budget process. Specifically, the report stated the audit evaluated the process used to plan and formulate the Inspection Service's annual administrative operating budget.

As a result of the review, it was recommended that the chief postal inspector establish a process for annually assessing personnel requirements and allocating resources; prepare strategic plans and annual performance plans in accordance with the Government Performance and Results Act (GPRA) of 1993, as set forth in Title 39 of the U.S. Code; and issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual budget.

Your report stated that Inspection Service management instituted a process for planning and formulating the Inspection Service's annual budget, however, the Inspection Service budget process could be improved. Specifically, your report advised that Inspection Service management did not link the Inspection Service's budgetary resources to performance-related goals and functions. Your report further stated that this occurred because Inspection Service management did not establish a process for annually determining the Inspection Service's personnel requirements and for allocating these resources by location. The Inspection Service did not document its short and long-term budgetary resource needs in its FY 1998-

- 2 -

2002 Strategic Plan inclusive of goals, strategies, indicators, and targets for improvement. During FY 1999, we recognized that in our Strategic Plan, we had not linked our resource needs to our goals in the document. We published this opportunity for improvement in our 1999 Annual Report of Investigations. Our resource requirements are currently assessed on a continuous basis and include consideration of our mission, goals, stakeholder input, customer feedback, postal crimes, business environment, division local conditions, Inspection Service management qualitative assessments, and external trends. Because the law enforcement environment is dynamic and somewhat controlled by reactionary forces, resource shifts cannot be limited to an annual review. Moreover, during FY 2000, Inspection Service management engaged in a comprehensive effort to formulate a long-term strategic direction by identifying our strengths, weaknesses, opportunities, and threats. This effort included obtaining the services of a consultant specializing in federal law enforcement strategic planning with clients such as the Federal Bureau of Investigation and the Drug Enforcement Administration. The result has been a renewed strategic focus that will encompass strategic operational and support goals including cross-cutting issues. Budget was identified as one of the significant cross-cutting issues requiring renewed focus.

In addition, you also reported Inspection Service management did not prepare a strategic plan and annual performance plan in accordance with the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, Sections 2802 and 2803. Inspection Service management prepared and published a strategic plan for FY 1998-2002, which met much of the intent of the Government Performance and Results Act of 1993 though there are opportunities for improvement in our future plans. Your statement was not specific in asserting what aspect of GPRA was not accorded attention by the Inspection Service. We are currently developing a new strategic plan for FY 2001-2006 consistent with the three-year update GPRA requirement. The new plan will include our sustaining work and document the required budgetary resources to perform all work.

Further, your report stated that Inspection Service management did not issue a written request for estimated operating expenses with additional instructions to field divisions when planning and formulating the Inspection Service's annual administrative operating budget. It should be noted that Inspection Service headquarters tracks and annually budgets fixed nonpersonnel and personnel operating costs for the divisions as well as capital expenditures. Inspection Service management did not issue a written request for variable nonpersonnel operating expenses to the field divisions when planning and formulating the FY 2000 fiscal budget. The FY 2001 budget process does include a written request and instructions to the field divisions per internal policy and past practices.

Additionally, according to the report, management controls were inadequate to ensure that Inspection Service budgetary resources were linked to performance-related goals and functions. The report did not elaborate on what management

- 3 -

controls were considered inadequate. Therefore, it is difficult to respond in a specific manner. However, the Inspection Service maintains an electronically accessible management tracking system that identifies organizational progress toward annual strategic improvement goals and targets. Resource adjustments are made when warranted by local division management overseen by the deputies of field operations. Additionally, other program management tools are used to monitor overall performance, including sustaining work. It is anticipated that our program management capacity will be strengthened and expanded during FY 2001. We will evaluate expanding our management tracking system to include sustaining work and perhaps cross-cutting support functions.

Your report further indicated that as a result of the inadequacy of management controls undefined by the report, there is an increased risk that the Inspection Service may not be providing an appropriate level of service to all of its customers. Since the report contains no risk assessment data nor any references to stakeholder or customer input to substantiate this inference, this statement appears to be unsupported and questionable, and should therefore be omitted from the report absent empirical validation.

Inspection Service management did not link the Inspection Service's FY 2000 annual administrative operating budget to performance-related goals and functions according to the report. Rather, Inspection Service management based the Inspection Service's annual administrative operating budget on prior years' funding levels per your audit. Your report failed to acknowledge there are certain fixed and recurring costs, e.g. rent, leasing, depreciation, information systems infrastructure costs, radio communications associated costs, etc., that occur year to year and are inherent in administrative operating budgets. Furthermore, though linkages may not have been clearly articulated in reviewed source documents, in order to achieve published improvement goals, Inspection Service management necessarily committed administrative operating budgets to achieving such goals, in addition to incurring the costs associated with sustaining work. A dollar-for-dollar linkage between specific operating costs and specific performance-related goals and functions is not wholly possible since certain costs support multiple goals and functions. Inspection Service management is capable of segregating inspector work hours by function each month, thereby identifying (linking) resource commitments associated with each investigative (sustaining and improvement work) and preventive function, and management can segment costs associated with security force functions. Cross-cutting functions are less susceptible to segmentation and linkage to individual goals. Your report further advised that Inspection Service management did not perform a comprehensive review of Inspection Service personnel requirements and assumed that the Inspection Service's current authorized complement was correct. The term comprehensive review was not defined nor explained in detail and we question the basis for your reference to an assumption on the part of Inspection Service management relative to the issue of complement. As previously articulated, Inspection Service management considers multiple factors on

- 4 -

a continuous basis to determine human resource needs. Resource shifts are generally accomplished through the deployment of new hires, requested transfers, and attrition. In our attempt to be fiscally responsible and serve our customers, we also endeavor to use National Guard and contract personnel, etc., where warranted and as appropriate. Additionally, we continue to leverage partnerships with organizations such as the Council of Better Business Bureaus, American Association of Retired Persons (AARP), and the National Center for Missing and Exploited Children (NCMEC), etc., to accomplish our mission and goals. Inspection Service management developed the Inspection Service's personnel budget based on management's assessment of the resources needed to accomplish its mission and goals while also performing work to be transitioned to the office of Inspector General. We considered the average miscellaneous attrition rate, projected retirements, and complement reductions stemming from the transfer of work to the Inspector General. Inspection Service management allocated FY 2000 nonpersonnel operating budgets based in large part on FY 1999 expenses, including costs directly supporting performance-related goals and functions, e.g., contract fraud analysts for OWCP related work, contract personnel at the Memphis ISOSG to support USPS personnel security clearances, etc.

According to your report, Inspection Service management did not establish a process for annually determining the Inspection Service's personnel requirements and for allocating these resources by location. Specifically, your report stated Inspection Service management did not establish a process to annually determine whether the Inspection Service was operating under the appropriate staffing levels and mixture of positions, and whether staff was appropriately allocated among the headquarters and field operating units. As indicated previously, management's assessment is continuous.

Your report also stated Inspection Service management conducted their most comprehensive study of inspector staffing requirements in 1994. However, you advised this study did not fully assess inspector staffing requirements. Specifically, your report asserts that officials conducting the study assumed that the overall complement of inspectors was correct and only assessed the allocation of inspectors among the Inspection Service field divisions. You failed to report that as a result of the 1994 study, a staffing baseline was established. Furthermore, with rare exception, locations determined to have been understaffed, received additional inspector staffing. Staffing reductions indicated by the quantitative methods statistical analysis portion of the 1994 study were not fully implemented due to qualitative measures which were also integral to the study. Likewise, with rare exception, support staffing was increased to reflect a 1993 internal study and environmental changes, e.g., administrative specialist, information technology specialist, forfeiture specialist positions, etc. The report also failed to note a comprehensive security force analysis was conducted in 1997 to determine how we could best provide cost effective and efficient security to our customers.

As the report indicates, Inspection Service management has conducted numerous staffing reviews in addition to those mentioned above which addressed various Inspection Service positions, duties, and functions. Your report further stated these studies either did not assess all Inspection Service positions or did not reflect recent changes affecting the organization. However the report failed to identify specific benefits to be derived from simultaneously assessing all Inspection Service positions. With regard to the comment that our studies did not reflect recent changes affecting the organization, the changes in our organization resulting from our multiple internal studies would indicate otherwise.

For example, your report states significant changes have occurred that should have impacted Inspection Service personnel requirements and allocations and resulted in the need for a redeployment of personnel, and cites the following examples that we have quoted and responded to below:

- **Creation of the Postal Service Office of Inspector General (OIG).** "The creation of the Postal Service OIG in 1997 resulted in a redesignation of selected investigative functions from the Inspection Service to the OIG. In addition, Inspection Service management decided to divest the Inspection Service of all audit functions. These audit functions were subsequently transferred to the OIG. Although Inspection Service management agreed to reduce positions due to the creation of the OIG and divestiture of their audit function, Inspection Service management has not conducted a study to reassess their staffing requirements since 1994, three years before the OIG was created."

To date, Inspection Service management has identified a reduction of 245 positions as a result of the creation of the Postal Service OIG. The reduction was based on an Inspection Service analysis of the workhours required by the Inspection Service to perform the work transferred to the OIG. Obviously, our analysis did not include new work performed by the OIG.

- **New Products and Services.** "New products and services such as the Point-of-Service ONE, an electronic retail sales device, as well as other highly automated systems, challenge the Inspection Service to provide enhanced internal security for automated environments, and protect new technologies from criminal attack."
- **Computers and Technology.** "Computer enabled crime is rising and criminals have an increasingly sophisticated understanding of the capabilities of technology to assist them in their efforts to steal postal revenue and defraud postal consumers."

Three examples of how Inspection Service management has responded to the above challenges include (1) creating a Computer Crimes and Commerce Division, (2) creating a Digital Evidence Unit at the Forensic and Technical

- 6 -

Services Division as a result of internal reviews, and (3) providing training to postal inspectors in computer searches and internet investigations.

- **Population Demographics and Crime Trends.** "The United States population is shifting from the older urban areas to the Western and Sunbelt states. In addition, Inspection Service management estimates that there will be a geographic shift in crime in the future. Specifically, crimes will be less neighborhood orientated and will increase more quickly in the Western and the Sunbelt states than in older urban centers."

Inspection Service management included population demographics and non-postal crime trends in the 1994 study referenced in your report, and statistical analysis utilizing quantitative methods was performed. While this information was of some value, it did not align with the locations of actual activity requiring Inspection Service attention. In other words, the external demographic information did not necessarily parallel the existence of Postal crimes or Inspection Service workloads in specific locations.

Your report mentioned that considering your stated factors impacting the environment, there is an increased risk that the Inspection Service may not be operating under the appropriate staffing levels and mixture of positions, and may not be appropriately allocating staff. The numerous staffing change examples we have provided herein would suggest that we have been and continue to be responsive to environmental changes. Further, our managerial vigilance and receptivity to change is readily apparent. We believe that it is more efficient and effective to address certain environmental changes and challenges as they are encountered versus only performing a predetermined annual review.

Your report included the fact that Inspection Service management identified, in its 1999 Annual Report of Investigations and FY 1998-2002 Strategic Plan, requirements of the Government Performance and Results Act of 1993 and the Inspection Service stated commitment to fulfilling those requirements.

It was noted in the report that although the Inspection Service identified their commitment to fulfilling the requirements of the Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, Inspection Service management did not prepare a strategic plan that covered the five-year planning period. Your report correctly noted that the FY 1998-2002 Inspection Service Strategic Plan did not fully cover the five-year planning period relative to the targets developed. However, you did not note the plan identified five-year goals, strategies, and indicators. In addition, Inspection Service management did not fully document the linkage of the strategic plan to the Inspection Service budget by identifying all resources required to meet all goals and objectives (sustaining and improvement). These latter two opportunities for improvement were recognized and noted in our 1999 Annual Report of Investigations. Due to the reactionary nature

- 7 -

of law enforcement and the fact that many resources support multiple goals and objectives, the Inspection Service will never be able to link with any high degree of certainty or exactness, all of its resources to individual goals and objectives. However, we will more fully articulate the appropriate linkages in the formulation and production of the updated strategic plan that will be published in FY 2001. The audit referenced the fact that our 1999 Annual Report of Investigations identified that the strategic plan was not tied to the Inspection Service budget. This audit point was incorrect. Our Annual Report actually stated that links between goals and all the Inspection Service projects were not clearly established; recognizing that sustaining work was not included in the plan. Additionally, the budget process was not included in the strategic plan; recognizing the fact that we did not include specific resource commitments in the plan for all sustaining, improvement, and cross-cutting goals.

Furthermore, you reported that Inspection Service management did not prepare an annual performance plan in accordance with Title 39 of the U.S. Code. Although Inspection Service management prepared a FY 1998-2002 strategic plan, management did not prepare an annual performance plan that described (1) human and other resources needed and (2) how it proposed to align the Inspection Service's resources with its activities to support mission-related outcomes. Rather, the Inspection Service's annual plan was a one-page document that listed only goals, indicators, and targets. The report also asserted that to develop a performance plan in accordance with Title 39 and the Government Performance and Results Act of 1993, Inspection Service management must allocate resources based on performance-related goals and functions. Inspection Service management currently allocates resources based on performance-related improvement goals and functions and sustaining work, e.g., improving customer satisfaction, improving employees' and organizational effectiveness, and improving financial performance or also stated as ensuring security, safety, and integrity. Our 1999 Annual Report of Investigations reflected this allocation of resources in the results achieved. Our next published strategic plan will document planned resource allocations. The one-page document referenced above was not intended to be a performance plan.

As noted in your report, Inspection Service management did not issue a FY 2000 written request for estimated operating expenses with additional instructions to field divisions when planning and formulating the Inspection Service's FY 2000 administrative operating budget. Moreover, Inspection Service management provided divisions with a nonpersonnel funding authorization based in part on the prior year's funding levels, per your report. Inspection Service Headquarters Finance and Administrative Services Group contacted division management to obtain verbal input for the budget but did not issue a written request for estimated operating expenses due to time constraints imposed by the Postal Service. For your information, the addition of domiciles must be approved in advance by Inspection Service Headquarters, and the audit functions had not been fully transitioned in FY 2000. Such factors were considered in planning and formulating the divisions'

- 8 -

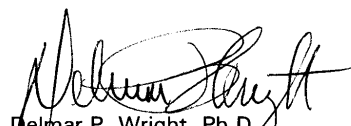
operating budgets, notwithstanding the comments in your report that such factors were not fully considered.

We fully accept the following three recommendations contained in your report as noted below:

- We will prepare future updates to the strategic plan that fully cover the five-year planning period and identify the resources required to meet goals and objectives.
- We will prepare an annual performance plan that allocates resources based on performance-related goals and functions.
- We will issue written requests for estimated operating expenses with additional instructions to field division management when planning and formulating the annual administrative operating budget.

With regard to the recommendation for establishing a process for annually assessing personnel requirements of each organizational element and allocate resources based on the relative priority of mission and functions, we believe continuous assessment is best in a dynamic environment. We will endeavor to strengthen our current processes through a strengthened and expanded program management function and allocate resources based on our strategic direction.

The Government Performance and Results Act of 1993, as set forth in Title 39 of the U.S. Code, requires compliance by the Postal Service as an organization. Specifically, Sections 2802 and 2803 require the preparation of strategic plans and annual performance plans by the Postal Service. The cited sections do not specify the preparation of such plans by the Inspection Service. However, the Inspection Service fully supports the intent of GPRA and the underlying management principles. Therefore, as noted herein, we have been endeavoring to apply GPRA principles within the Inspection Service as sound management practices.



Delmar P. Wright, Ph.D.
Deputy Chief Inspector

cc: K. C. Weaver