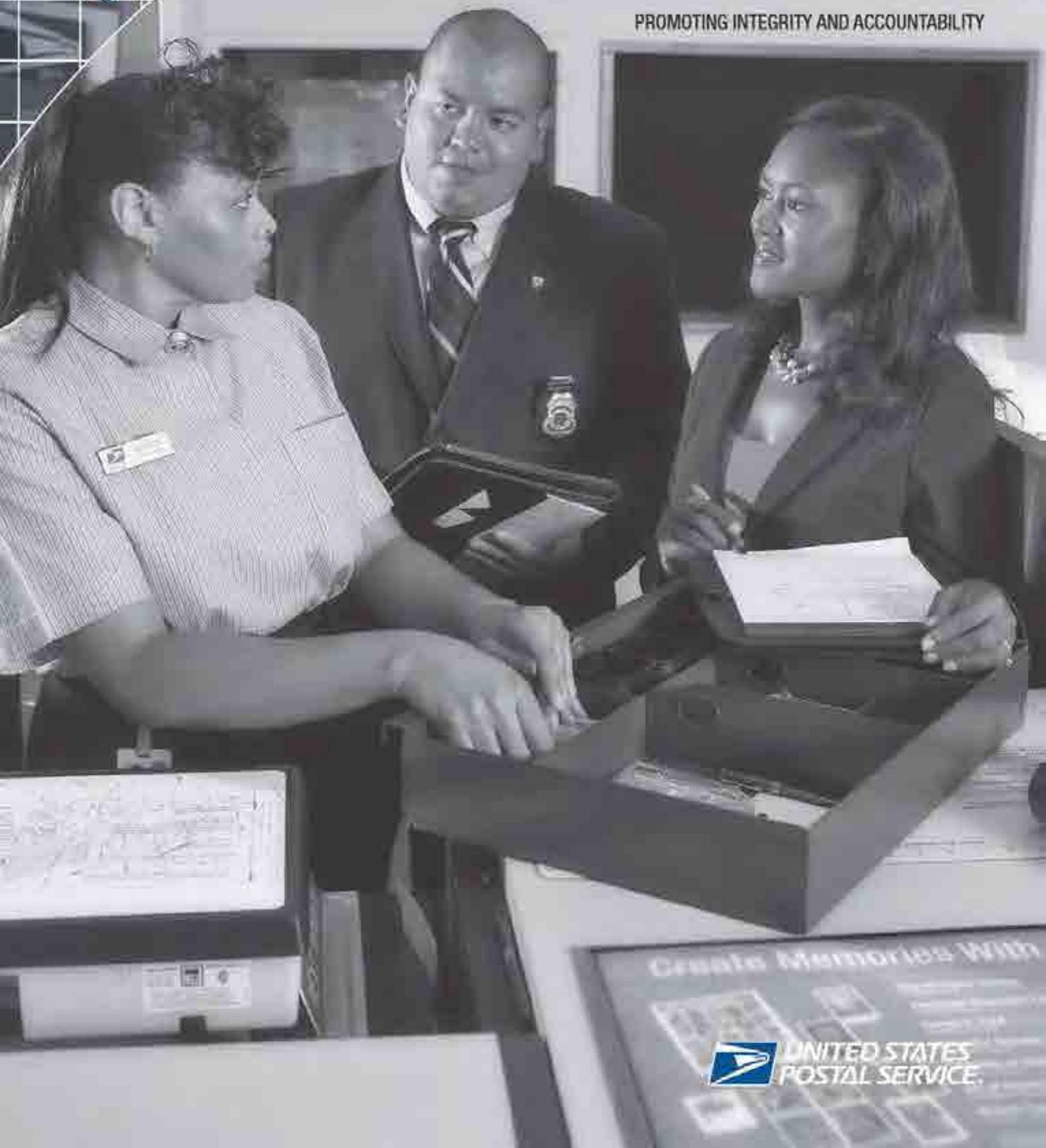




OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT TO CONGRESS

APRIL 1 – SEPTEMBER 30, 2007

PROMOTING INTEGRITY AND ACCOUNTABILITY



UNITED STATES
POSTAL SERVICE.

MISSION

The mission of the U.S. Postal Service Office of Inspector General is to conduct and supervise objective and independent audits, reviews, and investigations relating to Postal Service programs and operations to:

- Prevent and detect fraud, theft, and misconduct.
- Promote economy, efficiency, and effectiveness.
- Promote program integrity.
- Keep the Governors, Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.

A MESSAGE FROM THE INSPECTOR GENERAL

This semiannual report focuses on audit and investigative work in three areas of risk (strategic, financial, and operational) identified by the Office of Inspector General (OIG) as facing the U.S. Postal Service today. We used risk assessment to determine the critical areas requiring attention based on the potential for adverse effects on the Postal Service. This ensures we have the right resources in the right places.

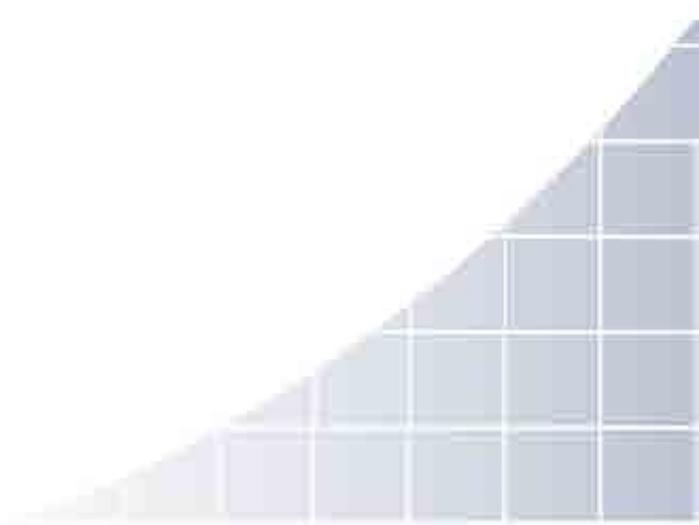
Our work and activities for the 6-month period ending September 30, 2007, are outlined here pursuant to the Inspector General Act.

During this period, we issued 206 audit reports and management advisories. These efforts resulted in \$1.6 billion in savings opportunities and more than \$1.7 million in revenue opportunities. We had 46 significant audit recommendations, most of which were accepted by the Postal Service.

In addition, we closed 4,436 cases and referred 2,408 to management for administrative action. Our investigators made 282 arrests, obtained 123 indictments, and we returned more than \$13.2 million in fines, restitutions, and recoveries to the Postal Service.

I look forward to working with the Governors, Congress, and Postal Service executives as we continue to address the risks facing the Postal Service today.

David Williams



SUMMARY OF PERFORMANCE

For the period April 1 — September 30, 2007

AUDIT

| | |
|---|------------------------|
| Reports issued | 206 |
| Significant recommendations issued | 102 |
| Total reports with financial impact | 86 |
| Funds put to better use | \$1,351,943,885 |
| Questioned costs ¹ | \$248,014,993 |
| Revenue Impact | \$1,780,382 |
| Total² | \$1,601,739,260 |

INVESTIGATIONS³

| | |
|--|---------------|
| Investigations completed | 4,436 |
| Arrests | 282 |
| Indictments/Informations | 123 |
| Convictions/pretrial diversions ⁴ | 370 |
| Administrative actions taken | 2,275 |
| Cost avoidance | \$87,862,882* |
| Fines, restitutions, and recoveries | \$17,740,468 |
| Amount to Postal Service ⁵ | \$13,213,100 |

HOTLINE CONTACTS

| | |
|----------------------------------|---------------|
| Telephone calls | 28,334** |
| e-Mail | 11,702 |
| Virtual Front Office calls | 2,215 |
| Standard Mail | 818 |
| Voice mail messages | 610 |
| Facsimile—FAX | 384 |
| Total Contacts | 44,063 |

¹ Includes unsupported costs of \$8,920,918.

² The Postal Service could save \$1.6 billion by implementing OIG recommended corrective actions.

³ Statistics include joint investigations with other law enforcement agencies.

⁴ Convictions reported in period may be related to arrests made in prior reporting periods.

⁵ Amount included in Fines, restitution, and recoveries.

* The October 1, 2006 — March 31, 2007 Semiannual Report to Congress contained a typographical error. Actual cost avoidance (Office of Workers' Compensation Programs and tort) for this period should have read \$120,318,529. Fines, restitution, and recoveries for this period should have read \$22,386,061.

** The Virtual Front Office calls were included in Telephone calls in the October 1, 2006 — March 31, 2007 Semiannual Report to Congress. The correct number for telephone calls in that period were 27,012.

TABLE OF CONTENTS

| | |
|---|-----------|
| Risk Assessment | 2 |
| Strategic Risk Factors..... | 4 |
| Financial Risk Factors..... | 9 |
| Operational Risk Factors | 17 |
| Feature Stories | 34 |
| Postal Accountability and Enhancement Act | 34 |
| Computer Assisted Assessment Techniques Continuous Monitoring System | 35 |
| Suspicious Expenditures Task Force..... | 36 |
| Office of Investigations Reorganization..... | 38 |
| Keeping Congress Informed..... | 39 |
| Map of Area Field Office Locations | 41 |
| Appendices | 42 |
| Appendix A – Reports with Quantifiable Potential Monetary Benefits..... | 42 |
| Report Listing..... | 46 |
| Appendix B – Findings of Questioned Costs..... | 51 |
| Appendix C – Recommendations That Funds Be Put to Better Use..... | 52 |
| Appendix D – Reported Non-monetary Benefits..... | 53 |
| Appendix E – Reports with Significant Recommendations Pending Corrective Actions ... | 54 |
| Appendix F – Significant Management Decisions in Audit Resolution..... | 57 |
| Appendix G – Investigative Statistics..... | 58 |
| Appendix H – Summary of Postal Service Investigative Activities Under Title 39 USC § 3013..... | 58 |
| Appendix I – Closed Congressional and Board of Governors Inquiries | 60 |
| Supplemental Information | 65 |
| Freedom of Information Act..... | 65 |
| Workplace Environment | 66 |
| Glossary | 67 |

RISK ASSESSMENT

Top Postal Service leaders and the Board of Governors (BOG) are increasingly focused on risks to the Postal Service.

We define "risks" as events or things that could keep the Postal Service from accomplishing its goals and objectives. Risks can be expressed in terms of money (for example — excessive costs). They can also be expressed in terms of loss of data (either to outside hackers or the crash of a system that obliterates much needed management information), damage to public goodwill or reputation, or damage to the ethical climate of the organization. On the other hand, risks can be foregone opportunities such as the harm to future growth and revenue by not introducing a great new product.

It is up to the Postal Service to address their risks, but the OIG can add value by being aware of all key risks and understanding their ramifications. As a result, we need to be in the best possible position to know what the risks are, understand how they might impact the Postal Service, and help find ways to address them more effectively. To that end, beginning with the fiscal year (FY) 2008 audit plan, we developed a planning approach based on a formal top-down risk assessment of the Postal Service. Further, we are committed to addressing the highest risks even if it requires temporarily redeploying our resources or reassigning work. This risk deployment approach helps us direct audit and investigative resources toward top priorities and critical areas for attention, based on the potential for adverse effects on the Postal Service.

We first identified three overarching risk categories: Strategic, Financial, and Operational; then we articulated specific risk factors that confront the Postal Service associated with each of these risk categories.

The Strategic Risk category includes big picture long-range issues, such as:

- Network streamlining.
- Strategic vision for automation.
- Strategic workforce planning.
- Viability of the Postal Service business model.

The Financial Risk category includes issues with a clear financial impact, such as:

- Employees on leave without pay, limited duty, workers' compensation.
- Financial systems.
- Financial fraud.
- Pricing.

The Operational Risk category includes issues related to the day-to-day operation of the Postal Service, such as:

- Planning and monitoring work.
- Revenue operations.
- Contracting process.
- Security of the mail.
- Service.

Our Office of Audit executives conducted the top-down strategic aspect of the process, after gathering important risk information from Postal Service officials and other key OIG officials. Once the risk categories and risk factors were identified, audit executives assessed each risk factor by identifying the likelihood it will occur and the impact on the Postal Service, if it does occur. Each risk factor was rated Low, Medium, or High, and then the ratings were captured in risk matrices for each category. We shared the results of this risk assessment with the Postmaster General (PMG), other top Postal Service officials, and the BOG's Audit & Finance Committee, and then factored their input into the final assessment.

In the bottom-up tactical aspect of the process, the results were used to identify and prioritize audit work for FY 2008 based on the highest risk factors impacting each audit director's area. The directors also coordinated their planning efforts to address cross-functional issues, where applicable. Finally, where necessary, we are redeploying resources or reassigning work from one

directorate to another to ensure we address the highest risks.

Over the last few months, top Postal Service officials and the Audit & Finance Committee have embraced their own need to focus on risks. The Chief Financial Officer has formed an Enterprise Risk Management Steering Committee made up of the Deputy Postmaster General, General Counsel, himself, and others, to further address risks and institutionalize risk management in the Postal Service.

Using both our risk assessment and risk deployment approaches allows us to identify the most important bodies of work that need to be done, and then position ourselves to do that work. This more agile approach will enhance our value to the Postal Service.

For this reporting period we highlight audits, reviews, and investigations that address selected risk factors in strategic, financial, and operational areas.



The Postal Service continually looks for opportunities to streamline operations, reduce costs, increase operational effectiveness, and improve service.

MANAGEMENT RESPONSE TO OIG WORK

We adhere to professional audit standards and present our audit work to management for comments prior to issuing a final report. Unless otherwise noted in the selected audit work discussed in this report, management has agreed or partially agreed with our recommendations and is taking or has already taken corrective action to address the issues we raised.

Further, we adhere to the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (PCIIE/ECIE) Quality Standards for Investigations in issuing to management the results of our administrative investigations. We report the facts in our Reports of Investigation, but make no recommendations. Management decides if disciplinary action is warranted and reports to us any action taken.

STRATEGIC RISK FACTORS

The Strategic Risk category includes big picture long-range issues that impact the Postal Service's overarching strategic direction. Strategic risk factors are those which may impede the Postal Service's ability to be effective and efficient, and ensure that its products and services are self-sustaining and balance legal considerations and stakeholder views. The Postal Service has many important initiatives in progress including optimizing its processing and delivery networks and increasing investments in technology to streamline operations. These initiatives are critical if the Postal Service is to continue providing mail services to customers at a reasonable price. Historically, mail volume (revenue) growth has covered the growth of the delivery network (cost). Today, with declining First-Class Mail volumes, this is increasingly difficult to achieve.

The Postal Service's processing, distribution, retail, and delivery network is one of the world's largest, comprising almost 34,000 sites and more than 450 mail processing facilities. The existing network was developed over time to support the Postal Service's historic business model. However, changing conditions are raising questions about this business model, and have made network streamlining imperative. These changing conditions include mail volume fluctuations and declines, shifting population demographics, and increasing automation and mail processing by mailers.

The President's Commission on the Postal Service lauded the Postal Service for its goal of streamlining its distribution network. In addition, Congress has encouraged the Postal Service to continue its network streamlining efforts.

In FY 2007, the Postal Service made some significant strategic moves in streamlining its network. Additionally, other important changes are occurring in the environment regarding the Postal Accountability and

Enhancement Act of 2006 (Postal Act of 2006) and the mail mix. Each of these strategic moves presents risks that must be carefully managed. At the same time, some opportunities need to be seized expeditiously, such as furthering Intelligent Mail (see discussion on page 8).

This section discusses audit work addressing the strategic risk factors of:

- Network streamlining.
- Strategic vision for automation.
- Access to products/services.
- Intelligent Mail.
- Human capital.

Network Streamlining. The Postal Service's business environment is challenging due to declining First-Class Mail volume, increasing competition with traditional mail products from the private sector, increasing automation and mail processing by mailers, and shifting population demographics. In addressing these challenges, the Postal Service continually looks for opportunities to streamline operations, reduce costs, increase operational effectiveness, and improve service.

In recent years, the Postal Service's most significant strategic effort to optimize its mail processing network is to identify potential operations and network changes to create a more flexible postal distribution and transportation network. Additionally, the Postal Service uses Area Mail Processing (AMP) studies to consolidate mail processing functions to eliminate excess capacity, increase efficiency, and better use resources.

Our recent reviews focused on the process for identifying consolidation opportunities, whether consolidation proposals have been supported, and whether consolidations realized projected cost savings. In general, we found the consolidations were supported, but we identified various concerns.

- We reported that both the strategic approach (top-down) and tactical approach (bottom-up) add value to the process of identifying consolidation opportunities and help ensure consistency. However, the Postal Service could improve this process by integrating the benefits of both approaches. There were inconsistencies in the identification of bottom-up AMP consolidation opportunities where area management had developed additional criteria for service degradation, minimum savings thresholds, and distance between facilities. We recommended that management validate consolidation opportunities with the network realignment strategy and revise AMP guidance.
- We assessed the post-implementation reviews (PIR) of the Marina Processing and Distribution Center (P&DC) consolidation into the Los Angeles and Long Beach P&DCs, all located in California. We found the economy and efficiencies associated with the consolidation resulted in considerable savings. However, support for and accuracy of the Marina PIR could have been improved. There were misstatements in workhours, transportation, and associated costs resulting in a net savings overstatement of \$1.5 million. Further, we identified issues with data retrieval timeframes, service impacts during the first year after consolidation, and compliance with AMP guidance. We recommended management correct the Marina annual PIR, establish a rigorous review process for identifying AMP and PIR errors, and clarify AMP guidelines.
- Management requested we review the proposal to consolidate the Bronx, New York, P&DC incoming mail operations into the Morgan Station, New York, P&DC. We concluded the proposal was generally accurate and supported, showed evidence of management review, and provided confirming evidence for the consolidation. However, some calcula-



The Postal Service's processing, distribution, retail, and delivery network is one of the world's largest, comprising almost 34,000 sites and more than 450 mail processing facilities.

tion issues resulted in an overstatement of \$1.4 million in savings. In response to congressional inquiries, we also reviewed concerns regarding the impact of the consolidation on trailer volume during peak hours, worker reassignments, and potential mail delivery delays. We determined that management's planning appeared adequate to minimize any negative impacts. In addition, there were some potential consolidation risk factors and a slight downgrade in Standard Mail service. Management corrected the savings issues during the audit and resubmitted the AMP to headquarters for review and approval. We recommended that management develop a more objective and supportable method for determining required workhours for consolidations.

Streamlining the network presents the Postal Service with many challenges. These challenges include developing a flexible network that can adjust to changing market conditions and mail volumes; balancing service with cost; keeping stakeholders informed to prevent surprises; and maintaining resilience in the event of major disruptions, natural disasters, or acts of terrorism.

We will continue to review initiatives to streamline the network to ensure these initiatives achieve desired results and comply with the Postal Act of 2006 without sacrificing service to stakeholders.

Enterprise Architecture. The Postal Service balances increasing demands to enhance its

technology investment capabilities with the need to control costs. One technique that can help with this is an Enterprise Architecture (EA), which is a conceptual framework for designing, developing, and operating business solutions to ensure that Postal Service business goals are aligned. Managed properly, an EA can clarify and help optimize the interdependencies and relationships among an organization's business operations and the infrastructure and applications that support them.

Our evaluation found the Postal Service had executive support for EA, but plans did not demonstrate an awareness of EA within Postal Service Engineering. Engineering did not utilize standard processes and controls that promote accountability and effective project execution under EA, and they did not identify clear measurement of progress towards goals within corporate timelines.

To mature under the EA framework, we recommended that Postal Service Engineering establish and fund a program office to support the Postal Service EA, and delegate responsibilities supporting the Postal Service chief architect. Additionally, we recommended that they make information security more visible in technology plans, and standardize tools to measure risks, progress, quality, compliance, and the impact of adjustments. Management agreed that moving in this direction had merit and communicated our findings to the Senior Vice President of Strategic Planning for consideration.

Commodity Sourcing Activities. In response to BOG questions about the Automation Category Management Center's (CMC) practice of awarding contracts to a limited number of suppliers, often noncompetitively, we reviewed the commodity sourcing activities within the Automation CMC. In general, the Postal Service effectively identified and maintained a mail automation supplier base consistent with its policies and business objectives. Specifically, Postal Service



An updated 016 Hotline poster was distributed to all post offices and postal facilities during this reporting period.

officials adopted an acquisition strategy and established strategic partnerships with key suppliers to acquire automated mail processing equipment and enhancements. In addition, they took action to mitigate risks associated with contracting with a few key suppliers.

However, in light of the limited automation equipment supplier market, we recommended the Postal Service explore options for developing alternative mail automation supply sources and include appropriate technology protection clauses in these contracts to better protect its investments. Additionally, we recommended the Postal Service obtain contractor cost or pricing data when noncompetitively awarding share-in-savings, incentive-type mail automation contracts.

Management agreed with the recommendations except they did not agree to obtain contractor cost or pricing data when noncompetitively awarding share-in-savings, incentive-type mail automation contracts. Alternatively, they said they would conduct market research activities with other world posts to obtain information about the prices paid on recognition system address interpretation improvements, and would include this information, together with the Postal Service's historical pricing, in future negotiation memorandums to improve the price analysis coverage for contract file documentation. This is expected to help ensure that contracts are fair and reasonably priced and suppliers are not unduly enriched. We may review the price analysis documentation during future audits of noncompetitively awarded share-in-savings contracts. In addition, the Postal Service said it will routinely include appropriate technology protection clauses in all new automation contracts.

Automated Postal Centers. We assessed the deployment strategy of Automated Postal Center (APC) kiosks and determined that the Postal Service deployment strategy was adequate. Postal Service officials initially deployed APC kiosks to facilities based on



We recommended management reevaluate the draft Decision Analysis Report to include strategies for achieving their goal of doubling to 40 the percentage of retail transactions conducted via alternate access channels by 2010.

operation criteria. As of December 2006, officials had identified and appropriately redeployed 170 underperforming APC kiosks. Additionally, we performed an analysis of FY 2006 actual transaction data for the best 3,000 candidate facilities for APC deployment.

We recommended the Postal Service revise, finalize, and distribute the APC instructional documents to area officials and include information on procedures similar to those found in Handbook PO-102, Self Service Vending.

Operational and Marketing Program. We also recommended management reevaluate the draft Decision Analysis Report (DAR) to include strategies for achieving their goal of doubling to 40 the percentage of retail transactions conducted via alternate access channels by 2010.

Intelligent Mail. Intelligent Mail is a major Postal Service initiative to capture and share information about each mailpiece throughout its processing, allowing end-to-end visibility. We assessed the deployment status of data collection devices and determined whether the Postal Service sought the appropriate compensation for additional costs due to program delays.

The data acquisition system was more than 18 months behind schedule due to hardware and software deficiencies. While negotiations for program losses due to schedule delays were timely, the Postal Service excluded certain relevant losses from the negotiations. In particular, we identified losses related to extending the service life, maintaining the legacy system, extending the period for program management services supplied by a separate vendor, operating optical scanner workstations longer than expected, and storing postal-furnished equipment. The Postal Service could have negotiated these losses for additional vendor compensation

based on a percentage share of the responsibility for schedule delays. Since we had highlighted similar issues in prior audits, we recommended that the Postal Service finalize a formal process for negotiating delay of delivery of goods and services.

Management disagreed with the audit finding that there were unrecoverable questioned costs and believed the report findings would not have resulted in a higher recovery.

Comprehensive Strategic Workforce Plan.

Although the Postal Service has taken some steps to address workforce planning for bargaining and non-bargaining employees at both the field and headquarters levels, it has not developed and implemented a comprehensive strategic workforce plan that fully addresses the five key elements essential to successful workforce planning. These key elements include such things as determining the critical skills and competencies needed to achieve current and future programmatic results, and developing workforce strategies tailored to address the number, deployment, and alignment of human capital.

We recommended the Postal Service develop and implement such a plan to help guide its human capital efforts and perform its mission economically, efficiently, and effectively. In addition, implementing the

recommendations will assist the Postal Service in responding to Congress in compliance with the Postal Act of 2006, which requires a plan describing the long-term vision of the Postal Service for rationalizing its infrastructure and workforce to support new service standards.



Intelligent Mail is a major Postal Service initiative to capture and share information about each mailpiece throughout its processing, allowing end-to-end visibility.

FINANCIAL RISK FACTORS

The Financial Risk category includes issues that have a clear financial impact, particularly those related to cost control and revenue generation. The greatest opportunities to reduce financial risks are in the areas of improving internal controls in financial systems, processes, and benefit programs, and maximizing the cost-effectiveness of contracts.

The major financial trends in FY 2007 were that financial statement audits continued to produce unqualified opinions and that efforts related to Sarbanes-Oxley Act provisions are off to a good start. Additionally, labor costs continue to receive attention, and there are some opportunities to be seized in controlling Postal Service contributions to life and health insurance.

Financial risk factors for the Postal Service discussed in this section include:

- Workers' compensation program claimant and provider fraud.
- Postal Service benefits programs.
- Maximizing the cost-effectiveness of contracts, and contract fraud.
- Financial fraud.
- Financial systems and processes.

Our Office of Investigations has five investigative programs, three of which address financial risk: healthcare fraud, contract fraud, and financial fraud. Workers' compensation risk is addressed under the healthcare fraud program. We investigated two types of cases under this program: Office of Workers' Compensation Program (OWCP) claimant fraud and OWCP medical provider fraud.

OWCP Claimant Fraud. A critical cost control area within the Postal Service is the funding of workers' compensation benefits for employees who sustain job related injuries.

It is a violation of federal criminal law to knowingly make a false representation on

an OWCP claim. (A false representation typically involves unreported income or misrepresentation of one's physical limitation.) We work closely with injury compensation units and management to identify instances of suspected workers' compensation fraud. When we find instances of fraud, we gather facts and report findings to management and prosecutors. Criminal prosecutions of these offenders are an effective deterrent to combating workers' compensation fraud. A conviction prevents those claimants from obtaining any future OWCP benefits.

Based on successful investigative activity, claimants who fraudulently obtain workers' compensation benefits are removed from the U.S. Department of Labor (DOL) periodic and daily rolls. As a result, the Postal Service avoids future compensation liability payments to DOL. The savings experienced by the Postal Service is called a cost avoidance. During this reporting period, our investigations resulted in \$87.9 million in cost avoidance.

During this reporting period, we completed 971 investigations and obtained 16 criminal convictions. The Postal Service took personnel action against 307, including removals, letters of warnings, and claim terminations.

Our investigative goal in this area is to prevent and deter workers' compensation fraud, not simply detect and investigate it. For example, to examine additional ways to control the escalating workers' compensation costs, the Postal Service and the OIG, along with officials from DOL, convened in Arlington, Virginia, at a National Injury Compensation Symposium and Training Conference in April 2007. During the first 2 days, more than 200 attendees shared executive-level knowledge of the workers' compensation program, discussed the program's design



Resums of significant OWCP fraud investigations are shared with the Postal Service's injury compensation specialists, who work closely with our special agents on these investigations. This newsletter is distributed quarterly to injury compensation specialists, postmasters, and other postal officials.

and intended function, and talked about the challenges facing the program. The final day was devoted to investigative training for special agents. We also publicize criminal workers' compensation fraud to the Postal Service through a "Healthcare Fraud Highlights Newsletter." The newsletter is designed to raise awareness and deter other attempts to defraud the government.

Following are examples of investigations during this reporting period.

- **Former Illinois Rural Letter Carrier Sentenced to Prison for OWCP Fraud.** A former Rural Letter Carrier had received workers' compensation payments since December 2002, claiming she was unable to perform any work because of extreme pain and limited movement in her hands and arms. Special agents challenged her claim when they learned the claimant operated a lawn and garden business and failed to report earnings to the DOL. She was convicted in federal court of fraudulently obtaining workers' compensation benefits. In May 2007, she was sentenced to 6 months in prison, 5 months of home confinement, and ordered to pay \$62,226 in restitution. Her workers' compensation benefits were terminated; thereby saving the Postal Service \$1,067,040 in future workers' compensation costs.
- **Selling Cattle Results in OWCP Fraud Conviction.** We received an allegation that a Virginia Rural Letter Carrier was working on a farm while receiving workers' compensation benefits. Our investigation revealed that the employee earned between \$6,000 and \$7,000 on the sale of cattle from his ranch while receiving workers' compensation payments and failed to report these earnings as required on DOL forms. The employee was indicted on a federal charge of false statements. He pled guilty and in May 2007, was sentenced to 2 years of probation and ordered to pay \$8,038 in restitution. Following the sentencing, the
- **DOL ordered him to repay an additional \$33,513 and then terminated his workers' compensation benefits, allowing the Postal Service to save \$542,596 in future workers' compensation costs.**
- **OWCP Fraud Investigation in New Jersey Results in \$1,225,000 Cost Avoidance.** We were advised that a Rural Letter Carrier was performing physical activities inconsistent with her "total disability" status. The employee had earlier filed a workers' compensation claim alleging she had a shoulder injury caused by repetitive movement. As a result, she said she could not perform limited work duties at the post office. She said she could not use either arm, was on pain medication, and was unable to drive an automobile or lift objects weighing between 2 and 15 pounds. Special agents' surveillance showed her on rides at a Six Flags Great Adventure amusement park and displaying no apparent signs of discomfort or disability. The next day, we videotaped her carrying grocery bags. One month later, she completed a questionnaire representing that she was basically placed on bed rest, and this is what she did most of the time. We presented this evidence to the treating physician, who approved the employee for limited duty. The Rural Letter Carrier resigned in May 2007 after receiving a letter of removal from management. As a result of our investigative efforts, the Postal Service avoided costs of \$1.2 million.
- **Convicted Former Mail Handler to Repay \$393,000 for OWCP Fraud.** A proactive review of records determined that a former New York Mail Handler concealed his business enterprises from the OWCP while receiving compensation payments on the periodic roll. The Mail Handler injured his back in 1988, and began receiving workers' compensation payments in 1989. Our review revealed that while receiving workers' compensation payments, the former Mail Handler

bought and sold cars for his wife's automobile sales business. During the execution of a federal search warrant, special agents obtained evidence confirming that the former Mail Handler also operated a sign-making business and a driveway-sealing business. In June 2007, the Mail Handler retired from the Postal Service, and in August he pled guilty in federal court to committing fraud to obtain federal employee compensation. The former Mail Handler agreed to pay \$392,864 in restitution. Sentencing is scheduled for December 2007. The Postal Service realized a cost avoidance of \$595,140.

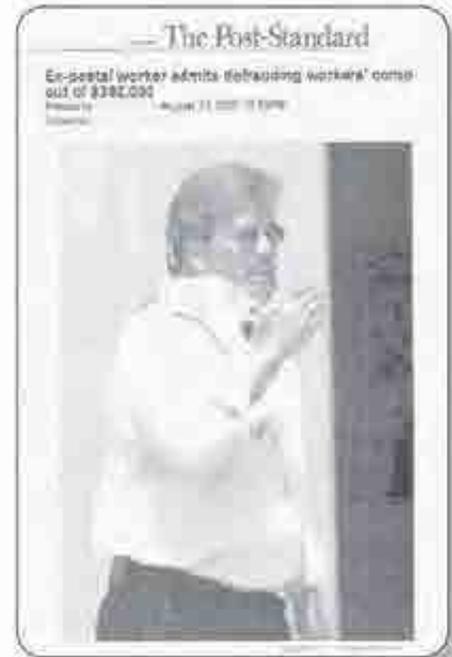
OWCP Medical Provider Fraud. We also investigate allegations of fraud against medical providers who treat multiple Postal Service OWCP claimants. Following are examples of our medical provider fraud investigations during the reporting period.

- **Medical Contractor Convicted of Mail Fraud to Repay \$63,700 to Postal Service.** Our investigation determined that a Contract Nurse at a California postal facility created 38 false invoices in the name of a fictitious doctor and directed payments to a post office box she controlled. A total of \$63,700 was paid to the Contract Nurse before the scheme was detected. The Contract Nurse was indicted in federal court on a charge of Mail Fraud. She pled guilty and, in May 2007, was sentenced to 3 years of probation and ordered to make restitution.
- **California Chiropractor Ordered to Pay Restitution in Illegal Kickback Scheme.** Our investigation determined that a California chiropractor made illegal payments to a Postal Service Injury Compensation Specialist in return for referrals of injured postal employees to his medical practice. The chiropractor pled guilty and, in May 2007, was sentenced to 3 years of probation and ordered to pay \$25,664 in restitution.

Postal Service Benefit Programs. We assessed the Postal Service's Federal Employees' Group Life Insurance (FEGLI) and Federal Employee Health Benefits (FEHB) programs for bargaining and non-bargaining employees and found they are comparable to the six federal and five quasi-federal agencies with which we benchmarked. However, the Postal Service's contribution rates for both programs were significantly higher than most agencies. For example, the Postal Service pays the full cost of the premiums for almost all employees' FEGLI basic life insurance and for executives' Option-A life insurance and FEHB benefits. Most other agencies pay 33 and 72 percent of the FEGLI and FEHB premiums, respectively, for their employees.

We also found that the Postal Service made great progress in reducing future FEHB costs when it successfully negotiated with two of its major unions — the American Postal Workers Union (APWU) and the National Postal Mail Handlers Union (NPMHU) — for a reduction in the agency's FEHB contribution rate of one percent for each year of the new collective bargaining agreements. Based on our analysis, this will result in a \$713 million savings to the Postal Service over a 10-year period.

Changes can be made to existing FEGLI and FEHB contribution rates through negotiations with the Postal Service's other unions (for bargaining employees) and consultations with management associations (for non-bargaining employees). These changes could result in significant savings to the Postal Service. Specifically, we estimated the present value of the Postal Service's potential



This news story that ran in *The Post-Standard* in Syracuse, New York, depicts a former Mail Handler convicted of fraudulently collecting OWCP payments while buying and selling cars for his wife's automobile sales business.

savings resulting from further reductions in benefit program contributions to be \$1.073 billion over 10 years.



An audit of a \$518 million firm-fixed-price proposal for the Biohazard Detection System Operations and Maintenance/Consumables disclosed more than \$235 million in questioned costs.

Maximizing the Cost-Effectiveness of Contracts.

We issued 11 contract-related audit reports during the reporting period, evaluating five cost proposals, two accounting systems, two leases, one claim, and one key performance indicator. These audits identified questioned costs of more than \$500 million. This information was provided to contracting officers for their consideration in negotiating the best terms for the Postal Service. An example of significant work in this area follows.

An audit of a \$518 million firm-fixed-price proposal for the Biohazard Detection System Operations and Maintenance/Consumables disclosed more than \$235 million in questioned costs. The contractor did not provide pertinent cost and pricing data requested during the audit. The audit also determined numerous related party transaction concerns and unallowable costs that resulted from

a pyramiding of profits. In addition, certain subcontract cost proposals were inadequate and the subcontractors were unable to support their proposed costs.

Since the non-compliances and inadequacies were significant, we did not believe the proposal was an acceptable basis for negotiating a fair and reasonable contract price. Therefore, we recommended that the Postal Service not negotiate a contract based on this proposal. Additional information was provided by the contractor and further audit work was performed. We expect to issue a report on the most recent proposal submissions in October 2007.

Contract Fraud. We address the Postal Service's external risk to financial fraud through our investigative contract fraud program. This program is a cross-functional effort involving special agents, contract fraud attorneys, forensic examiners, and investigative analysts.

Together, OIG components are identifying ways to more aggressively investigate contract fraud schemes that range from failure of contractors to meet contract specifications to payment of bribes to postal employees; from cost irregularities of chargebacks to double and false billing. Other common schemes include kickbacks, conflict of interest, and misuse of contract modifications.

A national approach ensures that when a scheme is identified in one region of the country, other offices are on the lookout for similar schemes. For example, after the discovery of a contract fraud scheme in Houston involving recycling contracts, all similar contracts around the country were quickly identified and leads sent to other field offices.

The Postal Service presently manages many contracts, involving tens of billions of dollars and ranging from multimillion-dollar national contracts for services such as transportation networks and information technology (IT)

infrastructures to local contracts for supplies and services at individual postal facilities. The sheer volume of contracts and their huge dollar value provide opportunities for contractors and employees to defraud the Postal Service. We aid the Postal Service by assessing its management of acquisitions and contracts and investigating allegations of contract improprieties.

During this period, we completed 96 Contract Fraud investigations, resulting in \$1.3 million returned to the Postal Service. Following are examples of investigative accomplishments in this area.

- **Postal Service Receives \$424,614 from Two Contractors for Improper Fee Payments.** In August 2007, the U.S. Department of Justice announced that two federal contractors paid approximately \$5.2 million to the U.S. Government to settle allegations that they solicited and provided improper payments and other things of value on technology contracts with government agencies, including the Postal Service. The Postal Service received \$424,614 from this settlement. This settlement stemmed from a False Claims Act lawsuit filed in September 2004 in federal court in Arkansas alleging that numerous companies inappropriately received kickbacks and other referral fees from alliance agreements they formed with other companies. Under the alliance agreements, the government contractor would allegedly receive improper payments for recommending hardware, software, and computer services provided by another company. Special agents reviewed and analyzed thousands of subpoenaed records to identify evidence of the scheme. This case is being investigated jointly with several other federal law enforcement organizations, and the investigation is ongoing.
- **New Jersey Postmaster Pleads Guilty to Embezzling \$16,500.** In May 2007, a former New Jersey Postmaster pled guilty

in federal court to embezzling \$16,500 from the Postal Service. Our investigation determined that the former Postmaster had a postal employee perform 5 weeks of carpentry work at the home of his ex-wife, while the employee was on duty. The Postmaster also allowed five employees to donate annual leave to his ex-wife, who is also a postal employee, and then falsified the employees' attendance records to reflect that they were working during times when they were actually on leave. The carpentry work and leave time totaled \$16,500. The Postmaster also steered plumbing, heating, and air conditioning work to a contractor at inflated rates in return for kickbacks. He resigned from the Postal Service in October 2006 and will be sentenced later this year.

- **Colorado Postmaster Paid Wife \$35,000 for Landscaping Services Not Performed.** We received information that a Colorado Postmaster was performing landscaping work at the post office while on duty, even though a company was being paid to perform the work. Our investigation determined that the Postmaster improperly steered landscaping and snow removal contracts to his wife's company, which had contracts only with the Postmaster's post office. Special agents found that the Postmaster's wife used her maiden name to conceal her marital relationship and that the Postmaster assisted her in preparing the bids. The wife acknowledged she was paid for doing nothing more than submitting monthly invoices. The Postmaster and his wife were arrested on state criminal charges. In September 2007, they both pled guilty to charges of theft and failure to disclose conflict of interest. The Postmaster retired under investigation.
- **New Jersey Manager Pleads Guilty to Receiving Years of Kickbacks.** We investigated questionable contracting practices by a New Jersey Operations Manager. Our investigation determined the



Operations Manager steered \$600,000 in contracts for plumbing, heating, ventilation, and air conditioning work at various postal facilities over a period of 8 years. In return, he received payoffs of between \$100 and \$400 for each job. Additionally, he received free auto repairs for himself and his family, a free car for his son, and \$2,500 for his daughter's wedding. We further determined he used the carpentry services of a postal employee at his residences while the employee was on duty. The Operations Manager was suspended from the Postal Service without pay. In July 2007, he resigned and pled guilty to one count of conspiracy to defraud the government. He faces up to 5 years in prison and a maximum \$250,000 fine.

Financial Fraud. The Postal Service has annual operating revenue of nearly \$73 billion. Each day it serves more than nine million customers and issues more than 900,000 money orders. We address risks in this

area through our investigative Financial Fraud program.

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

Financial Fraud investigations include:

- Employee theft of postal funds associated with retail unit revenue from the sale of stamps, money orders, retail products, and packaging products.
- Personal use of postal funds associated with retail sales (for example, kiting money orders or postage sales).
- Theft of postal products (stamps or padded bags) and services (the rent for a Post Office Box).
- SmartPay card purchases converted to personal use.
- Gasoline purchased with the Voyager card for personal use.
- Merchant-submitted fictitious Voyager card transactions.

During this reporting period, our investigations have resulted in 112 arrests, 365 personnel actions, and \$735,000 in recoveries to the Postal Service. Following are examples of our investigative work in this area.

- **Puerto Rico Contract Station Operator Arrested and Contract Terminated for \$130,000 Embezzlement.** Special agents investigated the discovery of several bank deposit discrepancies that were associated with a Contract Postal Unit (CPU) in Puerto Rico. Our investigation revealed that the Contract Station operator embez-

LET'S TALK...
 Meet someone who'd like you - 400 million and growing! You do your job every day and you do it well. But there are 2 new employees and contractors who give you trouble. You're a hard worker, but you're not the only one. The Postal Service is a hard worker too. It's a hard job, but you're not the only one. It's a hard job, but you're not the only one. It's a hard job, but you're not the only one. It's a hard job, but you're not the only one.

POSTAL FACTS

- \$73 BILLION IN REVENUE
- 600,000 EMPLOYEES AND CONTRACTORS
- 26,000 POSTAL FACILITIES
- 210 BILLION PIECES OF MAIL DELIVERED EACH YEAR
- 144 MILLION DELIVERY POINTS

YOU ARE PART OF ONE OF AMERICA'S MOST TRUSTED ENTITIES... THE UNITED STATES.

POSTAL SERVICE

UNITED STATES POSTAL SERVICE®

1-800-750-0741

LEPS-CIG
 Attention: Director
 450 North 3rd Street
 Arlington, VA 22202-2026

Promoting Integrity and Accountability

to the spring of 2007, more than 600,000 postal employees received this mail with their paycheck statements, providing avenues for reporting postal crimes to the OIG.

zied more than \$130,000 and used the funds at various Puerto Rico hotels and casinos. In May 2007, the contract holder was arrested, and the contract was terminated.

- **Ohio Sales and Service Associate Guilty of Stealing \$72,000.** We investigated an Ohio post office after regular audits identified a pattern of stamp shortages. Undercover special agents observed a Sales and Service Associate failing to properly record and account for stamp sales. He recorded some retail transactions at less than face value and did not record others at all. Further investigation determined that the Sales and Service Associate had taken approximately \$200 a day in retail sales for more than 18 months, totaling around \$72,000. The Sales and Service Associate retired from the Postal Service. In August 2007, he entered a guilty plea in federal court to one count of Misappropriation of Postal Funds and agreed to pay full restitution to the Postal Service. He faces a possible maximum sentence of 10 years in jail and a fine of \$250,000 at his sentencing later this year.
- **North Carolina Postmaster Convicted of Embezzling \$40,000.** We determined that a North Carolina Postmaster issued money orders and cashed them before reporting the sales. Our review of financial reports indicated a possible embezzlement and check kiting scheme. Our investigation determined the Postmaster had embezzled approximately \$40,000 in Postal Service funds. The Postmaster resigned in January 2007 and was indicted in state court on five counts of embezzlement. She pled guilty, received a suspended jail sentence and 90 days house arrest, and was ordered to pay restitution to the Postal Service.
- **California Sales and Service Associate Removed and Arrested for Embezzling \$25,800 in Money Orders.** A money order exception report identified 17 money orders assigned to a station of a California post office that were cashed but not reported as sold. Our investigation determined that an additional 13 money orders were also not reported as sold. Our investigation showed that the money orders were assigned to one employee who printed money orders totaling \$25,800, issued them to herself, and cashed them. She also wrote personal checks to pay for the money orders and put the checks in her cash drawer, but never deposited the checks at the close of business. The employee resigned from the Postal Service and was indicted in federal court in July 2007.
- **Missouri Postmaster Pleads Guilty to \$21,000 in Postal Money Order Fraud.** A review of money order reports determined that two money orders, issued from a Missouri post office, had cleared the Federal Reserve Bank before the reported dates of sale. We investigated this and determined the Postmaster perpetrated a personal short-term loan scheme. She issued 288 money orders that were reported as sold on dates later than the dates on which the money orders were imprinted. Over a 3-year period, the Postmaster fraudulently issued more than \$21,000 in postal money orders. In February 2007, the Postmaster resigned pending termination. In August 2007, the Postmaster pled guilty in federal court to charges involving fraud regarding issuance of postal money orders. Sentencing is scheduled for later this year.
- **Colorado Contract Postal Unit Owner Pleads Guilty to Embezzlement of \$11,500 in Postal Funds.** We received information that a Contract Postal Unit (CPU) lessee was behind in rent by approximately \$15,000. (A CPU is a "post office" located within a retail establishment that operates under contract with the Postal Service by individuals who are not postal employees. CPUs generally

maintain a surety bond to cover the value of stamps and cash on hand.) Our investigation found the CPU owner embezzled approximately \$11,500 in postal funds between November 2004 and March 2006 and manipulated records to conceal the crime. In January 2007, she pled guilty to one count of theft, and was sentenced to 4 years of supervised probation and ordered to pay restitution.

Financial Systems and Processes. We perform reviews to assess the adequacy of controls in financial systems and processes. Following are two audits conducted in this area.

- **Oracle™ Accounts Payable — Feeder Systems.** Oracle Accounts Payable (Oracle AP) processes all non-payroll related payments, which totaled approximately \$14 billion annually. Business processes include supplier maintenance, purchase orders (PO), and invoice management. Oracle AP receives and processes invoices, receipts, and POs from 30 electronic feeder systems. Each feeder system represents an individual application with its own inherent risks and unique controls.

Our audit showed that, generally, the controls in place for the Contract Authoring Management System (CAMS), the Logistics Control Management System (LCMS), and the Transportation Contract Support System (TCSS) were adequate to ensure data and transactions are valid, authorized, and accurately processed. However, the Postal Service can improve controls by updating contract award numbers, reinforcing separation of duties, and implementing batch reconciliation control totals in CAMS. Additionally, management can improve processes of the Pay Alone feature in TCSS.

During our review, management strengthened security by implementing encryption of TCSS. In response to our audit, management provided instruc-

tions for CAMS users covering update of older contracts with new contract award numbers when a contract is renewed, modified, or changed. Management also took action and performed a review of processes and controls relating to batch controls within CAMS, concluding that the system processes and controls are adequate. Management will also establish operational procedures to move the credit memoranda to a site that does not process third-party payments, when a Pay Alone request for third-party payment results in a negative invoice balance.

- **Refund Process — Capital Metro Area.**

We audited the Capital Metro Area's Refund Process and found that retail associates and customer service supervisors were not always properly processing and recording refunds of stamps, fees, retail services, and Express Mail services. Specifically, retail associates did not always complete refund documentation, enter the proper refund account identifier codes in the Point-of-Service system, and provide signatures on Postal Service Daily Financial Reports. These conditions occurred because customer service supervisors did not always adequately oversee the refund process. As a result, we projected the four sites visited in the Capital Metro Area have incurred more than \$180,000 in unsupported questioned costs and more than half a million dollars in assets are at risk for these refunds.

We recommended that customer service supervisors ensure retail associates follow established procedures for processing and recording refunds and reissue the area refund policy memorandum. Also, customer service supervisors should review daily financial reports and supporting documentation and verify that retail associates are properly signing daily financial reports.

OPERATIONAL RISK FACTORS

The Operational Risk category focuses on issues related to the day-to-day operation of the Postal Service. These risk factors potentially affect the Postal Service's ability to provide timely, reliable delivery and customer service across all access points. Operational risk factors involve the quality of postal services and the end-to-end service performance of all mail, as well as the assurance that postal products and services meet customer expectations by being responsive, consistent, and easy to use.

Being attentive to operational risks is especially important as the Postal Service works to control costs with the significant infrastructure investment required to meet its universal service obligation. For example, delivery extends to more than 144 million delivery points with about 290,000 city and rural letter carriers, and more than 6,000 highway route contractors. The sheer magnitude of Postal Service operations and the costs involved make addressing operational risk factors a significant challenge for the Postal Service. Significant opportunities to reduce costs are in the areas of optimizing the network to control delivery costs and increasing efficiencies of technology investments.

The major operational trends in FY 2007 include continuing opportunities for cost savings in work systems and processes. Service risks, coupled with congressional attention, have commanded extensive consideration. We believe that better planning and project management in contracting and automation development activities could save costs and improve delivery of the programs. Finally, there continue to be compliance issues in the revenue assurance area.

This section will discuss the following operational risk factors facing the Postal Service:

- Operational efficiency.
- Expedient mail delivery – customer service.

- Process and mail processing equipment enhancements.
- Information systems.
- Workforce and workplace issues.
- Security of the mail.
- Official misconduct.

Operational Efficiency. Streamlining operations is a significant business concern for the Postal Service. Our work in this area is aimed at helping the Postal Service improve operational efficiencies, ultimately improving customer service.

- **Efficiency Reviews.** The Postal Service spends more than \$20 billion annually on its mail processing infrastructure and works to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves operational efficiency.

- We found the Dallas Bulk Mail Center (BMC) failed to adjust workhours in response to changes in workload; attain the efficiency achieved by most other BMCs; achieve target productivities; take full advantage of existing mechanization options; and reduce excess handling of mail. Consequently, the Dallas BMC used more workhours than necessary to process the mail. We recommended the Dallas BMC improve operational efficiency by reducing mail processing workhours by 418,000, producing a labor cost avoidance of about \$135 million over 10 years.



The Postal Service delivers 212 billion pieces of mail to over 144 million homes, businesses and Post Office boxes every year.

- We found that the Connecticut District used more resources than necessary to process its mail volume. We concluded a favorable business case existed to transfer incoming mail processing operations from the Bridgeport Processing and Distribution Facility (P&DF) to the Stamford P&DC. This consolidation would save an additional 21,800 workhours at the Bridgeport P&DF, improve network efficiencies, and potentially upgrade delivery service. This workhour reduction could produce a labor cost avoidance of more than \$6.8 million based on labor savings over 10 years.
 - The Postal Service and the OIG worked together to improve mail processing efficiency, by recommending that management close the Priority Mail Hub in Plano, Texas. Closing the Hub could help avoid labor and transportation costs totaling more than \$1.4 million.
- **Optimization of Surface Transportation.** During this period, we issued three audit reports addressing surface

transportation network optimization. This network includes Postal Service vehicles and employees, and contracted transportation. Network transportation using Postal Service vehicles and employees is called Postal Vehicle Service (PVS); and contracted suppliers are called Highway Contract Routes (HCR).

We reviewed PVS operations at the Los Angeles BMC and Milwaukee P&DC, and HCR transportation servicing at P&DCs throughout the Southwest Area to evaluate their effectiveness and identify opportunities to save money.

We found the Postal Service could save about \$8.9 million in PVS personnel costs by not adding more than 25,000 driver hours to the Los Angeles BMC's PVS workforce and at the Milwaukee P&DC; and \$2.1 million over the term of existing Southwest Area P&DC highway contracts by canceling, not renewing, or modifying 32 trips. The PVS cost can be avoided without negatively affecting service because the current PVS workforce at the Los Angeles BMC is sufficient to



Leased 28-foot and 53-foot trailers parked next to each other at the San Francisco Bulk Mail Center on May 16, 2007.

accomplish all required work and, at the same time, meet established productivity standards. Further, schedules at the Milwaukee P&DC contained unassigned time when drivers were not needed for a specific trip or related activity, duplicate trips, and trips that were not as full as possible. The HCR costs can be avoided by eliminating or modifying the identified 32 trips without negatively affecting service because trip volume was low and mail could be consolidated on other trips.

- **Management of the National Trailer Lease Fleet.** We evaluated the National Trailer Lease requirements and renewal in the Southwest and Pacific Areas and identified opportunities to reduce costs. Due to fleet management control weaknesses, the National Trailer Lease renewal could have been more effective by more accurately identifying its trailer requirements. Instead, the Postal Service may have missed an opportunity to save \$2.5 million when it allocated more trailers to the Southwest and Pacific Areas than were needed. However, the Postal Service still has an opportunity to save \$9.7 million by returning unneeded trailers.
- **Standard Mail Color Coding.** We worked with the Postal Service to identify opportunities to enhance the color-code process on a nationwide basis. For Standard Mail, the color code process involves using a series of color-coded tags to ensure the efficient processing of mail in a first-in first-out sequence to meet processing, dispatch and delivery targets. A color-coded tag represents the day of the week the mail arrived on Postal Service premises and denotes the targeted clearance date from the facility in 1 or 2 days.

We concluded the Postal Service processed 94 percent of its Standard Mail using the correct color-code processes. However, color-code tags were often not in a standard format, and the contents of the tags were sometimes inconsistent. We made several recommendations to

improve the processes and create a standardized tag nationwide.

Expedient Mail Delivery – Customer Service.

Improving service is a significant concern for the Postal Service while it simultaneously works to cut costs. Following are examples of our work in this area.

- **Philadelphia District Delayed Mail.** In response to a congressional inquiry, we reviewed allegations of delayed mail at the Southeastern P&DC, located in the Philadelphia District. From December 2005 to December 2006, the Southeastern P&DC had difficulty with the timely processing of standard flat mail. Specifically, we found that they adjusted mail processing procedures; processed standard flat mail without using a first-in first-out method; and handled standard flat mail excessively due to poor trailer loading procedures. They also conducted inefficient opening operations for BMC sack mail and executed only a partial contingency plan when flat volume exceeded sorting capacity. As a result, there were significant increases in delayed standard flat mail at this facility. Management acted on many of the audit suggestions prior to the completion of the audit.
- **Tennessee Rural Carrier Convicted of Delaying more than 10,000 Mail Pieces.** A Tennessee Police Department contacted us regarding a rented storage unit that appeared to contain a large volume of undelivered mail. The storage facility manager alerted police after finding mail in a partially open storage unit. Special agents determined that the unit was rented by a Rural Letter Carrier, who stored mail in two privately owned storage units rented or controlled by her. For 2 years, the Rural Letter Carrier intentionally delayed approximately 10,700 pieces of mail. The Rural Letter Carrier resigned from the Postal Service, and in June 2007 she pled guilty in federal court to delay of mail.

DELAYED MAIL IN CHICAGO

In December 2006, the Chicago District began receiving negative media coverage about the significant mail delays and inconsistent deliveries in and around Chicago; this media coverage accompanied numerous complaints from customers. In response to a request from the Postmaster General and a congressional inquiry, we examined the timeliness of mail processing in the Chicago District. (See feature story on hearings on page 39.) The Chicago District is part of the Great Lakes Area, covers 256 square miles, and services a population of more than 3 million. The Chicago District processes more than 1.5 billion pieces of mail annually, and has 48 delivery units and 2,462 city delivery routes.

We assembled a team to examine the major components of postal operations — processing, transportation, and delivery. Our reviews confirmed that the Chicago District continued to have difficulty with the timely processing of mail resulting in mail delays and service declines.

Our reports made 16 recommendations to improve the timely processing of mail. During the reviews, we discussed our recommendations with Postal Service management, and they began taking immediate corrective action. In addition, under the leadership of the Postmaster General, the Postal Service took aggressive actions to improve mail timeliness. These efforts have begun to reap benefits as the Chicago District mail delays are decreasing greatly and service scores have started to show improvement. In FY 2008, we plan to monitor management actions and conduct follow-up reviews.

Operational/Service Concerns. The Cardes Collins P&DC is located in the Chicago District, and is the 30th largest mail processing plant in the postal network of 273 plants. Compared to other large plants, the P&DC remains one of the lowest performers in processing mail in a timely manner. In addition, the P&DC had difficulty meeting outgoing mail clearance times and ensuring that transportation dispatches met scheduled departure times. Further, the P&DC consistently ranked below the national average for letters sorted in Delivery Point Sequence (DPS) order.

The P&DC inefficiencies also impacted Chicago District delivery units' performance. Delivery performance indicators showed office performance was well below the national average for some time, and reached its lowest level during February 2007; street performance was at an all time low with delivery units using increasingly more office time to case mail, and delayed mailed volume had increased dramatically. During our observations at units visited, the DPS mail truck from the P&DC consistently arrived later than anticipated and contained not only DPS mail but also caseable mail. The additional processing necessary before the carriers could case it for delivery impacted office and street delivery time.

We had previously identified and reported several of the issues noted in audits to the Chicago District and the Great Lakes Area. Management had agreed with the recommendations in these reports but had not always taken timely action to address or correct all of these issues.

Once the significance of the Chicago District service issues surfaced, management took aggressive action to:

- Conduct a top-to-bottom review of every aspect of mail processing from repairing equipment, to improving mail flows, to evaluating staffing and scheduling.
- Provide a delivery refresher course for all delivery management.
- Hire approximately 200 part-time flexible carriers.
- Deploy a team to conduct route reviews for every route in the Chicago District.



We reviewed mail flow transported to Chicago from other U.S. cities at Chicago P&DCs, including the Irving Park Road P&DC, located next to the Chicago Airport Mail Center at O'Hare International Airport. Photograph taken June 5, 2007.

Financial Concerns. Since FY 2002, we issued 13 financial audit reports regarding units in the Chicago District. In these audits, we identified significant, systemic financial weaknesses over stamp and cash accountability. Generally, management agreed with the findings and recommendations. However, the Postal Service did not fully implement corrective actions or maintain compliance at the units we had previously audited.

In April 2007, the Chicago District Manager asked us to conduct more financial audits of Chicago's stations and branches. Our audits again disclosed significant weaknesses in the internal controls over financial operations. Specifically, we noted internal controls over stamps, cash, and money orders were not in place and effective; accountability balances were not fairly presented; revenue was not always accurately collected and recorded; and expenses were not always allowable, reasonable, necessary, or fully supported.

We attributed these issues to a long-standing history of insufficient knowledge of financial policies and procedures, inadequate managerial accountability, and insufficient oversight. Although various training classes had been provided, no formal, detailed financial training program was required for managers. Additionally, unit managers generally showed an unwillingness to accept accountability for unit operations and comply with prescribed procedures. During individual site exit briefings for this audit, most station managers refused to sign documents certifying financial accountability for their units when presented to them by the District Finance Manager. In addition, corrective actions from previous audits were not sustained and the same issues often recurred.

Finally, we believe there was insufficient managerial oversight of financial operations resulting from frequent turnover. For example, employees at one station had not used the unit reserve because it was never properly transferred to a new custodian after the previous custodian left the unit in 2006.

As a result of our financial audits, we identified nearly \$122,000 related to shortages in stamps and cash, post office box/caller service fees, retail floor stock, and unsupported disbursements. Further, the internal control weaknesses placed \$11.1 million of assets and accountable items at risk.

We recommended that management implement a mandatory financial training program for all unit managers and supervisors; establish a system to monitor compliance with financial procedures; develop a plan to correct the noted deficiencies; and provide updates to the Great Lakes Area on the remediation of the noted deficiencies.

Investigative Activity in the Chicago District. In May 2007, we initiated the Chicago Carrier Observation Program (Op-COP) to investigate problems in the Chicago Performance Cluster. Special agents conducted the initiative in phases, and for part of the time partnered with postal inspectors to maximize the impact. Each day, special agents conducted covert surveillance operations and records checks of carriers who were believed to be engaged in unauthorized or inappropriate conduct while delivering mail. More than 235 investigations were conducted, resulting in more than 60 carriers from several stations observed engaging in misconduct. Reports were forwarded to postal management outlining the results of these investigations. Following is one such investigative activity.

Uniformed Letter Carrier and Union Steward Seen Drinking Alcohol on the Job. We received information from management that two City Letter Carriers were engaging in unauthorized deviations from their delivery route assignment. We observed the employees sitting together in a postal vehicle for over an hour drinking beer and whiskey while on the job and in uniform. Special agents followed one employee to a liquor store, where he walked inside and made a purchase. Ironically, one of the employees was a Union Steward who gave a stand up talk to carriers the day before warning them that the OIG had caught other employees drinking on their route. The Letter Carrier and Union Steward were removed from the Postal Service in July 2007.



Pictured is flat mail in queue for processing at the Cardiss Collins Processing and Distribution Center. Many of these flats, more than 1.5 million, were delayed mainly due to the retrofit of the Automated Flat Sorting Machine 100 (AFSM 100) on May 8, 2007. Note: The retrofit of the AFSM 100 machines has since been completed.

Process and Mail Processing Equipment

Enhancements. Our work in this area is aimed at assisting the Postal Service in identifying opportunities to reduce costs by improving significant aspects of the mail process. Some examples follow.

- **Flats Sequencing System.** In December 2006, the Postal Service issued a \$1.4 billion Phase I DAR to develop, purchase, and deploy 100 Flat Sequencing System machines at 31 sites. The mail processed on these machines would arrive at the delivery unit in walk sequence order, ready for delivery by the carrier with no additional mail movement or manual sorting required. As a result, the primary savings expected are those resulting from delivery units eliminating the requirement that mail carriers manually case flat mail, thereby reducing workhours.

Risks are inherent in any project and, therefore, risk management needs to be an integral part of every project. Hence, the Postal Service recently developed risk management guidance as part of its investment guidelines. This was one of the first projects to which management applied the new risk management policies. As it applies these new policies, we

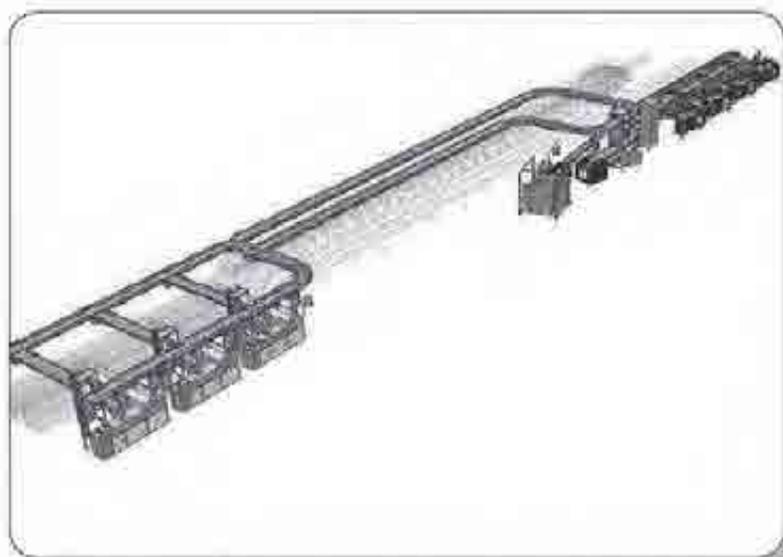
reviewed the Flat Sequencing System project and concluded that the Postal Service needs to focus greater attention on risk management standards to ensure that the significant risks associated with deployment of these machines are adequately identified and managed to optimize benefits.

- **Automated Flat Sorting Machine Enhancements.** The Automated Induction (AI) and Automated Tray Handling Systems (ATHS) are major equipment investments that management deployed in support of the Postal Service's cost reduction goals. Both systems are enhancements to the Automated Flat Sorting Machine 100 (AFSM 100) and are expected to eliminate workhours by reducing the staff needed to operate the AFSM 100.

We assessed whether the Postal Service realized the expected savings, and found that while overall workhours were reduced as planned, workhours for the mail preparation operation were increased beyond projections. In addition, we noted a decline in AFSM 100 throughput. The increase in mail preparation workhours and reduction in throughput negatively impacted the realization of projected savings. As a result, we considered more than \$80 million as funds put to better use since overstaffing the mail preparation operation is avoidable by adhering to established standards and methods.

We recommended that the Postal Service emphasize use of established methods for effective machine operation and staffing to plant managers, and establish plans to reduce mail preparation workhours. We also recommended that Postal Service Engineering establish formal procedures for validating baseline throughput figures.

- **Address Management System.** Address management forms the basis of how the Postal Service moves mail. In 1994, the Postal Service established the Address Management System (AMS) to capture,



Mail processed on 100 Flat Sequencing System machines will arrive at the delivery unit in walk sequence order, ready for delivery by the carrier with no additional mail movement or manual sorting required.

correct, and complete address information to enhance the efficiency of mail processing and delivery via automation. The AMS captures address information in sort programs used to process mail in delivery point sequence (DPS).

We audited the Postal Service's management of AMS quality review results to ensure that address information is correct and complete, which allows for effective processing and delivery of the mail. District officials in the five areas reviewed (Capital Metro, Eastern, Pacific, Southwest, and Western) effectively managed delivery AMS quality review results for about five percent of their routes (2,742 of 58,926) according to Postal Service guidelines. District AMS officials did not conduct additional street reviews for the remaining routes due to limited staff and a priority on timely mail delivery. However, we pointed out that if officials in these five areas implemented a program similar to the New York District's program, they could reduce errors by about 32 percent, saving the Postal Service more than \$18 million over the next 10 years.

Management agreed in principle with our findings and recommendations, and agreed to take actions that should reduce AMS errors. In addition, based on our audit, the Vice President, Delivery and Retail, and the Senior Vice President, Intelligent Mail and Address Quality, issued a joint memorandum to area vice presidents implementing a National Delivery-AMS Street Review process for FY 2008. This process is expected to address the issues raised in our audit.

- **Vehicle Maintenance and Repair Payments.** We found the Postal Service's use of PS Form 8230 to pay commercial vendors for maintenance and repair services was not cost-effective.

In FY 2006, the Postal Service processed more than 75,000 of these forms, disbursing about \$19.2 million to commercial vendors for maintenance and repair ser-

vices, even though the Voyager Card was the most cost-effective payment method for these services. This occurred because management officials did not:

- Always realize the cost and time impacts of using this form and, therefore, did not monitor its use.
- Always pursue alternate methods of paying vendors who did not accept the Voyager Card.
- Ensure all unit personnel received training on Voyager Card use and approval limits.

In addition, the PS Form 8230 payment process did not provide the controls necessary to reconcile and validate the reasonableness of maintenance payments for each vehicle serviced.

As a result, we estimated the Postal Service incurred more than 12,000 labor hours annually to prepare and process these forms. Further, with continued use of this form for maintenance and repair services, the Postal Service will spend more than \$1.2 million in unnecessary expenses over the next 10 years; will not have sufficient assurance that vehicle maintenance expenses are appropriate; and will not receive revenues from Voyager Card rebates of more than \$300,000.

We recommended that the Postal Service require district management to discontinue using this form (with some exceptions) and to provide information and training on the Voyager Card and PS Form 8230 process.

- **Management of Administrative Vehicles.** The Postal Service requested a nationwide review of administrative (non-mail hauling) vehicles used to support Postal Service operations. Specifically, we determined whether the number of administrative vehicles used to support operations was necessary and whether controls were adequate to support effi-

cient utilization. We found that the Postal Service had 587 underutilized/excess administrative vehicles in support of a variety of operations, for several reasons.

- Management did not have guidelines to use when determining the effective use of administrative vehicles.
- Personnel primarily focused on the management of delivery vehicles because of the size and cost of the delivery fleet.
- Personnel did not consistently monitor, review, and report administrative vehicle use.
- Personnel did not always take advantage of the vehicle motor pool concept.



Approximately 5,000 Postal Service facilities nationwide accept passport applications, processing an estimated 10 million applications in 2007.

Eliminating these underutilized vehicles could save the Postal Service more than \$2.7 million over the next 2 years. Consequently, we recommended that management reduce the current number of administrative vehicles and implement a policy to review use of all administrative vehicles based on miles driven and days used. We also recommended promoting the use of motor vehicle pools and reinforcing the policy to use and maintain PS Form 4570 to track miles and days used for owned and General Services Administration-leased vehicles.

- **Passport Program.** In 1975, the Postal Service began accepting passport applications for the Department of State. Today, if they choose to participate in the program and are approved to accept applications, post offices, public libraries, and courthouses can all accept

passport applications and mail them to the Department of State for processing. Approximately 5,500 Postal Service facilities nationwide accept passport applications. During our audit, the Department of State estimated that 16 million passports would be requested in 2007, of which the Postal Service estimated it would receive approximately 10.9 million applications (68 percent). Subsequent to our audit, the Postal Service provided FY 2007 actuals for passport applications, noting that the Department of State received 18.2 million passport application requests with 12.0 million of those applications coming through the Postal Service.

During this reporting period, we reviewed the Postal Service's ability to accurately convey passport application locations and appointment information to the public. Our review determined that customers may receive inaccurate location information for passport application acceptance because the Postal Service database that maintains facility information is sometimes inaccurate. Also, its website, www.usps.com, does not tell customers which post offices require appointments to apply for passports, and some of the post office locator links were inaccurate.

Passport applications contain sensitive personal information. Given the level of personal information required for passport application and processing, we work to ensure that this application acceptance process does not become an opportunity for identity theft by employees. Unfortunately, this recently became a reality, as illustrated next.

- **Pennsylvania Passport Acceptance Clerk Arrested for Theft.** A Passport Acceptance Clerk at a Pennsylvania post office inappropriately accessed and used customer passport-related information. Special agents identified customers whose information was accessed and/or used inappropriately, provided those names to the Postal Service, and coordinated efforts with the Postal Service to

prevent financial loss to these customers. In July 2007, the Postal Service sent letters to identifiable customers notifying them of the incident and providing contact points to answer any questions or provide further assistance. The Postal Service provided important information on preventing identity theft and agreed to pay for 1-year credit monitoring service for affected customers. The employee resigned under investigation in April 2007. She was arrested and the case is pending.

Information Systems. The OIG works to preserve the integrity of the data in Postal Service information systems. Examples of our work in this area follow.

- **State of Information Technology within the Postal Service.** As part of our oversight of the Postal Service's information resources, we assessed the progress the Chief Technology Office (CTO) has made with the IT program. Overall, CTO management has made notable progress toward enhancing the Postal Service's information security program, upgrading its computing infrastructure, and achieving universal computing connectivity. The 75 audits and assessments of the IT program we conducted from October 2003 through June 2007 showed that the IT program is well managed and supports overarching Postal Service needs. When opportunities for improvements were identified, management undertook initiatives to address them. Consequently, we believe the Postal Service's information resources provide an adequate level of security, reliability, and value.
- **Controls over Network Switches.** Network switches help direct and control data flowing across computer networks. These devices inspect data packets as they are received, determine the sources and destinations of those packets, and forward them appropriately. The Postal Service had adequate physical controls over the network switches at the U.S. Postal Inspection Service facilities we visited; however, applying additional technical and

management controls could strengthen security over switches serving Inspection Service users, provide for reliable inventory information, and ensure continuation of vendor maintenance support. We made two recommendations for strengthening technical controls, including updating and applying hardening guidance to network switches. We also made five recommendations for strengthening management controls related to an Infrastructure Information Security Assurance evaluation, technology refreshment, and switch accountability.

Implementing corrective actions would help ensure that the Postal Service maintains the confidentiality, availability, and integrity of sensitive law enforcement communications and data, thereby safeguarding customer goodwill and the Postal Service brand. We regard the entire switch inventory, valued at about \$1.2 million, to be at risk due to accountability issues.

- **Information Systems Reviews.** We review information systems general controls to support the annual financial statement audit and to assess the adequacy of controls over information systems security and software.
- **Separation of Duties.** Sensitive positions include those in which personnel could, during the performance of their duties, cause material adverse affect to Postal Service information resources. This includes making changes to operating system configuration parameters, system controls, and security authorizations. All personnel whose duties require access to sensitive or business-controlled sensitive Postal Service information resources must have an appropriate clearance before they obtain access.

We assessed whether the principles of least privilege and separation of duties were specified in the Postal Service's policies and procedures and implemented at the Eagan, Minnesota; San Mateo,

California; and St. Louis, Missouri Information Technology and Accounting Service Centers (IT/ASC). Generally, we found the policies, procedures, and internal controls adequate to separate duties for personnel accessing critical information system resources at the IT/ASCs. However, controls to determine which career employees required sensitive security clearances needed strengthening. Specifically, management did not always review and update the classification of sensitive positions for employees at the three IT/ASCs in a timely manner.



More than 40 million Americans change addresses every year, resulting in 4.3 billion mail pieces identified as Undeliverable as Addressed (UAA).

As a result, management needs to review 555 ASC positions that may need to be classified as sensitive positions because they have access to sensitive information resources or the capability to update information systems critical to financial operations. Also, some ASC career employees had sensitive security clearances, while other ASC employees in similar positions did not.

- **Security Vulnerability Assessment — Postal Automated Redirection System.** More than 40 million Americans change addresses every year, resulting in 4.3 billion mail pieces identified as Undeliverable

as Addressed (UAA). The mobility of the American population creates formidable obstacles for the Postal Service in maintaining an efficient process for forwarding mail and for large mailing businesses that try to maintain high quality mailing lists. The national Change of Address (COA) program makes change of address information available to mailers to help reduce undeliverable or duplicate mail pieces.

The Postal Automated Redirection System (PARS) plays an integral role in the COA process. PARS devices identify and redirect UAA mailpieces at their point of origin rather than their destination. As a result, PARS provides significant savings in both mail processing and transportation. Implementation of PARS also substantially improves the processing time associated with handling redirected mail.

We assessed the security of the servers and databases supporting PARS and determined whether they complied with current Postal Service hardening standards. We identified numerous high-risk vulnerabilities, primarily related to missing patches, across the servers tested. In addition, the servers and databases do not comply with Postal Service hardening standards. Our technical report did not contain any formal recommendations; however, management took corrective actions as the issues were brought to light. By reviewing and addressing these vulnerabilities, management has the opportunity to strengthen security, and to preserve existing service levels and the integrity of the PARS data and the Postal Service brand.

- **Database Administration Practices Audit.** The Postal Service is committed to creating and maintaining an environment that protects information resources from unauthorized use, modification, disclosure, or destruction. It is further challenged with managing and monitoring 186 business applications and 550 associated databases hosted on its Oracle database management system platform

and providing services to Postal Service business units. All requests for access to these databases are subject to a security clearance, management approval, and validation prior to management granting developers access to production data.

Our limited review of four applications showed the Postal Service needs to strengthen controls and processes surrounding access, segregation of duties and database administration. Implementing our recommendations would result in stronger controls surrounding production data, which would help preserve the integrity of the sensitive data at risk in these applications. As a result of our audit, management is implementing a new process for approvals and rejections that tracks written requests for use of production data in a test environment, and the expiration date of approved requests. In addition, the Corporate Information Security Office (CISO) has updated policy and procedures that address the use of sensitive but unclassified data in the test, development, and production environments. Further, the CISO and Database Support Services have implemented additional requirements and steps that ensure everyone follows existing policy. Finally, management is formulating a semi-annual user access account review process within eAccess that lists pertinent data for all users of a registered application.

- **Contractor Terminated After Unintentionally Modifying Global Security Policy.** As part of our efforts to mitigate risk concerning IT security, we maintain a Computer Crimes Unit (CCU), staffed with investigators trained in network security.

The CCU recently completed an investigation regarding access to sensitive information resources. In March 2007, Postal Service IT management told us thousands of Postal Service workstations were becoming inoperable due to unauthorized changes replicated across the Postal Service computer infrastructure. The unauthorized modification was made

to the global security policy within the Postal Service's Active Directory computer security application, known as Global Policy Objects (GPO). The GPO provides uniform security policies for networked computers, computer applications, and computer users.

Because of the unauthorized modifications, internal computer users were denied access to some applications,



The OIG's Computer Crimes Unit provide specialized support services to investigations, including forensic imaging, analyzing seized images of electronic media and consensual monitoring of computer systems.

significantly disrupting business. Our CCU investigators worked together with the Postal Service Computer Incident Response Team and determined that a postal contractor in Greenbelt, Maryland, unintentionally initiated the unauthorized GPO modification. The contractor knowingly provided a false statement to special agents during his interview.

In June 2007, the contractor was terminated, and his Postal Service computer network access was disabled. The U.S. Attorney's Office declined prosecution. The documented cost damages to the Postal Service were \$392,737.

- **Data Integrity Reviews.** The Postal Service processes more than 213 billion mail pieces a year. To help manage its mission, the Postal Service has a number

of systems supporting its operations. Critical among these systems is the Web Mail Condition Reporting System — this system is vital to managing the day-to-day domestic and international operational mail activities. In cooperation with the Postal Service, we completed three data integrity reviews and found the mail condition reports for the:

- San Francisco International Service Center (ISC) were submitted on a timely basis, but the data was incomplete and inaccurate.
- Miami ISC were submitted on a timely basis and generally reported complete and accurate data, with some minor exceptions.
- Los Angeles ISC were accurate, complete, and timely. However, improvements could be made in the reporting of inbound parcels and plan failures for each processing operation.

We found that management could not always rely on data to make distribution decisions, identify problems in achieving operational targets, or analyze operational trends. We recommended improving controls over reporting and training employees.

We also reviewed internal controls over the clock rings and time card operations at the P&DC in San Diego, California. (A clock ring occurs when employees swipe time cards on an electronic badge reader to record their work hours in the Time and Attendance Control System.) Generally, internal controls to ensure the accuracy of clock rings were in place and effective. Based on our statistical sample of 220 employees, we projected that 93 percent of mail processing employees were clocked into the correct operation, while seven percent were clocked into incorrect operations. Errors in employees' operational moves

could result in management making incorrect decisions about resource allocations and the productivity of individual operations. Furthermore, the Postal Service did not secure all time card racks containing employees' electronic time cards and allowed some employees to retain their time cards during their tours. This increased the P&DC's vulnerability to timekeeping errors and fraud. We made four recommendations in the report to correct these issues.

Workforce and Workplace Issues. The Postal Service faces the challenge of managing a large and dynamic workforce. Added to that challenge is the need to improve workplace safety and to reduce workplace-related injuries. Our work in this area follows.

■ **Workplace Safety and Workplace-Related Injury Reduction Goals and Progress.** During this reporting period, we assessed the Postal Service's ability to resolve workforce and workplace issues, particularly those related to injury and illness reduction goals. We also worked with the Department of Labor (DOL) OIG to address scheduled awards program recommendations with the DOL OWCP. In addition, under the auspices of the President's Council on Integrity and Efficiency (PCIE), we led an OIG community effort to develop a pro forma *Federal Employees' Compensation Act (FECA) Audit Guide*.

■ **Workplace Safety.** In compliance with the Postal Act of 2006, we reviewed the Postal Service workplace safety and workplace-related injuries and found the Postal Service had exceeded its DOL Occupational Safety and Health Administration (OSHA) injuries and illnesses (I&I) reduction goals for FYs 2005 and 2006. In fact, over the past 5 years, the Postal Service's OSHA I&I rate and numbers decreased 27 and 34 percent, respectively. The Postal Service's success in achieving its OSHA I&I goals was due to numerous actions taken to improve workplace safety and reduce workplace-related OSHA I&I nationwide.

PCIE FECA AUDIT GUIDE

The Postal Service OIG and OIGs at the Departments of Labor and Treasury developed a pro forma audit guide for auditing the FECA program for the Federal Audit Executive Council. The purpose of this guide is to provide a more coordinated approach to conducting FECA-related audit, inspection, and evaluation work and to promote collaboration across the OIG community. In addition, the audit guide will help ensure FECA audits, inspections, and evaluations contribute to improving internal controls, reducing costs, returning workers' compensation claimants to work, and identifying and preventing fraud, waste, and abuse in the program.

In addition, although OSHA does not establish individual injury reduction goals for federal agencies or the Postal Service, it does establish a national average injury reduction goal to reduce OSHA I&I for all entities within its jurisdiction. Using OSHA's national average reduction goal as a benchmark, we determined the Postal Service exceeded OSHA's national average 5-year goal by seven percent.

Further, we determined there may be a corresponding reduction in the Postal Service's total accident and OSHA I&I costs. (OSHA defines an accident as any unplanned event that results in personal injury or property damage and defines an injury or illness as an abnormal condition or disorder.) However, the Postal Service does not capture individual accident costs so we could not determine the cost savings in key categories from 1 year to the next. We recommended the Postal Service monitor costs associated with accidents and OSHA I&I, to help target high cost areas for reductions in accidents and OSHA I&I and ensure the safety of employees.

- **Scheduled Awards Program.** Last reporting period, we issued a report to the DOL OIG requesting that it address two issues identified during our review of the Schedule Awards Program in the Postal Service's New York Metro Area. These issues were: (1) OWCP handbooks and course materials do not contain information on how OWCP participating agencies should calculate and verify schedule award payments; and (2) the OWCP does not notify participating agencies of new weekly or monthly schedule award payments resulting from annual cost-of-living adjustments (COLA). Since the DOL OWCP has program responsibility for schedule awards, we recommended that it provide participating agencies with instructions on how to calculate and verify schedule award payments and advise agencies of COLA changes to employees' schedule award payments. This

would help agencies monitor increases in schedule award payments to ensure they are correct and would enable agencies to identify and correct errors before the OWCP bills them.

Through meetings with DOL OIG auditors and review of our report and supporting work papers, they concurred that our two recommendations to the OWCP were valid and would enable all federal agencies (not just the Postal Service) to accurately validate schedule award payments. The OWCP also agreed to implement the recommendations for workers' compensation training for federal agencies.

Security of the Mail. The American public expects to receive their letters and parcels on time and intact. Most postal employees work diligently to move the mail to its proper destination. Unfortunately, a small number of individuals betray the public's trust. Investigating and identifying those employees who steal mail and seeking their prosecution is our responsibility.

Since assuming responsibility from the Inspection Service for these types of investigations, we hired a number of postal inspectors specializing in internal crime investigations. These investigators, along with the existing complement of special agents, have made an immediate impact.

We address the security of the mail risk through our Mail Theft program, which is designed to protect mail from theft, rifling, destruction, mistreatment, or obstruction. This desired outcome is achieved through the identification, arrest, and prosecution of those responsible for these crimes, as well as the removal of employees by postal management.

Office of Investigations management has initiated investigative and prevention efforts by partnering with the mailing industry.



In compliance with the Postal Act of 2016, we renewed the Postal Service workplace safety and workplace-related injuries.

Examples include attending strategic meetings with key mailers (such as Netflix, Blockbuster, QVC, and the U.S. Department of Veterans Affairs) and major financial industry associations, and leading a General Assembly presentation at a recent International Association of Financial Crime Investigators conference in Toronto. As a result of these partnerships, mailers provide loss information to the OIG that we match with Postal Service delivery databases to determine possible points of theft, improve efficiency, and reduce losses associated with employee theft.

During this period, our mail theft investigations resulted in 196 arrests and 513 administrative actions. The following cases are examples of our investigative accomplishments in this area during the reporting period.

■ **Pennsylvania Casual Carrier Pleads Guilty to Stealing Gold Bars from the Mail.** When a jewelry store owner in Pennsylvania reported that an Express Mail package of gold bars was not received, special agents determined that the package was scanned as delivered and signed for, but the jewelry store owner did not receive the package. The package contained 15 gold bars, valued at \$790 each, totaling \$11,850. Our investigation concluded that a Casual Carrier stole the gold bars. He surrendered the gold bars to us and resigned from the Postal Service in April 2007. In May 2007, the Casual Carrier pled guilty in federal court to one count of Obstruction of mails and was sentenced to 1 year of probation.

■ **California Postal Employee Pleads Guilty to Mail Theft.** A major DVD movie rental company alerted us about the possible theft of inbound DVD movies at the

San Bernardino P&DC. The company's records indicated that between January and October 2006, customers reported not receiving 9,303 DVD movies. Our investigation determined that a Mail Handler was responsible for the rifling and theft of the DVD mailings. In addition, the Mail Handler was responsible for the theft of mailings from other mailers of DVD movies, video game discs, and other mail matter. We executed a federal search warrant at the employee's residence and seized more than 5,000 discs valued at approximately \$75,765. The employee was removed from the Postal Service, and in March 2007, pled guilty to one count of Theft of Mail. The employee was sentenced to 3 years of probation, 12 months of home detention, and 100 hours of community service.

■ **North Carolina Casual Letter Carrier Arrested for Theft of U.S. Treasury Checks.** In June 2007, we arrested a Casual Letter Carrier after observing her steal mail and place it in her pocket. Special agents recovered six pieces of mail containing Treasury checks from the employee's pockets, and found an additional three Treasury checks in the glove box of her vehicle. The Postal Service terminated the Casual Letter Carrier's employment. The criminal case is pending.

■ **West Virginia HCR Driver Convicted of Stealing Veterans Affairs Medications.** We investigated numerous customer complaints regarding missing U.S. Department of Veterans Affairs (VA) packages. These packages contained medications from the VA's mail order pharmacy. Special agents arrested the HCR Driver after he videotaped stealing VA parcels from a post office shelf. The HCR Driver pled guilty to Theft of Mail in July 2007, and he is awaiting sentencing. The Postal Service terminated his contract and he no longer has access to the mail.

■ **Pacific Area Security Controls.** The Inspection Service conducts Facility Security Surveys (FSS) to assess facility status



We address the security of the mail risk through our Mail Theft program, which is designed to protect mail from theft, rifling, destruction, mistreatment, or obstruction. Above is an example of rifled mail, or mail that has been broken into and the contents removed.

and to recommend actions to improve security. The FSS, which must be completed annually, is an in-depth checklist covering physical security areas.

During our review of the Pacific Area's FSS program, we found opportunities for the Postal Service and Inspection Service to improve security controls and processes to effectively and efficiently protect employees, customers, the mail, and critical assets. For example, responsible security personnel did not always conduct FSS's accurately or annually as required.

We recommended that management require area- and district-level personnel to establish and implement appropriate internal controls, such as an internal review and approval process, to ensure that security personnel complete FSS's accurately and in a timely manner. We also recommended that management develop appropriate performance measures for physical security to assess the achievement of security goals and incorporate them into performance plans for area-, district-, and field-level security personnel.

Area Security Assessment Program. We reviewed the Area Security Assessment Program (ASAP) and determined that ASAP reviews were similar to security reviews the Inspection Service performs. Postal Service management used its own personnel to conduct ASAP reviews, the results of which the Inspection Service did not take into account when assessing security operations. Additionally, Postal Service management spent about \$144,000 on the ASAP database; however, the information in the database was not reliable. Consequently, management discontinued use of the ASAP based on our recommendation.

Suspicious Powder Incident. We reviewed the handling of a February 2007, suspicious powder incident at the Wichita Falls Mail Processing Center (MPC) in Texas and found that employees did not follow policies and procedures for handling suspicious powders and unknown substances found in the mail.

Additionally, Wichita Falls MPC management had not established an Integrated Emergency Management Plan (IEMP) to ensure employees were familiar with policies and procedures for effectively responding to suspicious mail incidents. As a result, Postal Service employees and critical assets were not appropriately safeguarded, and personnel were exposed to increased risks that could have resulted in serious health problems or death. We recommended that management provide training and practice drills to ensure that employees understand the procedures for handling suspicious powders and unknown substances, and complete an IEMP with a focus on suspicious powders and unknown substances.

Official Misconduct. The Official Misconduct program oversees investigations of misconduct by postal employees that deteriorates the public's trust and reflects negatively on the Postal Service. Official Misconduct investigations include: misuse of postal computers; destruction or theft of postal property; falsifying official documents/forgery; theft of funds; abuse of authority; sabotage of operations; narcotics and alcohol abuse; and general miscellaneous employee misconduct.

During the reporting period, we completed 1,871 Official Misconduct investigations, resulting in 115 arrests and 1,071 administrative actions. The following are examples of our investigative accomplishments in this area during the reporting period.

- **Missouri Postmaster Indicted for Alleged Sale of Narcotics at Work.** We received anonymous information alleging that a Missouri Postmaster was selling drugs on postal property. An OIG



We investigated allegations that a South Carolina Rural Letter Carrier discarded and destroyed a significant amount of deliverable mail. The delayed mail impacted 574 customers. A search of the employee's property resulted in the recovery of more than 2,000 pieces of First Class Mail, 527 newspapers, two full toppers of Standard Mail, and 34 packages that were at later delivered to the affected customers. In June 2007, the Rural Letter Carrier resigned from the Postal Service. Prosecution is pending.

and Drug Enforcement Administration (DEA) investigation led to the arrest of the Postmaster. The investigation revealed the Postmaster was using money from the office safe to fund some of the drug transactions, and she sold methadone for cash, traded the pain killer Vicodin for another prescription drug, and purchased other drugs including methamphetamine. Our investigation determined that the Postmaster falsified records in the accounting system to conceal the missing money. The Postmaster, who had worked for the Postal Service for nearly 27 years, resigned and was indicted in June 2007, on drug-related charges. She pled guilty to one count of misbranding prescription drugs in federal court and could now face up to 3 years in prison. Sentencing is pending.

- **Temporary Employee Gets Prison for Intent to Distribute 48 Pounds of Marijuana.** The Inspection Service told us that an Express Mail parcel mailed to a Houston-area address had been interdicted after being identified by a drug-sniffing dog. The parcel contained marijuana.

A temporary Rural Letter Carrier at the delivery office made it known at the post office that the addressee was a friend of the family and was expecting another Express Mail parcel. Surveillance by special agents, postal inspectors, and officers of the Houston Police Department determined that the temporary Rural Letter Carrier failed to deliver the parcel or leave a notice at either address. The Postal Service subsequently removed the temporary Rural Letter Carrier. She

was indicted in federal court and arrested. In May 2007, the former employee pled guilty and was sentenced to 4 months in federal prison for intent to distribute

48 pounds of marijuana and 2 years of supervised release.

- **Oregon Letter Carrier Arrested for Selling Narcotics.** We received an anonymous complaint reporting that drug sales by a Letter Carrier were common knowledge among the employees and customers of a local Oregon bar. Surveillance by special agents on approximately 25 occasions documented transactions of cash and apparent narcotics transactions from within and around his postal vehicle. The Letter Carrier was arrested at his home by OIG and DEA agents and local police. Among items seized at the employee's residence were approximately 14 pounds of marijuana and \$3,000 in cash. The employee was arraigned in federal court in March 2007. Trial is scheduled for November 2007.
- **Postmaster Charged for Viewing Child Pornography on Office Computer.** The Office of Investigations CCU conducts administrative and criminal investigations of misuse of postal systems. A CCU investigation involving a New Jersey Postmaster uncovered 127 pornographic images on a postal computer. Individuals in many of these pornographic images were certified as children by the National Center for Missing and Exploited Children. Disciplinary action against the Postmaster is pending. In August 2007, the Postmaster was charged in federal court with possession of child pornography.

- **Carrier Observation Program.** Misconduct committed by postal employees who are on duty, in uniform, and in public view casts the Postal Service in a negative light. This improper conduct includes, but is not limited to, purchasing or consuming alcohol, selling illegal narcotics, driving with suspended state drivers' licenses, and deviating from their routes to conduct non-postal business. In particular, City Letter Carriers who drive postal trucks while intoxicated or under the influence of drugs also present a threat to themselves, the public, and Postal Service.



A federal grand jury indicted a former North Carolina Rural Letter Carrier on charges of destruction and theft of mail after we presented evidence that the employee delayed and buried mail. We recovered approximately 1,000 First-Class Mail pieces and about 1,600 Standard Mail pieces. The former Rural Letter Carrier was arrested on August 29, 2007. Her trial is pending.

property while placing the security of the mail at risk.

On September 1, 2005, we initiated the Carrier Observation Program (COP) based on allegations of Letter Carrier misconduct. We receive information from various sources nationwide, including:

- Hotline allegations.
- Surveillance of postal vehicles parked outside bars or similar establishments for prolonged periods.
- Contact with Postal Service supervisors, managers, postmasters, and district managers.

In addition, special agents review Overtime Usage Reports and Managed Service Points Exception Reports to identify excessive early, late, or missing scans that recur for the same letter carriers and to compare workload and resource utilization.

As a result of our investigative activity, during this period management took corrective action against 209 employees. Actions ranged from reprimands and suspensions to removal. Following is an example of a COP investigation during the reporting period.

- **Uniformed Denver Letter Carriers Seen Drinking Alcohol in Bar while on Duty.** We received information from management that two Denver Letter Carriers were frequenting a bar and drinking alcohol while on duty and in uniform. The Carriers were observed driving postal vehicles after consuming the alcohol. Additionally, the two Carriers falsified Managed Service Point scans while in the bar to make it appear they were on their delivery routes. In July 2007, both employees were issued Letters of Removal by the Postal Service.

Special Investigations/Internal Affairs Investigations. The Special Investigations/Internal Affairs Division conducts criminal and administrative investigations of Postal Service and OIG executives, Inspection Service, and OIG



Our Hotline staff received 44,000 contacts during this period, many of which led to misconduct investigations.

staff, as well as allegations of whistleblower reprisal.

In the Postal Service, a whistleblower is an employee or an applicant for employment who reports misconduct to people or entities that have the power to take corrective action. Generally, the misconduct is a violation of law, rule, or regulation, and/or a direct threat to public interest — fraud, health, safety violations, and corruption are just a few examples. In order to be eligible for whistleblower protection, the employee must reasonably believe his or her employer has committed a violation of some law, rule, or regulation.

OIG whistleblower activity during this period:

| | |
|--|----|
| Allegations received: | 44 |
| OIG investigations initiated: | 32 |
| Investigations closed with no finding of retaliation or deferred to other adjudicative body: | 23 |
| Open investigations: | 9 |
| OIG found reprisal: | 0 |

FEATURE STORIES

Postal Accountability and Enhancement Act

Update. The Postal Service's mandate is to provide reliable universal service at affordable prices. At the same time, the Postal Service needs to operate in a businesslike manner while reducing costs and fostering growth and innovation in the mailing industry.

As noted in our prior *Semiannual Report to Congress*, the Postal Act of 2006 is the first major legislative change to the Postal Service since 1971. A number of its important requirements impact the OIG. For example, it:

- Requires the OIG to submit to Congress and the Postal Service, by June 2007, a report that details and assesses Postal Service progress toward improving safety, reducing workplace injuries, and identifying opportunities for improvement.
 - In May 2007, we issued a report entitled "*Postal Service's Workplace Safety and Workplace-Related Injury Reduction Goals and Progress.*"
- Requires the OIG, by December 2007, to study and submit to the President, the Congress, and the Postal Service a report concerning how the Postal Service administers the assessment of revenue deficiencies for Nonprofit Standard Mail.
 - We have reviewed the adequacy and fairness of the process by which assessments are determined and appealable, including whether the Postal Regulatory Commission (PRC) or any other body outside the Postal Service should be assigned a role and whether a statute of limitations should be established for the commencement of proceedings by the Postal Service. We are currently summarizing our results and plan to issue our report prior to the required reporting date.
- Applies certain provisions of the Sarbanes-Oxley Act to the Postal Service, and requires the Postal Service to conform to certain aspects of Securities and Exchange Commission (SEC) reporting requirements, both of which will require the OIG to conduct audit work. Also, the Postal Service must submit to the PRC financial results segmented by market-dominant and competitive product lines along with additional supplementary information.
 - We coordinated with the Postal Service and Ernst & Young (E&Y), its independent public accounting firm, to monitor its process to become Sarbanes-Oxley Act compliant by FY 2010. We also started realigning our financial reporting structure and processes to better assist in supporting the overall opinion on internal controls over financial reporting issued by E&Y. Also, for the third quarter, FY 2007, we assisted E&Y in reviewing the quarterly financial information to prepare for full compliance with SEC requirements beginning in FY 2008. We will continue to coordinate with the Postal Service as they identify key controls over financial reporting and move towards compliance; and will further refine and coordinate our work and incorporate process efficiencies in the overall opinion process.
- Requires the OIG to audit regularly the data collection systems and procedures the Postal Service uses to collect information used for its report analyzing costs, revenues, rates and quality of service to the PRC.
 - In August 2007, we issued a report entitled *Management Operating Data System (MODS)*, which assessed the effectiveness of MODS internal controls and the validity and reliability of MODS volume and workhour data. We found that MODS internal controls were generally effective at the seven mail processing facilities we audited and that MODS data was valid and reliable at these facilities when used to assess overall plant efficiency. However, MODS internal controls were not effective in ensuring that volume and workhour data recorded against MODS opera-

tion numbers was valid. We provided three recommendations for updating outdated policies, procedures, and on-line training materials, developing guidelines for correcting MODS volume and workhour errors, and performing MODS reviews annually.

Computer Assisted Assessment Techniques Continuous Monitoring System. In the traditional audit approach, a period of time passes (sometimes months after business activities occurred) before transactions or events are reviewed and an audit report is issued. In many instances, this delay makes information contained in the report less beneficial to management. Further, the audit results were likely derived from a testing methodology that employed only a statistical sampling of the total population being reviewed.

By implementing continuous auditing techniques within the Computer Assisted Assessment Techniques (CAATs) Continuous

Monitoring System (CCMS), we can now analyze, in a near real-time environment, 100 percent of a transaction universe within key Postal Service systems for anomalies and indicators of control deficiencies, fraud, and emerging risk.

This initiative mirrors a recent PricewaterhouseCoopers nationwide survey of *Fortune* 250 firms; many respondents said their audit executives are now pursuing continuous auditing solutions to shorten audit cycle times and provide more timely audit testing of control effectiveness or fraud detection.

Our CCMS analyzes transactions at the end of each month for selected Postal Service systems. It identifies trends for risk assessment and "flags" transactions that meet defined fraudulent patterns or control anomalies. In addition to producing special reports, CCMS allows special agents to search all transactions relating to a subject cardholder.



Our Computer Assisted Assessment Techniques (CAATs) Continuous Monitoring System (CCMS) produces analytical reports that identify risk assessment trends, fraudulent patterns and control anomalies.

Suspicious Expenditures Task Force. As discussed in our last *Semiannual Report to Congress*, we established a cross-component task force to coordinate purchase card audit and investigative work. The group analyzes purchase card transactions using pre-defined queries from the CCMS. Some of the systems under continuous review include the following.

- **SmartPay Purchase Card.** The SmartPay Purchase Card program processed purchases of about \$187 million during this reporting period. The CCMS assesses about 103,000 SmartPay Purchase Card transactions each month for anomalies and common fraud indicators.

We judgmentally and statistically select purchase card transactions for testing on a routine basis. When a transaction is selected, we request documentation from cardholders to confirm the validity of these transactions. We also evaluate relevant internal controls and data reliability. We will be issuing an interim report on the initial results of our national transaction review in the first quarter of FY 2008.

In addition, the Suspicious Expenditures Task Force has a number of other ongoing audits, including audits of purchase card transactions at Postal Service districts and statistically selected field units, an audit of officers' use of purchase cards, and audits



In addition to managing the OIG's nationwide radio system, the Tech Ops Group of the Technical Investigations Division also does research and development of advanced surveillance technologies and manages the nationwide Criminal Investigative Systems program.

on the effectiveness of internal controls on Voyager transaction cards.

- **SmartPay Purchase Card Audits – District Reviews.** As part of our work in support of the annual financial statement audit, we completed audits of SmartPay Purchase cards in four districts. Our audits disclosed systemic issues related to approvals, supporting documentation, purchases made from unauthorized vendors, and prohibited purchases. In addition, we noted that cardholders in each district did not always reconcile, or timely reconcile, purchase card statements. In total, our audits identified monetary impact of more than \$300,000 in unapproved, unauthorized, and unsupported purchases, and almost \$700,000 in non-monetary impact for purchases that were not reviewed or reconciled.
- **SmartPay Purchase Card Audits – Officers Use.** We audited purchase card use by Postal Service officers. At the request of management, this included a review of purchase card policies at the headquarters level. Our audit concluded that internal controls over SmartPay Purchase Card use by officers were generally adequate. However, the Postal Service did not always maintain adequate purchase documentation.

We also identified areas where controls over the purchase card could be enhanced by strengthening existing SmartPay Purchase Card policies. These included allowing officers to serve as cardholders or credit card approving officials (CCAO) on an exception basis only; requiring that itemized sales slips be included as part of required documentation; and requiring that documentation of meals acquired with the purchase card include identifying the participating staff. We identified questioned costs of more than \$127,000 (such as unsupported purchases), and an additional \$182,000 for disbursements at risk (such as purchases not reconciled or split purchases).

- **Voyager Fleet Cards (eFleet).** The eFleet program pays for fuel, oil, repair, maintenance, and washing of more than 200,000 Postal Service vehicles. The eFleet program processed purchases of about \$235 million during this reporting period. The CCMS assesses about 863,000 such transactions each month.

As part of our national review of the eFleet program, we select post offices for a more detailed audit. During this reporting period we found managers at certain branches of a Pennsylvania post office did not always follow pertinent eFleet program policies and procedures because they had other duties that took priority or they were unaware of the requirements. Although we did not identify any fraudulent transactions, control weaknesses increased the risk of eFleet program fraud or abuse at these branches. Management agreed with our two recommendations to improve the eFleet program at the branches. The results of this audit will be included in a nationwide capping report assessing eFleet program controls and transactions.

In addition, Voyager Cards are issued to HCR suppliers to purchase commercial fuel for supplier vehicles transporting mail for the Postal Service. We have several ongoing and planned audits addressing the effectiveness of internal controls over Voyager Cards issued to HCR suppliers. We plan to issue several reports discussing opportunities for the Postal Service to improve internal controls over retail purchases of fuel by HCR trucking suppliers.

Augmenting the audit work discussed above, we investigate allegations of suspicious transactions. This complements ongoing work by the Postal Service to strengthen controls. For example, the Postal Service's Financial Control and Support Office recently conducted approximately 800 Purchase Card reviews in the field, concentrating on root causes for issues regarding training and cardholder and CCAO activity.

Office Of Investigations Aligns With Postal Service Areas. The Office of Investigations assists the Postal Service in its efforts to achieve the highest level of employee and program integrity through the prevention, detection, and investigation of embezzlement, theft, fraud, and misconduct. It is

organized geographically with about 650 investigators and support staff assigned to our nine area offices that are aligned with the Postal Service field management structure, along with a headquarters support component in Arlington, Virginia.

In July, the Office of Investigations restructured its field operations and reduced its 13 Field Offices to nine. Its field operations now coincide with the nine Postal Service Area Offices. The realignment will enhance Office of Investigations' ability to establish stronger lines of cooperation and communication with area stakeholders, as area vice presidents and the area special agents in charge will communicate directly. The restructuring will also promote integrity, economy, efficiency, and better customer service, particularly to senior postal management.

Our investigative work is now organized by function, with five major field investigative programs (Contract Fraud, Financial Fraud, Official Misconduct, Healthcare Fraud, and Mail Theft). At the headquarters level is a separate Special Investigations Division and a Countermeasures group.



The OIG attended the National Organization of Black Law Enforcement Executives (NOBLE), 51st Annual Training Conference in Fort Lauderdale. The theme was "NOBLE: Addressing an Ocean of Challenges with Waves of Solutions & Bolting Badges Back to Basics," and provided law enforcement-related education, training, networking, and camaraderie.

OFFICE OF INSPECTOR GENERAL AREAS OF RESPONSIBILITY

- Theft, delay, or destruction of mail by employees and contractors
- Injury compensation fraud
- Embezzlements and financial crimes
- Contract fraud
- Kickbacks
- Computer crimes
- Narcotics
- Official misconduct
- Internal affairs and executive investigations
- Whistleblower reprisals

Hotline: 1-888-USPS OIG
(1-888-877-7644)
www.uspsoig.gov



POSTAL INSPECTION SERVICE AREAS OF RESPONSIBILITY

- Mail fraud
- Violent crimes
 - assaults and homicides of employees
 - burglaries and robberies
- Security of employees, facilities, and equipment
- Mail theft by non-employees
- Dangerous mail and bombs
- Revenue and postage fraud
- Narcotics in the mail
- Child pornography/obscenity
- International mail security

Contact: 1-877-876-2455
www.postalinspectors/uspis.gov





Agents from the Saint Paul Office participated in the Missing Children's Day event in Stillwater, Minnesota, joining other federal law enforcement agents in the event. Through the collective efforts of the agents, 40 children were fingerprinted and photographed. Another 50 take-home ID kits were distributed.

Keeping Congress Informed. The Inspector General Act requires the individual inspectors general to formally report their activities to Congress twice each year. We fulfill this requirement with the submission of two semiannual reports to Congress. However, communicating with Congress is an on-going activity. From responses to congressional inquiries to briefings of congressional staffers, we are actively involved in keeping key stakeholders in Congress apprised of our oversight activities of the Postal Service.

Congressional hearings also afford the OIG opportunities to testify on Postal Service programs and policies, as well as issues of concern in the inspector general community. During this reporting period, Congressman Danny Davis, Chairman of the House of Representatives' Subcommittee on Federal Workforce, Postal Service and the District of Columbia, invited the Inspector General to testify four times. Copies of the OIG testimo-

nies are available on our website: www.uspsoig.gov.

On April 17, 2007, the Subcommittee held their first oversight hearing. "The U.S. Postal Service: 101" hearing provided an overview of the Postal Service's operation and business processes; mail growth and delivery services; and infrastructure and realignment. Four panels, comprised of the Postal Service, Governors, and the Postal Regulatory Commission (PRC); Inspector General and Government Accountability Office (GAO); postal unions; and postal management associations provided testimony. Inspector General David Williams testified on the activities of the OIG; the impact of the Postal Act of 2006; and major challenges facing the Postal Service, including network optimization, cost controls, revenue, and technology. The complete text of all hearing testimony for all four hearings can be found at: www.federalworkforce.oversight.house.gov/hearings.asp.

The Subcommittee visited Chicago, on May 31, 2007, for their first field hearing. This hearing examined the mail delivery issues in Chicago and the reforms and new systems implemented by the Postal Service to improve service. The Subcommittee heard from the Postmaster General, local postal officials, politicians, businesses, citizens, and unions. Assistant Inspector General for Audit Gordon Milbourn testified on behalf of the OIG. In his testimony, Milbourn briefed the subcommittee on the audit and investigative activities being undertaken to assist in remedying the Postal Service's challenges in Chicago.

A July 19, 2007, hearing focused on the issue of contracting out services within the Postal Service. Of particular interest was outsourcing new mail delivery routes to contractors rather than having the mail delivered by career postal employees. The subcommittee heard testimony from Congressman Albio

Sires; the Postmaster General; Chairman, Board of Governors; and presidents of postal unions and management associations. Inspector General Williams testified on the OIG's responsibilities for reviewing and investigating contractual activities of the Postal Service.

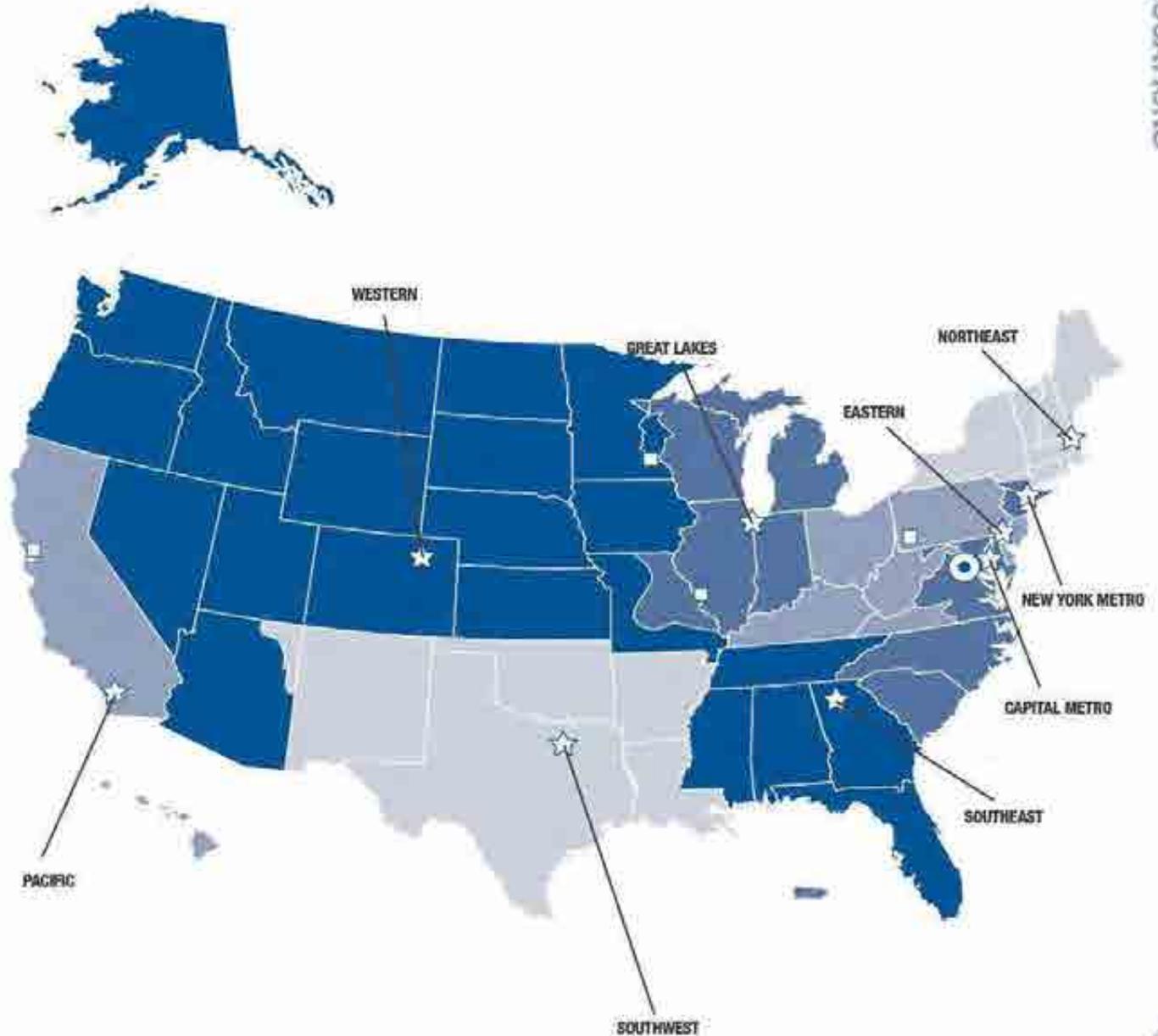
The fourth Subcommittee hearing focused on the infrastructure and realignment programs and policies of the Postal Service. Of specific interest to the subcommittee was how the Postal Service updated its delivery standards to reflect changes in mail preparation and delivery. Testimony was also provided on the Postal Service's plans to consolidate operations and facilities. The subcommittee heard from the GAO, PRC, Postal Service, and mailer's associations. Assistant Inspector General for Audit Milbourn testified for the OIG. His testimony focused on the Postal Service's END initiative and the AMP process.



Copies of the OIG testimonies are available on our website: www.uspsig.gov

OFFICE OF INSPECTOR GENERAL AREA FIELD OFFICE LOCATIONS

The OIG currently has more than 1,100 employees located in more than 100 offices nationwide in each of the Postal Service's nine areas:



- Headquarters
- ☆ Area Offices
- Financial Audit Field Offices

APPENDICES

The Inspector General Act of 1978 requires semiannual reports on the immediately preceding 6-month periods ending March 31 and September 30. These reports are sent to Congress and made available to the public.

This report summarizes OIG activities and illustrates significant problems, abuses, and deficiencies, along with recommendations and corrective actions related to the administration of U.S. Postal Service programs and operations during the reporting period.

The appendices on the following pages fulfill the requirements of the Act.

Appendix A

REPORTS ISSUED TO POSTAL SERVICE MANAGEMENT

For the period April 1 — September 30, 2007

OIG audit teams conduct performance and financial audits, evaluations, and other reviews to address the business of the Postal Service. Each team issues audit reports (AR) or management advisory reports (MA) in accordance with the identified needs of the project.

Summary

Following is a summary, by principal area, of reports issued to Postal Service management. The following pages list each issued report.

| Risk Assessment Categories | Number of Reports | Funds Put to Better Use | Questioned Costs | Unsupported Questioned Costs | Revenue Impact |
|----------------------------|-------------------|-------------------------|----------------------|------------------------------|--------------------|
| Strategic | 7 | — | — | — | — |
| Financial | 141 | \$1,072,843,275 | \$296,130,426 | \$686,367 | \$1,478,583 |
| Operational | 58 | \$279,100,610 | \$11,884,567 | \$8,234,551 | \$301,799 |
| TOTAL | 206 | \$1,351,943,885 | \$248,014,993 | \$8,920,918 | \$1,780,382 |

DEFINITIONS

FUNDS PUT TO BETTER USE

Funds that could be used more efficiently by implementing recommended actions.

QUESTIONED COSTS

A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

UNSUPPORTED COSTS

A cost that is not supported by adequate documentation. Unsupported costs are included with the amounts shown as Questioned Costs.

REVENUE IMPACT

Amounts from revenue generating functions such as retail sales, rent, leases, or fees that were underpaid or not realized. In addition, this category includes increased revenue from existing functions and generating revenue from new sources.

Reports With Quantifiable Potential Monetary Benefits

| Report Title | Funds Put to Better Use | Questioned Costs | Unsupported Questioned Costs | Revenue Impact |
|--|-------------------------|------------------|------------------------------|----------------|
| FINANCIAL RISK | | | | |
| Delivery | | | | |
| Postal Service's Refund Process – Capital Metro Area; DR-AR-07-011; 7/13/2007 | — | \$180,619 | \$180,619 | — |
| Financial Reporting | | | | |
| SmartPay Purchase Card Use by Postal Service Officers; FT-AR-07-014; 9/29/2007 | — | \$127,393 | \$127,393 | — |
| Fiscal Year 2007 Financial Installation Audit | | | | |
| Ada Main Post Office – Ada, Oklahoma; FF-AR-07-154; 5/3/2007 | — | \$409 | \$409 | \$1,214 |
| Benson Post Office – Benson, Arizona; FF-AR-07-213; 8/2/2007 | — | — | — | \$1,293 |
| Boulder Valmont Station – Boulder, Colorado; FF-AR-07-162; 5/21/2007 | — | \$1,182 | — | \$129 |
| Charlotte Business Mail Entry Unit – Charlotte, North Carolina; FF-AR-07-228; 8/30/2007 | — | — | — | \$37,928 |
| Chester Post Office – Chester, Pennsylvania; FF-AR-07-165; 5/23/2007 | — | — | — | \$943 |
| Chicago District Financial Accountability; FF-AR-07-254; 9/28/2007 | — | \$8,782 | \$8,782 | \$114,894 |
| Cincinnati Business Mail Entry Unit – Cincinnati, Ohio; FF-AR-07-207; 7/27/2007 | — | — | — | \$330,094 |
| Danville Post Office – Danville, Indiana; FF-AR-07-216; 8/13/2007 | — | \$2,594 | \$2,594 | — |
| Easley Business Mail Entry Unit – Easley, South Carolina; FF-AR-07-214; 8/6/2007 | — | \$7,892 | — | \$1,040 |
| Elftingham Business Mail Entry Unit – Elftingham, Illinois; FF-AR-07-182; 6/6/2007 | — | — | — | \$5,384 |
| Frederick Business Mail Entry Unit – Frederick, Maryland; FF-AR-07-189; 6/19/2007 | — | \$6,700 | — | \$5,211 |
| Fredericksburg Business Mail Entry Unit – Fredericksburg, Virginia; FF-AR-07-212; 6/1/2007 | — | \$135 | — | \$34,089 |
| Grand Central Station – New York, New York; FF-AR-07-178; 6/19/2007 | — | \$2,668 | \$1,574 | \$50,353 |
| Gulftway Station – Corpus Christi, Texas; FF-AR-07-151; 5/1/2007 | — | \$8,078 | \$2,026 | — |
| Houston General Post Office Window Main Office – Houston, Texas; FF-AR-07-147; 4/20/2007 | — | \$8,175 | \$491 | \$67,488 |
| IMPAC – Gateway District – St. Louis, Missouri; FF-AR-07-179; 6/5/2007 | — | \$8,363 | \$8,363 | — |
| IMPAC – San Francisco District – San Francisco, California; FF-AR-07-202; 7/20/2007 | — | \$144,759 | \$144,759 | — |
| Keith D Oglesby Station – Greenville, South Carolina; FF-AR-07-171; 5/30/2007 | — | \$1,494 | — | \$3,400 |
| Kirkwood-Voorhees Business Mail Entry Unit – Voorhees, New Jersey; FF-AR-07-253; 9/28/2007 | — | — | — | \$29,806 |
| Lagrangeville Post Office – Lagrangeville, New York; FF-AR-07-232; 9/12/2007 | — | — | — | \$7,663 |
| Le Mars Business Mail Entry Unit – Le Mars, Iowa; FF-AR-07-166; 5/24/2007 | — | — | — | \$5,076 |
| Liberty Business Mail Entry Unit – Liberty, Missouri; FF-AR-07-169; 5/25/2007 | — | — | — | \$50,880 |
| Macon Business Mail Entry Unit – Macon, Georgia; FF-AR-07-185; 6/13/2007 | — | — | — | \$2,300 |
| Main Office Window Service Post Office – Trenton, New Jersey; FF-AR-07-246; 9/19/2007 | — | \$6,090 | \$8,099 | \$57,990 |
| Midtown Station – New York, New York; FF-AR-07-161; 5/18/2007 | — | \$1,904 | — | \$34,751 |
| Midway Main Office Window – San Diego, California; FF-AR-07-188; 6/20/2007 | — | — | — | \$8,399 |
| Morganton Post Office – Morganton, North Carolina; FF-AR-07-208; 7/30/2007 | — | \$1,393 | \$878 | \$3,325 |

Reports With Quantifiable Potential Monetary Benefits

| Report Title | Funds Put to Better Use | Questioned Costs | Unsupported Costs | Revenue Impact |
|--|-------------------------|------------------|-------------------|----------------|
| Fiscal Year 2007 Financial Installation Audit | | | | |
| Morristown Business Mail Entry Unit – Morristown, New Jersey; FF-AR-07-233; 9/12/2007 | — | \$4,190 | \$4,190 | — |
| Nampa Post Office – Nampa, Idaho; FF-AR-07-156; 5/9/2007 | — | — | — | \$809 |
| Natchitoches Main Post Office – Natchitoches, Louisiana; FF-AR-07-172; 5/31/2007 | — | — | — | \$2,825 |
| Oaks Corners Post Office – Oaks Corners, New York; FF-AR-07-197; 7/6/2007 | — | — | — | \$2,538 |
| Oklahoma City Business Mail Entry Unit – Oklahoma City, Oklahoma; FF-AR-07-167; 5/25/2007 | — | — | — | \$61,804 |
| Phi-Clney Station – Philadelphia, Pennsylvania; FF-AR-07-199; 7/31/2007 | — | \$5,930 | — | \$16,150 |
| Renton Main Post Office – Renton, Washington; FF-AR-07-160; 5/16/2007 | — | — | — | \$1,684 |
| Rye Post Office – Rye, New Hampshire; FF-AR-07-206; 7/25/2007 | — | — | — | \$1,018 |
| San Angelo Business Mail Entry Unit – San Angelo, Texas; FF-AR-07-193; 6/22/2007 | — | — | — | \$1,041 |
| San Francisco Business Mail Entry Unit – San Francisco, California; FF-AR-07-217; 8/14/2007 | — | \$2,098 | \$2,098 | \$30,269 |
| Santa Rosa Main Post Office – Santa Rosa, California; FF-AR-07-140; 4/17/2007 | — | \$361 | \$361 | \$12,627 |
| Shawnee – Lenexa Branch – Lenexa, Kansas; FF-AR-07-137; 4/10/2007 | — | \$1,226 | \$1,226 | — |
| SmartPay Purchase Card Program – Colorado/Wyoming District, Denver, Colorado; FF-AR-07-247; 9/19/2007 | — | \$59,629 | \$28,719 | — |
| SmartPay Purchase Card Program for Local Buying – Capital District – Washington, District of Columbia; FF-AR-07-251; 9/27/2007 | — | \$93,938 | \$14,186 | — |
| Springfield Business Mail Entry Unit – Springfield, New Jersey; FF-AR-07-235; 9/14/2007 | — | — | — | \$36,709 |
| St. Paul Main Post Office – St. Paul, Minnesota; FF-AR-07-186; 6/13/2007 | — | \$14,586 | — | — |
| STC – Mission Station – Santa Clara, California; FF-AR-07-138; 4/13/2007 | — | \$1,065 | \$159 | — |
| Summerlin Station – Las Vegas, Nevada; FF-AR-07-192; 6/29/2007 | — | \$6,658 | \$101 | — |
| Swedesboro Business Mail Entry Unit – Swedesboro, New Jersey; FF-AR-07-153; 5/4/2007 | — | — | — | \$59,399 |
| Tallahassee Business Mail Entry Unit – Tallahassee, Florida; FF-AR-07-157; 5/9/2007 | — | — | — | \$42,294 |
| Thiensville Business Mail Entry Unit – Thiensville, Wisconsin; FF-AR-07-211; 8/1/2007 | — | — | — | \$2,955 |
| Van Nuys Business Mail Entry Unit – Van Nuys, California; FF-AR-07-174; 5/31/2007 | — | \$127,884 | — | \$840 |
| Victoria Business Mail Entry Unit – Victoria, Texas; FF-AR-07-218; 8/15/2007 | — | — | — | \$1,488 |
| Westgate Post Office – Raleigh, North Carolina; FF-AR-07-243; 9/18/2007 | — | \$13,247 | — | \$13,988 |
| White Plains Main Post Office – White Plains, New York; FF-AR-07-230; 9/6/2007 | — | \$11,439 | \$10,750 | \$16,867 |
| Wilmington – Myrtle Grove Station – Wilmington, North Carolina; FF-AR-07-245; 9/18/2007 | — | \$70,634 | \$70,634 | \$3,801 |
| Windsor Mills Branch – Windsor Mills, Maryland; FF-AR-07-148; 4/20/2007 | — | \$38,945 | — | — |
| Woodbridge Business Mail Entry Unit – Woodbridge, Virginia; FF-AR-07-190; 6/18/2007 | — | — | — | \$3,332 |
| Woodstock Business Mail Entry Unit – Woodstock, Illinois; FF-AR-07-195; 6/28/2007 | — | — | — | \$314,605 |
| Human Capital | | | | |
| Postal Service's Employee Benefit Programs, HM-AR-07-003; 9/24/2007 | \$1,072,843,275 | — | — | — |

Reports With Quantifiable Potential Monetary Benefits

| Report Title | Funds Put to Better Use | Questioned Costs | Unsupported Costs | Revenue Impact |
|--|-------------------------|------------------|-------------------|----------------|
| Supply Management | | | | |
| Billboard Lease Agreement Revenue Received from Van Wagner, Communications, LLC; CA-CAR-07-012; 4/30/2007 | — | \$3,162 | — | — |
| Price Adjustment Claim Submitted by Bertsch Properties, Limited Liability Corporation; CA-CAR-07-016; 7/18/2007 | — | \$71,956 | \$71,956 | — |
| Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company; CA-CAR-07-018; 8/1/2007 | — | \$235,088,642 | — | — |
| OPERATIONAL RISK | | | | |
| Delivery | | | | |
| Address Management System Information – Capital Metro Area; DR-AR-07-004; 5/1/2007 | \$455,197 | — | — | — |
| Address Management System Information – Eastern Area; DR-AR-07-009; 5/7/2007 | \$779,013 | — | — | — |
| Address Management System Information – Pacific Area; DR-AR-07-005; 5/1/2007 | \$7,881,288 | — | — | — |
| Address Management System Information – Southwest Area; DR-AR-07-006 (R); 8/20/2007 | \$5,201,116 | — | — | — |
| Address Management System Information – Western Area; DR-AR-07-008; 5/1/2007 | \$4,454,816 | — | — | — |
| City Delivery Vehicle Mileage—Base vs. Actual – Eastern Area; DR-AR-07-014; 9/26/2007 | — | \$832,800 | \$832,800 | — |
| City Delivery Vehicle Mileage—Base vs. Actual – Southeast Area; DR-AR-07-015; 9/29/2007 | — | \$2,098,347 | \$2,098,347 | — |
| City Delivery Vehicle Mileage—Base vs. Actual – Southwest Area; DR-AR-07-013; 9/26/2007 | — | \$753,322 | \$753,322 | — |
| Maintenance and Repair Payments to Commercial Vendors Using Postal Service Form 8230, Authorization for Payment; DR-MA-07-005 (R); 9/21/2007 | \$1,289,718 | — | — | \$301,799 |
| Management of Administrative Vehicles; DR-AR-07-007; 5/1/2007 | \$2,715,468 | — | — | — |
| Engineering | | | | |
| Automated Flat Sorting Machine 100 Enhancements; DA-AR-07-005; 9/10/2007 | \$80,307,204 | — | — | — |
| Intelligent Mail Data Acquisition System Deployment Status and Vendor Negotiations; DA-AR-07-006; 9/21/2007 | — | \$4,550,082 | \$4,550,082 | — |
| Information Systems | | | | |
| Headquarters Cellular Services; IS-AR-07-011; 4/30/2007 | \$122,772 | — | — | — |
| Inspection Service & Facilities | | | | |
| Postal Inspection Service Security Controls and Processes – Area Security Assessment Program; SA-AR-07-004; 7/10/2007 | — | \$144,000 | — | — |
| Network Processing | | | | |
| Efficiency Review of the Bridgeport Processing and Distribution Facility – Bridgeport, Connecticut; NO-AR-07-004; 4/25/2007 | \$17,740,107 | — | — | — |
| Efficiency Review of the Dallas Bulk Mail Center; NO-AR-07-005; 5/31/2007 | \$134,971,638 | — | — | — |
| Priority Mail Hub Operations in Plano, Texas; NO-AR-07-011; 9/27/2007 | \$687,536 | \$736,543 | — | — |
| Supply Management | | | | |
| Compliance with the Use of MSC Industrial Supply Co., Inc. and W. W. Grainger, Inc. National Contracts; CA-AR-07-004; 5/23/2007 | \$1,751,112 | \$217,113 | — | — |
| Transportation | | | | |
| Postal Vehicle Service Transportation – Los Angeles Bulk Mail Center; NL-AR-07-006; 9/21/2007 | \$4,914,726 | — | — | — |

Reports With Quantifiable Potential Monetary Benefits

| Report Title | Funds Put to Better Use | Questioned Costs | Unsupported Costs | Revenue Impact |
|---|-------------------------|----------------------|--------------------|--------------------|
| Transportation | | | | |
| Postal Vehicle Service Transportation Routes – Milwaukee Processing and Distribution Center; NL-AR-07-007; 9/27/2007 | \$4,015,221 | — | — | — |
| Surface Transportation—Processing and Distribution Center Transportation Routes – Southwest Area; NL-AR-07-004; 4/20/2007 | \$2,116,153 | — | — | — |
| Vehicle Management—National Trailer Lease Renewal – Pacific Area; NL-AR-07-009; 9/28/2007 | \$5,960,140 | \$1,555,344 | — | — |
| Vehicle Management—National Trailer Lease Renewal – Southwest Area; NL-AR-07-005; 6/15/2007 | \$3,757,385 | \$997,016 | — | — |
| TOTAL | \$1,351,943,885 | \$248,014,993 | \$8,920,918 | \$1,780,382 |

Report Listing

For the period April 1 — September 30, 2007

Complete listing of all OIG Reports issued to Postal Service management.

STRATEGIC RISK

Delivery

Automated Deployment Strategy of Automated Postal Center; DR-AR-07-010; 8/7/2007

Engineering

Enterprise Architecture in Postal Service Engineering; DA-MA-07-001; 7/17/2007

Network Optimization

Area Mail Processing Initiation Process; EN-MA-07-001; 6/26/2007

Bronx, New York Processing and Distribution Center Consolidation; EN-AR-07-003; 7/18/2007

Bulk Mail Center Outsourcing; EN-WP-07-001; 4/25/2007

Post-Implementation Review of the Marina Processing and Distribution Center Area Mail Processing Consolidation; EN-AR-07-004; 8/14/2007

Supply Management

Commodity Sourcing Activities Within the Automation Category Management Center; CA-MA-07-005; 8/2/2007

FINANCIAL RISK

Delivery

Postal Service's Refund Process – Capital Metro Area; DR-AR-07-011; 7/13/2007

Financial Reporting

Compliance with Bank Secrecy Act (Suspicious Activity Reporting); FT-AR-07-015; 9/29/2007

Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data; FT-AR-07-013; 9/20/2007

SmartPay Purchase Card Use by Postal Service Officers; FT-AR-07-014; 9/29/2007

Fiscal Year 2007 Cost and Revenue Analysis

Albuquerque District; FF-AR-07-215; 8/9/2007
Boston District; FF-AR-07-240; 9/17/2007

Massachusetts District; FF-AR-07-239;
9/18/2007

Southeast Michigan District; FF-AR-07-248;
9/24/2007

Fiscal Year 2007 Financial Installation Audit

Ada Main Post Office – Ada, Oklahoma;
FF-AR-07-154; 5/3/2007

Alderwood Manor Station – Lynnwood, Washington;
FF-AR-07-219; 8/15/2007

Amarillo Business Mail Entry Unit – Amarillo, Texas;
FF-AR-07-159; 5/10/2007

Anniston-Oxford Branch – Oxford, Alabama;
FF-AR-07-225; 8/27/2007

Bath Post Office – Bath, New York; FF-AR-07-244;
9/18/2007

Bemidji Business Mail Entry Unit – Bemidji,
Minnesota; FF-AR-07-249; 9/24/2007

Benson Post Office – Benson, Arizona;
FF-AR-07-213; 8/2/2007

Bolingbrook Business Mail Entry Unit – Bolingbrook,
Illinois; FF-AR-07-201; 7/13/2007

Boulder Valmont Station – Boulder, Colorado;
FF-AR-07-162; 5/21/2007

Buffalo Main Post Office – Buffalo, North Dakota;
FF-AR-07-221; 8/21/2007

Cambridge Post Office – Cambridge, Iowa;
FF-AR-07-139; 4/12/2007

Cameron Post Office – Cameron, West Virginia;
FF-AR-07-144; 4/18/2007

Carrollton Business Mail Entry Unit – Carrollton, Ohio;
FF-AR-07-143; 4/18/2007

Center Station Post Office – Westminster, California;
FF-AR-07-229; 9/4/2007

Charlotte Business Mail Entry Unit – Charlotte, North
Carolina; FF-AR-07-228; 8/30/2007

Chester Post Office – Chester, Pennsylvania;
FF-AR-07-165; 5/23/2007

Chicago Accountable Paper Depository and
Stamp Distribution Office – Chicago, Illinois;
FF-AR-07-164; 5/23/2007

Chicago District Financial Accountability;
FF-AR-07-254; 9/28/2007

Chickamauga Station – Chattanooga, Tennessee;
FF-AR-07-200; 7/11/2007

Cincinnati Business Mail Entry Unit – Cincinnati,
Ohio; FF-AR-07-207; 7/27/2007

Cincinnati-Lockland Branch – Cincinnati, Ohio;
FF-AR-07-184; 6/12/2007

Citronelle Post Office – Citronelle, Alabama;
FF-AR-07-180; 6/6/2007

Crossroads Station – St. Petersburg, Florida;
FF-AR-07-141; 4/16/2007

Darville Post Office – Darville, Indiana;
FF-AR-07-216; 8/13/2007

Denver Accountable Paper Depository – Denver,
Colorado; FF-AR-07-136; 4/9/2007

Downers Grove Business Mail Entry Unit – Downers
Grove, Illinois; FF-AR-07-206; 7/16/2007

Easley Business Mail Entry Unit – Easley, South
Carolina; FF-AR-07-214; 8/6/2007

Effingham Business Mail Entry Unit – Effingham,
Illinois; FF-AR-07-182; 6/6/2007

Elkhart Business Mail Entry Unit – Elkhart, Indiana;
FF-AR-07-142; 4/16/2007

Fairfax Post Office – Fairfax, Oklahoma;
FF-AR-07-203; 7/16/2007

Farmersburg Post Office – Farmersburg, Indiana;
FF-AR-07-226; 8/27/2007

Fayetteville Post Office – Fayetteville, Pennsylvania;
FF-AR-07-170; 5/31/2007

Fort Worth Stamp Distribution Office – Fort Worth,
Texas; FF-AR-07-250; 9/25/2007

Fraziers Bottom Post Office – Fraziers Bottom, West
Virginia; FF-AR-07-145; 4/17/2007

Frederick Business Mail Entry Unit – Frederick,
Maryland; FF-AR-07-189; 8/19/2007

Fredericksburg Business Mail Entry Unit –
Fredericksburg, Virginia; FF-AR-07-212; 8/1/2007

Glendora Business Mail Entry Unit – Glendora,
California; FF-AR-07-204; 7/16/2007

Grand Central Station – New York, New York;
FF-AR-07-178; 6/19/2007

Guilway Station – Corpus Christi, Texas;
FF-AR-07-151; 5/1/2007

Harold Business Mail Entry Unit – Harold, Kentucky;
FF-AR-07-176; 5/31/2007

Houston General Post Office Window Main Office –
Houston, Texas; FF-AR-07-147; 4/20/2007

Hoven Main Post Office – Hoven, South Dakota;
FF-AR-07-231; 9/11/2007

Huntington Business Mail Entry Unit – Huntington,
New York; FF-AR-07-242; 9/17/2007

IMPAC – Gateway District – St. Louis, Missouri;
FF-AR-07-179; 6/5/2007

IMPAC – San Francisco District, San Francisco,
California; FF-AR-07-202; 7/20/2007

Jamestown Business Mail Entry Unit – Jamestown,
New York; FF-AR-07-163; 5/22/2007

Junction City Business Mail Entry Unit – Junction
City, Kansas; FF-AR-07-191; 8/18/2007

Keith D Oglesby Station, Greenville, South Carolina;
FF-AR-07-171; 5/30/2007

Kirkwood – Voorhees Business Mail Entry Unit –
Voorhees, New Jersey; FF-AR-07-253; 9/28/2007

La Valle Post Office – La Valle, Wisconsin;
FF-AR-07-220; 8/17/2007

Lagrangeville Post Office, Lagrangeville, New York;
FF-AR-07-232; 9/12/2007

Le Mars Business Mail Entry Unit – Le Mars, Iowa;
FF-AR-07-166; 5/24/2007

Libby Main Post Office – Libby, Montana;
FF-AR-07-224; 8/23/2007

Liberty Business Mail Entry Unit – Liberty, Missouri;
FF-AR-07-169; 5/25/2007

Lynchburg Business Mail Entry Unit – Lynchburg,
Virginia; FF-AR-07-155; 5/4/2007

Macon Business Mail Entry Unit – Macon, Georgia;
FF-AR-07-185; 6/13/2007

Main Office Window Service Post Office – Trenton,
New Jersey; FF-AR-07-246; 9/19/2007

Mantoo Post Office – Mantoo, North Carolina;
FF-AR-07-152; 5/4/2007

Marion Post Office – Marion, Montana;
FF-AR-07-222; 8/21/2007

Meadow Vista Post Office – Meadow Vista,
California; FF-AR-07-175; 8/6/2007

Midtown Station – New York, New York;
FF-AR-07-161; 5/18/2007

Midway Main Office Window – San Diego, California;
FF-AR-07-188; 6/20/2007

Morganton Post Office – Morganton, North Carolina;
FF-AR-07-208; 7/30/2007

Morrisstown Business Mail Entry Unit – Morrisstown,
New Jersey; FF-AR-07-233; 9/12/2007

Muskegon Business Mail Entry Unit – Muskegon,
Michigan; FF-AR-07-234; 9/12/2007

Nampa Post Office – Nampa, Idaho;
FF-AR-07-156; 5/9/2007

Nashville Business Mail Entry Unit – Nashville,
Tennessee; FF-AR-07-198; 7/8/2007

Natchitoches Main Post Office – Natchitoches,
Louisiana; FF-AR-07-172; 5/31/2007

New Lenox Post Office – New Lenox, Illinois;
FF-AR-07-236; 9/17/2007

Oaks Corners Post Office – Oaks Corners, New York;
FF-AR-07-197; 7/6/2007

Oklahoma City Business Mail Entry Unit – Oklahoma
City, Oklahoma; FF-AR-07-167; 5/25/2007

Parkwood Station – Wilson, North Carolina;
FF-AR-07-209; 7/31/2007

Peoria Stamp Distribution Office – Peoria, Illinois;
FF-AR-07-158; 5/4/2007

Perkins Branch Post Office – Sacramento, California;
FF-AR-07-237; 9/17/2007

Phi-Olney Station – Philadelphia, Pennsylvania; FF-AR-07-199; 7/31/2007

Pittsburgh Stamp Distribution Office – Pittsburgh, Pennsylvania; FF-AR-07-241; 9/17/2007

Pleasant Garden Post Office – Pleasant Garden, North Carolina; FF-AR-07-223; 8/23/2007

Prentice Post Office – Prentice, Wisconsin; FF-AR-07-194; 6/22/2007

Renton Main Post Office – Renton, Washington; FF-AR-07-160; 5/16/2007

Roanoke Business Mail Entry Unit – Roanoke, Virginia; FF-AR-07-167; 6/13/2007

Rye Post Office – Rye, New Hampshire; FF-AR-07-206; 7/25/2007

San Angelo Business Mail Entry Unit – San Angelo, Texas; FF-AR-07-193; 8/22/2007

San Francisco Business Mail Entry Unit – San Francisco, California; FF-AR-07-217; 8/14/2007

Santa Rosa Main Post Office – Santa Rosa, California; FF-AR-07-140; 4/17/2007

Sharpsburg Branch – Sharpsburg, Pennsylvania; FF-AR-07-227; 8/28/2007

Shawnee-Lenexa Branch – Lenexa, Kansas; FF-AR-07-137; 4/10/2007

SmartPay Purchase Card Program – Colorado/Wyoming District – Denver, Colorado; FF-AR-07-247; 9/19/2007

SmartPay Purchase Card Program for Local Buying – Capital District – Washington, District of

Columbia; FF-AR-07-251; 9/27/2007

Smiths Creek Post Office – Smiths Creek, Michigan; FF-AR-07-238; 9/17/2007

Springfield Business Mail Entry Unit – Springfield, New Jersey; FF-AR-07-235; 9/14/2007

St. Paul Main Post Office – St. Paul, Minnesota; FF-AR-07-186; 6/13/2007

Stamping Ground Post Office – Stamping Ground, Kentucky; FF-AR-07-183; 6/12/2007

STC-Mission Station – Santa Clara, California; FF-AR-07-138; 4/13/2007

Stevensville Business Mail Entry Unit – Stevensville, Montana; FF-AR-07-181; 6/12/2007

Storrs Business Mail Entry Unit – Storrs, Connecticut; FF-AR-07-150; 4/30/2007

STP-Pioneer Station – St. Paul, Minnesota; FF-AR-07-177; 6/6/2007

Summerlin Station – Las Vegas, Nevada; FF-AR-07-192; 6/29/2007

Summit Business Mail Entry Unit – Summit, New Jersey; FF-AR-07-252; 9/28/2007

Swedesboro Business Mail Entry Unit – Swedesboro, New Jersey; FF-AR-07-153; 5/4/2007

Tallahassee Business Mail Entry Unit – Tallahassee, Florida; FF-AR-07-157; 5/9/2007

Thiensville Business Mail Entry Unit – Thiensville, Wisconsin; FF-AR-07-211; 8/1/2007

Thurmont Business Mail Entry Unit – Thurmont,

Maryland; FF-AR-07-168; 5/24/2007

Llysses Post Office – Llysses, Kansas; FF-AR-07-173; 5/30/2007

Valley Mills Post Office – Valley Mills, Texas; FF-AR-07-149; 4/23/2007

Van Nuys Business Mail Entry Unit – Van Nuys, California; FF-AR-07-174; 5/31/2007

Victoria Business Mail Entry Unit – Victoria, Texas; FF-AR-07-218; 8/15/2007

Westgate Post Office – Raleigh, North Carolina; FF-AR-07-243; 9/18/2007

White Plains Main Post Office – White Plains, New York; FF-AR-07-230; 9/6/2007

Wichita Business Mail Entry Unit – Wichita, Kansas; FF-AR-07-210; 8/1/2007

Wichita General Mail Facility Station – Wichita, Kansas; FF-AR-07-196; 7/2/2007

Wilmington-Myrtle Grove Station – Wilmington, North Carolina; FF-AR-07-245; 9/18/2007

Windsor Mills Branch – Windsor Mills, Maryland; FF-AR-07-148; 4/20/2007

Woburn Stamp Distribution Office – Woburn, Massachusetts; FF-AR-07-146; 4/17/2007

Woodbridge Business Mail Entry Unit – Woodbridge, Virginia; FF-AR-07-190; 6/18/2007

Woodstock Business Mail Entry Unit – Woodstock, Illinois; FF-AR-07-195; 6/28/2007

Human Capital

Postal Service's Employee Benefit Programs; HM-AR-07-003; 8/24/2007

Information Systems

Application Control Review of Oracle Accounts Payable – Feeder Systems; IS-AR-07-014; 8/7/2007

Inspection Service & Facilities

Postal Inspection Service Transition and Resources; SA-MA-07-002; 9/21/2007

Sales & Service

Management Operating Data System; MS-AR-07-003; 8/21/2007

Supply Management

Billboard Lease Agreement Revenue Received from Van Wagner Communications, LLC; CA-CAR-07-012; 4/30/2007

Controls Over eBay Billings and Payments; CA-MA-07-007; 9/25/2007

Direct Labor and Indirect Expense Rates of Indefinite Delivery, Indefinite Quantity Proposal Submitted by Highland Associates; CA-CAR-07-019; 8/14/2007

Direct Labor Rates and Indirect Rate of Indefinite Delivery, Indefinite Quantity (IDIQ) Proposal Submitted by Program Management, LLC; CA-CAR-07-021; 9/7/2007

Key Performance Indicators Including Procurement Savings of Contract Number 58MSTR-05-B-3002, and Accounting System of Ryder Integrated Logistics, Incorporated; CA-CAR-07-017; 7/30/2007

Lease Expenses at TMC Enterprises, Limited Liability Corporation; CA-CAR-07-018; 7/30/2007

Preaward Survey of Accounting System at I G Associates, Incorporated; CA-CAR-07-020; 8/31/2007

Price Adjustment Claim Submitted by Bertsch Properties, Limited Liability Corporation; CA-CAR-07-015; 7/18/2007

Proposal Submitted by Jacobs Facilities, Incorporated; CA-CAR-07-014; 5/23/2007

Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company; CA-CAR-07-018; 8/1/2007

Proposal Submitted by Oudens and Knopp Architects, PC; CA-CAR-07-013; 5/10/2007

Siemens Energy and Automation, Incorporated; CA-CAR-07-011; 5/1/2007

Southeast Facilities Service Office Use of the Parsons' Indefinite Quantity Contract; CA-MA-07-006; 9/10/2007

Voyager Card Program – Swatara and Lower Paxton Branches of the Harrisburg, Pennsylvania Post Office; CA-AR-07-006; 7/9/2007

OPERATIONAL RISK**Delivery**

Address Management System Information – Capital Metro Area; DR-AR-07-004; 5/1/2007

Address Management System Information – Eastern Area; DR-AR-07-009; 5/7/2007

Address Management System Information – National Capping; DR-AR-07-012; 8/29/2007

Address Management System Information – Pacific Area; DR-AR-07-005; 5/1/2007

Address Management System Information – Southwest Area; DR-AR-07-006 (R); 8/20/2007

Address Management System Information – Western Area; DR-AR-07-008; 5/1/2007

City Delivery Vehicle Mileage—Base vs. Actual – Eastern Area; DR-AR-07-014; 9/26/2007

City Delivery Vehicle Mileage—Base vs. Actual – Southeast Area; DR-AR-07-015; 9/29/2007

City Delivery Vehicle Mileage—Base vs. Actual – Southwest Area; DR-AR-07-013; 9/26/2007

Implementation and Utilization of the Growth Management Tool; DR-AR-07-016; 9/29/2007

Maintenance and Repair Payments to Commercial Vendors Using Postal Service Form 8230, Authorization for Payment; DR-MA-07-005 (R); 9/21/2007

Management of Administrative Vehicles; DR-AR-07-007; 5/1/2007

Management of Retail Workhours in Relation to the Workload for Mobile Units – Triboro District; DR-MA-07-004; 6/14/2007

Engineering

Automated Flat Sorting Machine 100 Enhancements; DA-AR-07-005; 9/10/2007

Flat Sequencing System Risk Management; DA-AR-07-003; 7/31/2007

Intelligent Mail Data Acquisition System Deployment Status and Vendor Negotiations; DA-AR-07-006; 9/21/2007

Optical Character Reader Enhancements, Delivery Input Output Sub-System; DA-AR-07-004; 8/27/2007

St. Louis Equipment Maintenance and Waste Disposal; DA-MA-07-002; 9/13/2007

Human Capital

Postal Service's Workplace Safety and Workplace-Related Injury Reduction Goals and Progress; HM-AR-07-002; 5/16/2007

The Postal Service's Comprehensive Strategic Workforce Plan; HM-AR-07-004; 8/26/2007

Information Systems

Change Controls at the Eagan, Minnesota; San Mateo, California; and St. Louis, Missouri, Information Technology and Accounting Service Centers for Fiscal Year 2007; IS-AR-07-015; 8/14/2007

Controls Over Postal Inspection Service Network Switches; IS-AR-07-012; 7/25/2007

Database Administration Practices; IS-AR-07-016; 8/20/2007

Disaster Recovery Testing for Critical Postal Service Applications at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers for Fiscal Year 2007; IS-AR-07-018; 9/14/2007

Headquarters Cellular Services; IS-AR-07-011; 4/30/2007

Security Vulnerability Assessment of the National Accounting Oracle Financials Application; IS-CS-07-004; 9/11/2007

Security Vulnerability Assessment of the Servers and Databases Supporting the Postal Automated Redirection System; IS-CS-07-003; 5/14/2007

Separation of Duties at the Eagan, Minnesota; San Mateo, California; and St. Louis, Missouri, Information Technology and Accounting Service Centers; IS-AR-07-017; 8/28/2007

State of Information Technology Within the Postal Service; IS-MA-07-001; 8/6/2007

System Software Controls at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers for Fiscal Year 2007; IS-AR-07-013; 8/3/2007

Inspection Service & Facilities

Handling of a Suspicious Powder Incident at the Wichita Falls Mail Processing Center; SA-AR-07-005; 7/11/2007

Postal Inspection Service Security Controls and Processes—Area Security Assessment Program; SA-AR-07-004; 7/10/2007

Postal Service Facilities Maintenance and Repair Costs; CA-AR-07-003; 5/14/2007

Postal Service Security Controls and Processes for the Pacific Area; SA-AR-07-003; 5/9/2007

Use of Existing Postal Service—Owned Space in the Pacific Area; CA-AR-07-005; 6/14/2007

Use of Existing Postal—Owned Space in the Great Lakes Area; CA-AR-07-002; 5/18/2007

Use of Existing Postal—Owned Space in the Southeast Area; SA-AR-07-006; 9/27/2007

Network Processing

Color—Code Capping Report; NO-MA-07-003; 8/28/2007

Color—Coding of Standard Mail at the Mobile Processing and Distribution Center; NO-MA-07-002; 6/26/2007

Efficiency Review of the Bridgeport Processing and Distribution Facility—Bridgeport, Connecticut; NO-AR-07-004; 4/25/2007

Efficiency Review of the Dallas Bulk Mail Center; NO-AR-07-005; 5/31/2007

Internal Controls Over Clock Rings at the Margaret L. Sellers Processing and Distribution Center; NO-AR-07-008; 8/24/2007

Mail Condition Reporting at the Los Angeles International Service Center; NO-AR-07-010; 9/24/2007

Mail Condition Reporting at the Miami International Service Center; NO-AR-07-009; 9/20/2007

Mail Condition Reporting at the San Francisco International Service Center; NO-AR-07-006 (R); 8/20/2007

Mail Processing at the Southeastern Pennsylvania Processing and Distribution Center; NO-AR-07-007; 8/6/2007

Priority Mail Hub Operations in Plano, Texas; NO-AR-07-011; 9/27/2007

Timeliness of Mail Processing at the Chicago, Illinois, Carolus Collins Processing and Distribution Center; NO-AR-07-012; 9/28/2007

Sales & Services

Postal Service Passport Program; MS-AR-07-004; 9/28/2007

Supply Management

Compliance with the Use of MSC Industrial Supply Co., Inc. and W. W. Grainger, Inc. National Contracts; CA-AR-07-004; 5/23/2007

Facilities Service Office Use of the Parsons' Indefinite Quantity Contract; CA-MA-07-003; 6/4/2007

Great Lakes Facilities Service Office Use of the Parsons' Indefinite Quantity Contract; CA-MA-07-004; 7/31/2007

Transportation

Impact of Transportation on Chicago District Performance; NL-AR-07-008; 9/28/2007

Postal Vehicle Service Transportation—Los Angeles Bulk Mail Center; NL-AR-07-006; 9/21/2007

Postal Vehicle Service Transportation Routes—Milwaukee Processing and Distribution Center; NL-AR-07-007; 9/27/2007

Surface Transportation—Processing and Distribution Center Transportation Routes—Southwest Area; NL-AR-07-004; 4/20/2007

Vehicle Management—National Trailer Lease Renewal—Pacific Area; NL-AR-07-009; 9/28/2007

Vehicle Management—National Trailer Lease Renewal—Southwest Area; NL-AR-07-005; 6/15/2007

Appendix B

FINDINGS OF QUESTIONED COSTS

For the period April 1 — September 30, 2007

Questioned Cost: A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, or contract.

As required by the IG Act, the following pages show the total number of audit reports and the total dollar value of questioned costs in audit reports.

| Description | Number of Reports | Questioned Costs | Unsupported Costs Included in Questioned Costs |
|---|-------------------|----------------------|--|
| Reports for which no management decision was made at the beginning of the reporting period | 26 | \$161,347,047 | \$2,853,836 |
| Reports requiring management decision that were issued during the reporting period | 45 | \$248,014,993 | \$8,920,918 |
| TOTAL | 71 | \$409,362,040 | \$11,774,754 |
| Reports for which a management decision was made during the reporting period (i+ii) | 43 | \$118,689,006 | \$9,459,835 |
| (i) Dollar Value of disallowed cost | | \$43,121,897 | \$2,207,298 |
| (ii) Dollar value of cost not disallowed | | \$75,567,109 | \$7,252,547 |
| Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing | 28 | \$290,673,034 | \$2,314,347 |
| Reports for which no management decision was made within 6 months of issuance (See Note 1 for a list of individual reports) | — | — | — |
| Reports for which no management decision was made within 1 year of issuance (See Note 2 for a list of individual reports) | 7 | \$50,443,108 | — |

Note 1 - Reports for which no management decision was made within 6 months of issuance:

| Subject | Report/Case Number | Report Date | Questioned Costs | Unsupported Costs Included in Questioned Costs |
|---------|--------------------|-------------|------------------|--|
| None | | | | |

Note 2 - Reports for which no management decision was made within 1 year of issuance:

| Subject | Report/Case Number | Report Date | Questioned Costs | Unsupported Costs Included in Questioned Costs |
|--|--------------------|-------------|---------------------|--|
| Contract Audit—Bell and Howell Mail and Messaging Technologies | CA-CAR-03-002 | 10/16/2002 | \$343,759 | — |
| Contract Audit - D. L. Kaufman, Incorporated | CA-CAR-03-011 | 2/11/2003 | \$4,028,935 | — |
| Vehicle Management - Delivery Vehicles - Buy vs. Lease | NL-AR-04-005 | 9/30/2004 | \$42,751,032 | — |
| Report on Audit of Settlement Proposal Under Contract Number 102591-03-Q-0454 Submitted by Hasler Incorporated | CA-CAR-05-027 | 7/5/2005 | \$2,470,818 | — |
| Audit of Fiscal Year 2002 Incurred Cost of New Breed Corporations | CA-CAR-06-007 | 12/9/2005 | \$89,576 | — |
| Postal Service's Grievance-Arbitration Service Centers | HM-AR-06-006 | 8/29/2006 | \$356,510 | — |
| Vehicle Management—National Trailer Lease Requirements - Capital Metro Area | NL-AR-06-013 | 9/29/2006 | \$402,478 | — |
| TOTAL | | | \$50,443,108 | — |

Appendix C

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period April 1 — September 30, 2007

As required by the IG Act, this pages show the total number of audit reports and the total dollar value of recommendations for funds that can be put to better use by management.

Funds Put to Better Use — Funds that could be used more efficiently by implementing recommended actions.

| Description | Number of Reports | Dollar Value |
|--|-------------------|------------------------|
| Reports for which no management decision was made at the beginning of the reporting period | 7 | \$58,927,790 |
| Reports issued during the reporting period | 19 | \$1,351,943,885 |
| TOTAL | 26 | \$1,410,871,675 |
| Reports for which a management decision was made during the report period | 20 | \$1,351,586,133 |
| (i) Value of recommendations agreed to by management | | \$271,880,491 |
| (ii) Value of recommendations that were not agreed to by management | | \$1,079,705,642 |
| Reports for which no management decision was made by the end of the reporting period | 6 | \$59,285,542 |
| Reports for which no management decision was made within 6 months of issuance (See Note 1 for a list of individual reports) | — | — |
| Reports for which no management decision was made within 1 year of issuance (See Note 2 for a list of individual reports) | 4 | \$49,568,017 |

Note 1 - Reports for which no management decision was made within 6 months of issuance:

| Subject | Report Number | Report Date | Recommend Funds Put to Better Use |
|---------|---------------|-------------|-----------------------------------|
| None | | | |

Note 2 - Reports for which no management decision was made within 1 year of issuance:

| Subject | Report Number | Report Date | Recommend Funds Put to Better Use |
|--|---------------|-------------|-----------------------------------|
| Vehicle Management—Delivery Vehicles — Buy versus Lease | NL-AR-04-005 | 09/30/2004 | \$40,296,954 |
| Surface Transportation—Bulk Mail Center Highway Transportation Routes — Western Area | NL-AR-06-001 | 02/14/2006 | \$2,235,812 |
| Postal Service's Grievance—Arbitration Service Centers | HM-AR-06-006 | 08/29/2006 | \$5,521,081 |
| Vehicle Management—National Trailer Lease Requirements — Capital Metro Area | NL-AR-06-013 | 09/29/2006 | \$1,514,170 |
| TOTAL | | | \$49,568,017 |

Appendix D

REPORTED NON-MONETARY BENEFITS

For the period April 1 — September 30, 2007

Overview

Many of our audit reports identify areas for improvement that result in non-monetary benefits to the Postal Service. These benefits include improvements to service, protection of assets, and improvements in the reliability of data. FY 2007 is the first year we are reporting these benefits to the Postal Service.

| | Type of Measure | Value or Amount |
|---|-----------------------------|-----------------|
| IMPROVED SERVICE | | |
| Recommendations that address the Postal Service's efforts to improve the quality and accessibility of its products and services | Number of Recommendations | 37 |
| Number of customer service audits conducted | Number of Audits | 19 |
| SAFEGUARDING ASSETS | | |
| Assets or Accountable Items at Risk: | | |
| Inadequate internal controls put the value of assets or accountable items (for example cash and stamps) at risk of loss | Dollar Value | \$110,611,612 |
| Physical Safety and Security: | | |
| Recommendations that address the safety and security of Postal Service employees and/or the work environment | Number of Recommendations | 16 |
| Number of employee/facility safety and security audits conducted | Number of Audits | 7 |
| Information Technology Security: | | |
| Inadequate controls/protection put the value of data, IT assets (software, networks), and employee work time at | Dollar Value | \$1,211,119 |
| Number of data security/IT security audits conducted | Number of Audits | 16 |
| GOODWILL / BRANDING | | |
| An "adverse impact" on goodwill is an actual event/problem that harms the Postal Service's reputation or a potential problem that could negatively impact the Postal Service "brand name" | Number of Issues Identified | 10 |

Appendix E

REPORTS WITH SIGNIFICANT RECOMMENDATIONS PENDING CORRECTIVE ACTIONS

For the period through September 30, 2007

As required by the IG Act, the following pages include a list of each audit report for which no management decision has been made by the end of the reporting period.

| Issue Date | Number of Recommendations | Report Title | Report Number |
|------------|---------------------------|--|---------------|
| 7/9/2002 | 3 | Review of eBusiness Agreements | EM-AR-02-012 |
| 8/21/2003 | 1 | Propriety of Postal Service Utility Payments | FT-AR-03-011 |
| 9/30/2003 | 2 | General Controls at the Engineering Research and Development Center – Merrifield, Virginia | IS-AR-03-008 |
| 4/21/2004 | 1 | Postal Inspection Service's Postal Police Officers | SA-AR-04-001 |
| 9/30/2004 | 1 | Postal Service's Business Partner Connectivity | IS-AR-04-014 |
| 9/30/2004 | 5 | Vehicle Management—Delivery Vehicles - Buy vs. Lease | NL-AR-04-005 |
| 10/25/2004 | 1 | Reports Distribution | IS-AR-05-001 |
| 1/25/2005 | 2 | Mail Transport Equipment Service Center Network - Network Realignment – Pittsburgh, Detroit, Cleveland | NL-AR-05-001 |
| 3/29/2005 | 1 | Efficiency Review of the Akron, Ohio, Processing and Distribution Center | NO-AR-05-009 |
| 4/21/2005 | 2 | Vehicle Management—National Trailer Lease – Unresolved Audit Recommendations | NL-MA-05-001 |
| 6/17/2005 | 1 | Efficiency of the Los Angeles International Service Center | NO-AR-05-011 |
| 7/22/2005 | 5 | Complaints Regarding Personnel Issues in the Caribbean District | HM-AR-05-009 |
| 8/11/2005 | 1 | Action Taken By Pacific Area Regarding Complaints of a Hostile Work Environment in the Sacramento District | HM-AR-05-010 |
| 9/28/2005 | 3 | Commercial Air Network Operations | NL-AR-05-015 |
| 12/23/2005 | 2 | Security Over Sensitive Customer Data on Automated Postal Center Kiosks | IS-MA-06-001 |
| 2/10/2006 | 1 | Flat Remote Encoding System for Automated Flat Sorting Machine 100 | DA-AR-06-003 |
| 2/10/2006 | 4 | Security Vulnerability Assessment and Audit of Automated Postal Center Systems | IS-AR-06-003 |
| 2/22/2006 | 1 | Efficiency Review of the Washington Bulk Mail Center | NO-AR-06-003 |
| 3/22/2006 | 1 | J.T. Wecker (Chicago) International Service Center – Inbound International Mail | FT-AR-06-013 |
| 3/31/2006 | 1 | Postal Service's Share of Health Insurance Premiums for Retired Employees | FT-AR-06-016 |
| 5/5/2006 | 1 | Follow up at the Engineering Research and Development Center – Merrifield, Virginia | IS-AR-06-010 |

| Issue Date | Number of Recommendations | Report Title | Report Number |
|------------|---------------------------|--|---------------|
| 5/19/2006 | 2 | Postal Service's Injury Compensation Programs' Controversy and Challenge Process in Selected Areas | HM-AR-06-004 |
| 6/29/2006 | 2 | Hurricane Katrina – The Effectiveness of the Postal Service Transportation and Logistics Network | NL-AR-06-006 |
| 7/20/2006 | 2 | Mail Transport Equipment Service Center Network – Proposed Change to Quality Inspection and Payment Authorization Controls | NL-AR-06-007 |
| 7/25/2006 | 3 | Surface Transportation–Processing and Distribution Center Transportation Routes – Great Lakes Area | NL-AR-06-006 |
| 8/9/2006 | 1 | Overdrawn Express Mail Corporate Accounts | DR-AR-06-007 |
| 8/29/2006 | 9 | Postal Service's Grievance-Arbitration Service Centers | HM-AR-06-006 |
| 9/12/2006 | 1 | Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center | NO-AR-06-006 |
| 9/18/2006 | 3 | Mail Transport Equipment Service Center Network–Highway Transportation Routes – Greensboro | NL-AR-06-010 |
| 9/26/2006 | 3 | Pasadena, California, Processing and Distribution Center Consolidation | EN-AR-06-001 |
| 9/27/2006 | 2 | Enterprise Payment Switch Solution Phase 1: Requirements and Design | IS-AR-06-017 |
| 9/27/2006 | 1 | Information System Access Controls at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers | IS-AR-06-018 |
| 9/28/2006 | 2 | Mail Transport Equipment Service Center Network–Highway Transportation Routes – Dallas | NL-AR-06-012 |
| 9/29/2006 | 3 | Delivery and Retail Standard Operating Procedures – Great Lakes Area | DR-MA-06-008 |
| 9/29/2006 | 3 | Postal Service's Schedule Awards Program in the New York Metro Area – Report I | HM-AR-06-007 |
| 9/29/2006 | 4 | Vehicle Management–National Trailer Lease Requirements – Capital Metro Area | NL-AR-06-013 |
| 9/29/2006 | 1 | Mail Transport Equipment – Transportation of Over the Road Containers | NL-AR-06-014 |
| 9/30/2006 | 1 | Biohazard Detection System Consumables | DA-AR-06-006 |
| 10/16/2006 | 4 | Delivery and Retail Standard Operating Procedures – Capital Metro Area | DR-MA-07-001 |
| 11/9/2006 | 4 | Sixty City, Iowa, Processing and Distribution Facility Consolidation | EN-AR-07-001 |
| 12/5/2006 | 4 | Service Implications of Area Mail Processing Consolidations | EN-AR-07-002 |
| 12/7/2006 | 1 | Security Vulnerability Assessment of Legacy Applications at the Eagan Host Computing Services, Eagan, Minnesota | IS-AR-07-003 |
| 12/11/2006 | 1 | Postal Service Contact Center Phase 1: Customer Service | MS-AR-07-001 |
| 12/26/2006 | 2 | National Customer Management System Encryption | IS-AR-07-006 |
| 2/9/2007 | 2 | Timeliness of Mail Processing at the Los Angeles, California, Processing and Distribution Center | NO-AR-07-001 |
| 2/23/2007 | 1 | Enterprise Payment Switch Solution Phase II: Preparations for Security Testing | IS-AR-07-007 |
| 3/15/2007 | 3 | Address Management System Information – Northeast Area | DR-AR-07-001 |
| 3/23/2007 | 2 | Surface Transportation–Processing and Distribution Center Transportation Routes – Eastern Area | NL-AR-07-002 |
| 3/29/2007 | 2 | Audit of Cellular Services | IS-AR-07-010 |
| 3/30/2007 | 4 | Address Management System Information – Southeast Area | DR-AR-07-002 |
| 3/30/2007 | 1 | Steubenville–Youngstown, Ohio, Outgoing Mail Consolidation | NO-AR-07-003 |
| 3/30/2007 | 2 | Postal Vehicle Service Transportation Routes – Memphis Processing and Distribution Center | NL-AR-07-003 |
| 3/30/2007 | 5 | Postal Service Security Controls and Processes for the Capital Metro Area | SA-AR-07-002 |
| 3/31/2007 | 1 | Stamps on Consignment Program | DR-AR-07-003 |

| Issue Date | Number of Recommendations | Report Title | Report Number |
|------------|---------------------------|---|---------------|
| 4/20/2007 | 1 | Efficiency Review of the Bridgeport Processing and Distribution Facility – Bridgeport, Connecticut | NL-AR-07-004 |
| 4/25/2007 | 1 | Efficiency Review of the Bridgeport Processing and Distribution Facility – Bridgeport, Connecticut | NO-AR-07-004 |
| 4/30/2007 | 1 | Headquarters Cellular Services | IS-AR-07-011 |
| 5/1/2007 | 4 | Address Management System Information – Capital Metro Area | DR-AR-07-004 |
| 5/1/2007 | 4 | Address Management System Information – Pacific Area | DR-AR-07-005 |
| 5/1/2007 | 4 | Address Management System Information – Western Area | DR-AR-07-008 |
| 5/1/2007 | 4 | Address Management System Information – Eastern Area | DR-AR-07-009 |
| 5/9/2007 | 2 | Postal Service's Security Controls and Processes for the Pacific Area | SA-AR-07-003 |
| 5/16/2007 | 1 | Postal Service's Workplace Safety and Workplace-Related Injury Reduction Goals and Progress | HM-AR-07-002 |
| 5/31/2007 | 1 | Efficiency Review of the Dallas Bulk Mail Center | NO-AR-07-005 |
| 6/14/2007 | 2 | Management of Retail Work Hours in Relation to the Workload for Mobile Units – Triboro District | DR-MA-07-004 |
| 6/15/2007 | 3 | Vehicle Management–National Trailer Lease Renewal – Southwest Area | NL-AR-07-005 |
| 6/26/2007 | 2 | Area Mail Processing Initiation Process | EN-MA-07-001 |
| 7/11/2007 | 2 | Handling of a Suspicious Powder Incident at the Wichita Falls Mail Processing Center | SA-AR-07-005 |
| 7/18/2007 | 2 | Bronx, New York Processing and Distribution Center Consolidation | EN-AR-07-003 |
| 7/25/2007 | 3 | Review of Controls Over Postal Inspection Service Network Switches | IS-AR-07-012 |
| 7/31/2007 | 2 | Flat Sequencing System Risk Management | DA-AR-07-003 |
| 8/1/2007 | 1 | Report on Audit of Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company | CA-CAR-07-018 |
| 8/2/2007 | 3 | Commodity Sourcing Activities Within the Automation Category Management Center | CA-MA-07-005 |
| 8/14/2007 | 4 | Post-Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation | EN-AR-07-004 |
| 8/20/2007 | 4 | Address Management System Information – Southwest Area | DR-AR-07-006 |
| 8/20/2007 | 1 | Audit of Database Administration Practices | IS-AR-07-016 |
| 8/27/2007 | 2 | Optical Character Reader Enhancements, Delivery Input Output Sub-System | DA-AR-07-004 |
| 8/29/2007 | 2 | Separation of Duties at the Eagan, Minnesota; San Mateo, California; and St. Louis, Missouri, Information Technology and Accounting Service Centers | IS-AR-07-017 |
| 9/10/2007 | 3 | Automated Flat Sorting Machine 100 Enhancements | DA-AR-07-005 |
| 9/13/2007 | 1 | St. Louis Equipment Maintenance and Waste Disposal | DA-MA-07-002 |
| 9/14/2007 | 1 | Disaster Recovery Testing for Critical Postal Service Applications at the Eagan, Minnesota; and San Mateo, California, Information Technology and Accounting Service Centers for Fiscal Year 2007 | IS-AR-07-018 |
| 9/21/2007 | 1 | Management Advisory – Maintenance and Repair Payments to Commercial Vendors Using Postal Service Form 8230, Authorization of Payment | DR-MA-07-005 |
| 9/21/2007 | 1 | Intelligent Mail Data Acquisition System Deployment | DA-AR-07-006 |
| 9/24/2007 | 4 | Postal Service's Employee Benefit Programs | HM-AR-07-003 |
| 9/26/2007 | 1 | City Delivery Vehicle Mileage Base vs. Actual – Southwest Area | DR-AR-07-013 |
| 9/26/2007 | 1 | City Delivery Vehicle Mileage Base vs. Actual – Eastern Area | DR-AR-07-014 |
| 9/26/2007 | 2 | The Postal Service's Comprehensive Strategic Workforce Plan | HM-AR-07-004 |

| Issue Date | Number of Recommendations | Report Title | Report Number |
|------------|---------------------------|---|---------------|
| 9/27/2007 | 1 | Postal Vehicle Service Transportation Routes – Milwaukee Processing and Distribution Center | NL-AR-07-007 |
| 9/28/2007 | 6 | Audit Report – Chicago District Financial Accountability | FF-AR-07-254 |
| 9/28/2007 | 2 | Postal Service Passport Program | MS-AR-07-004 |
| 9/28/2007 | 8 | Timeliness of Mail Processing at the Chicago, Illinois Cardiss Collins Processing and Distribution Center | NO-AR-07-012 |
| 9/28/2007 | 4 | The Impact of Transportation on Chicago District Performance | NL-AR-07-008 |
| 9/28/2007 | 4 | National Trailer Lease Renewal – Pacific Area | NL-AR-07-009 |
| 9/29/2007 | 1 | City Delivery Vehicle Mileage Base vs. Actual – Southeast | DR-AR-07-015 |
| 9/29/2007 | 1 | Implementation and Utilization of the Growth Management Tool | DR-AR-07-016 |

Appendix F

SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period April 1 — September 30, 2007

As required by the IG Act, the following page discusses information concerning any significant management decision with which the Inspector General disagrees and is currently in audit resolution.

The OIG has no significant management decisions in audit resolution as of September 30, 2007.

Appendix G

INVESTIGATIVE STATISTICS¹

For the period April 1 — September 30, 2007

INVESTIGATIONS¹

| | |
|--|---------------------------|
| Investigations Completed | 4,438 |
| Arrests | 282 |
| Indictments/Information | 123 |
| Convictions/Pretrial Diversions ² | 370 |
| Administrative Actions Taken | 2,275 |
| Cost Avoidance | 87,862,882 ³ |
| Fines, Restitutions, and Recoveries | \$17,740,468 ³ |
| Amount to Postal Service | \$13,213,100 |

¹ Statistics include joint investigations with other law enforcement agencies.

² Convictions reported in this frame may be related to arrests made in prior reporting periods.

³ Amount included in Fines, restitutions, and recoveries.

* The *October 1, 2006 — March 31, 2007 Semiannual Report to Congress* contained a typographical error. Fines, restitution, and recoveries for this period should have read \$22,386,061.

Appendix H

SUMMARY OF U.S. POSTAL INSPECTION SERVICE ACTIONS UNDER 39 USC 3005 and 3007

For the period April 1 — September 30, 2007

The Postal Reorganization Act requires the Postmaster General to furnish information, on a semiannual basis, on the investigative activities of the Postal Service by the U.S. Postal Inspection Service. With passage of the Deceptive Mail Prevention and Enforcement Act in December 1999, the Postal Service's reporting obligations were changed. The Act requires the Postal Service to submit its semiannual report on investigative activities to the OIG rather than to the Governors, expands the subject matter that must be reported, and revises the reporting schedule to coordinate with the OIG *Semiannual Report to Congress*. The information in the report includes actions directed at combating crimes involving the mail; costs and expenditures devoted to Inspection Service investigative activities; use of subpoena power; and any additional information the OIG may require.

The following information summarizes the administrative and judicial actions initiated and resolved during the reporting period. These actions include the issuance of cease and desist orders directed to mailers, actions to intercept payments fraudulently induced, and orders seeking to intercept fraudulent mailings.

Note:

- 1) There is a significant increase in the number of subpoenas issued this past summer due to a growing increase in inbound foreign lottery solicitations mailed from Canada.
- 2) There is a significant increase in the number of administrative actions and civil penalties due largely to renewed emphasis on that program by the Postal Service's Office of Counsel.

| Type of Scheme | Complaints Filed | Consent Agreements | FROs | Cease & Desist Orders |
|----------------------------------|------------------|--------------------|-----------|-----------------------|
| Advance Fee | 3 | — | 1 | 1 |
| Contests/Sweepstakes | 4 | 1 | — | 1 |
| Coupon Fraud | 4 | 4 | — | 4 |
| False billings | 9 | 6 | 3 | 8 |
| Internet Auction | 8 | 3 | 4 | 7 |
| Lotteries (Foreign and Domestic) | 2 | 1 | — | 2 |
| Medical | 5 | — | — | — |
| Merchandise: | | | | |
| Failure to furnish | 4 | 1 | — | 1 |
| Failure to pay | 17 | 7 | 1 | 7 |
| Misrepresentation | 10 | — | — | — |
| Miscellaneous | 11 | 3 | — | 4 |
| Telemarketing | 2 | 1 | 2 | 2 |
| Work at home | 15 | 5 | 4 | 9 |
| TOTAL | 94 | 32 | 15 | 46 |

IG Subpoenas for Semiannual Report to Congress (April 1 — September 30, 2007)

| U.S. Postal Subpoena No. | Violation: | Date Issued: |
|--------------------------|---|--------------|
| 07-003 | 39 USC 3016 Sweepstakes promotion | 5/9/2007 |
| 07-004 | 38 USC 3016 Sweepstakes promotion | 8/20/2007 |
| 07-005 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-006 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-007 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-008 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-009 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-010 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-011 | 39 USC 3016 Deceptive mailing; sweepstakes | 8/20/2007 |
| 07-012 | 39 USC 3016 False representation; sweepstakes mailing | 9/14/2007 |
| 07-013 | 39 USC 3016 False representation; sweepstakes mailing | 9/14/2007 |
| 07-014 | 39 USC 3016 False representation; sweepstakes mailing | 9/14/2007 |
| 07-015 | 39 USC 3016 False representation; sweepstakes mailing | 9/14/2007 |
| 07-016 | 39 USC 3016 False representation; sweepstakes mailing | 9/18/2007 |

Other Administrative Actions

| | |
|--|-----------|
| Administrative Action Requests | 96 |
| Temporary Restraining Orders Requested | — |
| Temporary Restraining Orders issued | — |
| Cases Using Direct Purchase Authority | 2 |
| Civil Penalties (Section 3012) imposed | \$329,800 |
| Test Purchases | \$204 |
| Withholding Mail Orders issued | 79 |
| Voluntary Discontinuances | 8 |

Financial Reporting On Investigative Activities FY 2007 (April 2007 — September 2007)

| TYPE | Semiannual Report |
|---------------------|----------------------|
| Personnel | \$145,754,785 |
| Nonpersonnel | \$48,482,221 |
| Total | \$194,237,006 |
| Capital Obligations | \$22,628,078 |

Appendix I

CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period April 1 — September 30, 2007

This appendix lists the Congressional and Board of Governors inquiries the OIG closed during this reporting period. We reviewed these inquiries to help identify systemic issues and to determine the need for future Postal Service-wide audits.

Investigations

| Requestor | Allegation/Concern | Our Major Findings | Closure Date |
|-------------------------------|---|--|--------------|
| Senator, Pennsylvania | Alleged a Postal Service manager brought a firearm into the garage of a General Mail Facility; dissatisfied with management's response. | We investigated, found employee had a pending Equal Employment Opportunity (EEO) complaint. No additional work necessary. | 4/4/2007 |
| Representative, Texas | Employee alleges falsification of injury claim by the Postal Service Injury Compensation Office in San Antonio, Texas. | We reviewed, found no evidence of a systemic problem in processing workers' compensation claims and did not substantiate allegation of mishandled claim. As a result of other congressional inquiries pertaining to the San Antonio P&DC, we began a review within our Workplace Environment Unit. | 5/8/2007 |
| Representative, Florida | Postal employee allegedly has been impersonating complainant. | Our criminal investigation was on-going at the time of closure. | 5/15/2007 |
| Representative, West Virginia | Mail tampering. | We investigated, found no evidence of intentional delay or discarding of mail. | 5/22/2007 |
| Senator, Texas | Alleged a postal manager disrupted public meetings and misused postal facilities in support of personal and/or political agendas. | We investigated; reported our findings to management for any appropriate action. | 4/4/2007 |
| Representative, Alabama | Alleged mail destruction or delay by carriers. | We investigated but did not substantiate allegations. | 5/8/2007 |
| Representative, California | Whistleblower reprisal after reporting safety hazards to supervisors. | We reviewed, found concerns communicated to us were not covered by the postal whistleblower protection rules. Employee has pending EEO complaints, no additional work necessary. | 5/11/2007 |
| Representative, Virginia | Misconduct by Postal Service and Inspection Service employees, including mail theft and tampering, and retaliation for filing a complaint. | We investigated, did not discover any misconduct on the part of the Postal Service or Inspection Service. | 5/8/2007 |
| Representative, Texas | Alleged mail tampering by an employee at the post office. An Officer in Charge removed a letter from the mail, wrote on the envelope, and had another employee return it. | We investigated, found no evidence that postal laws or regulations were violated. We reported our findings to district management. | 4/19/2007 |
| Representative, Texas | Agent allegedly acted unprofessionally. | We reviewed, did not substantiate allegation. | 6/20/2007 |
| Representative, New York | Mail theft concerning package sent via Express Mail through Parcel Force of Great Britain. | Our investigation revealed the driver intentionally destroyed the package. Provided our findings to Department of Justice and referred to management. | 6/5/2007 |
| Senator, Arizona | Postal Service has fraudulently removed injured employees from their rolls. | We investigated, did not substantiate allegations. | 5/11/2007 |
| Representative, California | Employee contesting proposed removal; alleged basis for removal a biased OIG report. | We investigated, found no evidence to support the allegations. | 7/31/2007 |
| Representative, New York | Mail theft concerning package sent via Express Mail through Parcel Force of Great Britain. | Our investigation revealed the driver intentionally destroyed the package. Provided our findings to Department of Justice and referred to management. | 6/5/2007 |
| Senator, Arizona | Postal Service has fraudulently removed injured employees from their rolls. | We investigated, did not substantiate allegations. | 5/11/2007 |
| Representative, California | Employee contesting proposed removal; alleged basis for removal a biased OIG report. | We investigated, found no evidence to support the allegations. | 7/31/2007 |

| | | | |
|----------------------------|--|--|-----------|
| Representative, Texas | Union alleges Postal Service Office of Injury Compensation abused authority and retaliated against claimants by delaying or controverting injury compensation claims. | We reviewed, found no evidence of a systemic problem in processing workers' compensation claims and did not substantiate allegation of mishandled claim. As a result of other congressional inquiries pertaining to the San Antonio P&DC, we began a review within our Workplace Environment Unit. | 6/20/2007 |
| Representative, Georgia | Alleged mail theft, which could lead to identity theft. | We reviewed, did not substantiate allegation. | 5/25/2007 |
| Representative, Kentucky | Postal inspectors conducting interview about discarded mail allegedly mistreated employee, failed to provide proper warning, and forced a resignation. | We investigated, did not substantiate allegations. | 8/21/2007 |
| Representative, Maryland | Mishandling of mail by postal employees and possible machinery problems. | Our investigation did not substantiate allegations and found no similar complaints or instances of tampering or losses for this ZIP Code. | 7/23/2007 |
| Senator, Minnesota | Concerns with sufficiency of Inspection Service investigation into the return of mail marked as "deceased" which had been addressed to soldier in Iraq. | Our investigation supported the Inspection Service's work. We referred our findings to the U.S. military authority servicing the "APO" delivery address for any appropriate action. | 5/22/2007 |
| Representative, Utah | Inquiry about investigative techniques used during an OIG investigation. | We investigated, did not substantiate allegations relating to misuse or abuse of postal resources and OWCP benefits. However, we did find potential safety issues, which we forwarded to management. These findings resulted in the employee's removal from duty. | 5/24/2007 |
| Representative, California | Mail theft, possibly by a postal employee. | We determined appropriate jurisdiction resided with the Inspection Service. | 5/24/2007 |
| Senator, Missouri | Mail tampering, theft, or delay. | We investigated, did not substantiate allegations. | 5/24/2007 |
| Representative, California | Mail theft, possibly from a collection box. | We investigated, did not substantiate allegations. However, we did determine the collection box was defective. We reported the problem to management. | 7/31/2007 |
| Senator, New York | Mail tampering and stolen postage. | We reviewed, found no link to any postal employee. We referred complaint and our findings to the Inspection Service for additional review. | 5/25/2007 |
| Representative, Florida | Executive Service employee allegedly fraudulently used a federally funded relocation program to sell a home with undisclosed known defects. | We reviewed, did not substantiate allegation. | 8/8/2007 |
| Representative, Texas | Fraud and falsification of records at a Texas post office. | We shared our findings regarding fraud and falsification of records with management. Did not substantiate allegation of unfair disciplinary action. | 8/2/2007 |
| Senator, New York | Mail theft by an employee at a New York post office. | We investigated, did not substantiate allegations. | 7/23/2007 |
| Senator, New Hampshire | Whistleblower retaliation for reporting misconduct to the OIG. | Our investigation reversed the matters raised were not a proper basis for a whistleblower reprisal complaint. Found employee had a pending EEO complaint. | 8/20/2007 |
| Representative, Minnesota | Concerns with sufficiency of Inspection Service investigation into the return of mail marked as "deceased" which had been addressed to soldier in Iraq. | Our investigation supported the Inspection Service's work. We referred our findings to the U.S. military authority servicing the "APO" delivery address for any appropriate action. | 5/25/2007 |
| Senator, California | Violation of the Privacy Act of 1974 resulting from loss of a thumb drive. | We investigated, did not find missing thumb drive. However, we determined employee's privacy was not violated. | 7/31/2007 |
| Representative, Missouri | Allegedly two postal inspectors falsified a photocopy of a check that was drawn on the account of a family inheritance; received money from the trustee; part of a bribery/extortion ring; and were cocaine addicts. | We investigated, did not substantiate allegations of employee misconduct. | 9/19/2007 |
| Senator, Texas | Retaliation for contacting Congress about employment-related issues. | We reviewed, found no evidence that a case of whistleblower reprisal existed. | 8/14/2007 |

| | | | |
|----------------------------|--|--|-----------|
| Representative, Texas | Consolidation of postal facilities at Waco into Fort Worth/Austin allegedly supported by intentional delay of mail and falsification of records. | We investigated, found problems of delayed mail existed due to personnel shortage, restrictions on overtime, and inexperienced management staff. When hiring restrictions were lifted, management resolved the delays. We did not substantiate allegations of intentional delay. | 8/22/2007 |
| Representative, Texas | Delayed mail at a Texas post office. | We investigated, found problems of delayed mail existed due to personnel shortage, restrictions on overtime, and inexperienced management staff. When hiring restrictions were lifted, management resolved the delays. We did not substantiate allegations of intentional delay. | 8/22/2007 |
| Representative, California | Mail theft and concern about OIG role in resolving complaint. | We investigated, did not substantiate the allegation. We noted the delay was unusual, but alone was not conclusive of misconduct. | 8/3/2007 |
| Representative, Nebraska | Alleged employee theft of mail a business has placed in mail stream. | We reviewed, did not substantiate allegation against the employee. | 7/9/2007 |
| Senator, Pennsylvania | Insufficient OIG support in investigating a retaliation complaint. | We investigated, found employee made a protected communication but did not find management retaliated. As the employee also had a pending EEO complaint, no further OIG action was indicated. | 8/7/2007 |
| Representative, New York | Concerns about OIG investigation into mail theft complaint. | We worked on this case with the Office of the U.S. Attorney for the Northern District of New York and addressed all issues within our jurisdiction. | 8/2/2007 |
| Representative, Ohio | Alleged mail tampering. | We investigated, did not substantiate allegation. | 9/14/2007 |

Audits

| Requestor | Allegation/Concern | Our Findings | Closure Date |
|--------------------------|---|---|--------------|
| Representative, Illinois | The Subcommittee on Federal Workforce, Postal Service, and the District of Columbia requested to testify at a hearing on Thursday, May 31 at 10 a.m., in Room 2525 of the Dirksen Federal Courthouse, 219 South Dearborn Street, Chicago, Illinois. | Assistant Inspector General for Audit testified before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia on May 31. | 5/31/2007 |

General Counsel

| Requestor | Allegation/Concern | Our Findings | Closure Date |
|------------------------------|---|--|--------------|
| Senator, Virginia | Alleged hostile environment (stress, harassment, sexual harassment), retaliation, and misconduct at a P&DC. | We did not substantiate allegations of a hostile environment, but noted management efforts to address the issues. Our investigation found no evidence of employee misconduct. | 7/27/2007 |
| Representative, Florida | Employee requests documentation on medical clearances reviewed by the OIG. | We reviewed prior documents and determined they were correct. | 5/4/2007 |
| Representative, Texas | Complaint with the handling of an injury claim by officials of the Injury Compensation Office at the Postal Service. | We conducted a review, but noted that the employee was actively pursuing the complaint through the equal employment opportunity process. | 8/2/2007 |
| Representative, Pennsylvania | Employee alleges management created a hostile work environment at a post office. | We did not find sufficient evidence to support the allegations. However, we found employees perceived their work environment as hostile. At our request, management conducted an investigation and has made efforts to correct the issues. | 6/14/2007 |
| Representative, New Jersey | Complaints about safety, harassment, and retaliation at a New Jersey postal facility, including making workers use outdoor portable toilets in freezing weather following a water main break. | We reviewed, found no indication that the workplace climate declined as a result of the portable toilets. Management is continuing to monitor the climate. | 7/25/2007 |

| | | | |
|--------------------------------|---|---|-----------|
| Representative, New Jersey | Alleged safety issues, harassment, and retaliation at a New Jersey post office. | We reviewed, found no indication that the workplace climate declined as a result of the water main break. We made numerous unsuccessful attempts to reach complainant to identify specific incidents relating to the alleged hostile work environment. | 7/25/2007 |
| Representative, North Carolina | Complainant disputes OIG finding not substantiating whistleblower complaint and seeks further review. | Our January report concluded there were not sufficient grounds to find that whistleblower retaliation occurred. Our Office of Investigations complied with statutory and regulatory requirements. | 5/22/2007 |
| Senator, Texas | An employee expressed concern about allegations against carriers and about the stress on carriers to deliver more mail with fewer personnel. | We investigated, found substantial amounts of addressed but undelivered (delayed) mail. We shared our findings with management and verified the employee filed a grievance with the National Association of Letter Carriers union. Since the union is pursuing, we deferred to the union. | 4/27/2007 |
| Senator, Georgia | Threatening behavior by manager in a Georgia P&DC. | Management conducted an inquiry and provided a copy of the final report. Found no threat of violence was made against either party. | 8/7/2007 |
| Representative, Iowa | Employees allege postmaster is directing them to violate postal regulations in performance of duties. | We reviewed, did not substantiate allegations of violations. Our investigative findings regarding discarded mail was provided to management for disposition. | 7/25/2007 |
| Representative, Illinois | On April 17, 2007, the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia held an oversight hearing on the Postal Service. As part of the scope of this hearing, the subcommittee requested a copy of the full report drafted by the OIG on the investigation of Cintas. | Our FOIA office provided copies for hearing. | 4/12/2007 |
| Representative, Pennsylvania | Alleged mail tampering. | We reviewed, did not substantiate allegation. | 4/30/2007 |
| Representative, New York | Alleged mail theft by postal employee. | Our earlier investigation substantiated the allegation and we forwarded our findings to the U.S. Attorney for the Western Judicial District of New York. The U.S. Attorney declined prosecution; we made information available to another agency, which might want to pursue the matter. | 5/22/07 |
| Senator, California | Request for OIG and GAO investigation of complainant's removal from the Postal Service. | Our Workplace Environment unit was unable to locate documentation addressing root causes of removal due to the age of the personnel action and unavailability of personnel records. We will review if contacts with postal sources yield responsive records. | 5/31/2007 |
| Representative, Georgia | Alleged perjury by postal managers in a federal court case. | We reviewed, due to passage of time and unavailability of records, we declined to refer the matter for investigation. | 6/19/2007 |
| Representative, Connecticut | Staffing decision at a post office allegedly violated the Civil Rights and Age Discrimination Acts. | We reviewed, found to be individual issues subject either to union grievance or EEO processes. No further work necessary. | 6/21/2007 |
| Representative, Connecticut | Post office management allegedly discarded large amounts of political mail during fall 2006 election season. | We reviewed, did not substantiate allegations. | 6/26/2007 |
| Representative, Illinois | Whistleblower retaliation. | Matter was previously referred to the Office of Special Counsel for appropriate investigation. | 7/3/2007 |
| Representative, Arizona | Alleged management created hostile environment and committed wide-ranging misconduct aimed at eliminating the mail handler craft in Mesa. | We reviewed, did not substantiate allegations. | 9/25/2007 |

| | | | |
|----------------------------|--|---|-----------|
| Representative, California | Alleged OIG investigators refused to recognize the right of union stewards to participate in the interrogations of employees, as provided in collective bargaining agreements. | Provided general information on OIG policy and how we ensure compliance. | 9/6/07 |
| Representative, Oklahoma | Alleged retaliation. | We reviewed, found employee had a pending EEO complaint. No additional work necessary. | 9/13/2007 |
| Representative, Georgia | Alleged perjury by postal managers in a federal court case. | We reviewed, due to passage of time and unavailability of records, we declined to refer the matter for investigation. | 9/19/2007 |
| Representative, Florida | Alleged an Inspector-in-Charge should be removed for instances of misconduct, including violation of the Health Insurance Portability and Accountability Act (HIPAA). | Outside of our jurisdiction, referred to the Inspection Service. | 9/25/2007 |

Referrals

| Requestor | Allegation/Concern | Referred To | Closure Date |
|------------------------------|---|-----------------------------|--------------|
| Representative, Iowa | Postal Service non-compliance with Americans with Disabilities Act at local post office. | Government Relations Office | 5/24/2007 |
| Representative, Illinois | Allegations neighbors used the mail to harass complainant. | Inspection Service | 8/26/2007 |
| Representative, Pennsylvania | Postal Service improper refusal to honor insurance for an item sent through the mail. | Government Relations Office | 7/24/2007 |
| Representative, Virginia | Correspondent has ideas that would benefit the Postal Service. | Government Relations Office | 8/9/2007 |
| Representative, Florida | Legal questions concerning private-sector competition with the Postal Service on mail delivery. | Government Relations Office | 8/29/2007 |
| Representative, Virginia | Alleged mail fraud. | Inspection Service | 9/13/2007 |

SUPPLEMENTAL INFORMATION

FREEDOM OF INFORMATION ACT

The Freedom of Information Act (FOIA) Office for the Postal Service Office of Inspector General operates independently of, but frequently coordinates with, its counterparts at the Postal Service and the Inspection Service. The FOIA Office receives requests for records from the public, the media, and Postal Service employees. The Freedom of Information Act, according to the Department of Justice, "generally provides that any person has a right, enforceable in court, to obtain access to federal agency records, except to the extent that such records (or portions of them) are protected from public disclosure by one of nine exemptions."

Activities

For the period April 1 — September 30, 2007

| Requests | Number of Requests |
|------------------------------------|--------------------|
| Carryover from prior period | 16 |
| Received during period | 173 |
| Total on hand during period | 189 |

| OIG Actions | Number of Requests |
|-------------------------------------|--------------------|
| Processed during the period | 155 |
| Requests released in full | 9 |
| Requests partially granted | 44 |
| Requests not granted | 26 |
| Requests referred to another agency | 51 |
| No records | 13 |
| Not proper FOIA requests | 10 |
| Withdrawn | 1 |
| Other | 1 |

| Balance | Number of Requests |
|--|--------------------|
| Balance at the end of the period (pending) | 34 |

| Processing Days | Number of Days |
|---|----------------|
| Median processing days to respond to a FOIA request | 11 |

WORKPLACE ENVIRONMENT

For the period April 1 — September 30, 2007

The OIG's Workplace Environment team receives referrals involving workplace environment and operational issues from multiple sources, which include the Hotline, Congress, the Board of Governors (BOG), and Postal Service and OIG management. Complaints reviewed by the team include sexual harassment; discrimination; harassment and intimidation; nepotism; mail delivery and processing; and workplace safety issues. Workplace Environment closely coordinates efforts with management to ensure employees a stress and adversity-free work environment. The team also reviews complaints received from OIG staff providing them with another avenue to report their concerns, in addition to the equal employment opportunity process. Once the review is completed, the team may issue a fact-finding report to OIG management.

| Referrals | Total |
|---|--------------|
| Carryover from prior period | 28 |
| Complaints received from OIG Hotline | 287 |
| Congressional/BOG/Postal Service management | 5 |
| Internal | 15 |
| Other | 2 |
| Total on hand during this period | 337 |
| Workplace Environment Actions | Total |
| Complaints closed during the period | 293 |
| Referred to Postal Service management | 64 |
| Referred to OIG Office of Investigations | 20 |
| Referred to OIG Office of Audit | 1 |
| Summary of findings reported to Congress/BOG/Postal Service management | 9 |
| Conducted limited inquiry into allegations/issues | 146 |
| Referred to database for statistical analysis and possible systemic reviews | 47 |
| Fact-finding reports issued to OIG management | 6 |
| Referrals pending at the end of the period | 44 |

GLOSSARY

Advance fee scheme – Obtaining fees purporting to secure buyers or obtain loans.

APC – Automated Postal Center, a kiosk that dispenses postage and provides several mailing services. APCs allow customers to weigh, calculate, apply exact postage, and ship Express Mail and Priority Mail items, packages, and First-Class letters right at the kiosks. They also provide easy access to postal products and services.

BMC – Bulk Mail Center where packages and standard mail are processed.

Bulk mail – Mail that is rated for postage partly by weight and partly by the number of pieces in the mailing. The term is generally used to refer to Standard Mail (A).

CPU – Contract Postal Units (CPU) are contractor-owned and operated facilities under contract to the Postal Service to provide selected postal services such as accepting mail and selling postage, supplies, and Postal Service money orders to the public. CPUs are usually located in a store or other place of business.

DPS – Delivery Point Sequence (DPS) provides mail in letter carrier route order with automation.

END initiative – The Evolutionary Network Development (END) initiative is the next step in the Postal Service's efforts to create a flexible logistics network to reduce costs, increase overall effectiveness, and improve consistency of service. It is now known as Network Streamlining.

Express Mail service – A mail class that provides expedited delivery service for mailable matter subject to certain standards.

False billings scheme – Mailing solicitations in the guise of billings.

FECA – Postal Service employees injured while performing their duties may be eligible for compensation under the Federal Employee's Compensation Act (FECA).

FEHB – The Federal Employees Health Benefits (FEHB) program helps federal employees, retirees, and their survivors meet health care needs through a wide selection of health plans across the country.

First-Class Mail – A class of mail that includes all matter wholly or partly in writing or typewriting, all actual and personal correspondence, all bills and statements of account, and all matter sealed or otherwise closed against inspection. First-Class Mail comprises three subclasses: postcards, letters and sealed parcels, and Priority Mail.

Any mailable matter may be sent as First-Class Mail. First-Class Mail is a Postal Service trademark.

Fat-size mail – A mailpiece that exceeds one of the dimensions for letter-size mail (11-1/2 inches long, 6-1/8 inches high, 1/4 inch thick) but that does not exceed the maximum dimension for the mail processing. Fat-size mail may be unwrapped, sleeved, wrapped, or enveloped.

Fraud Internet schemes – Fraudulent schemes using the Internet with a connection to the mail.

FY – Fiscal Year

Highway contract routes – A route served by a postal contractor to carry mail by highway between designated points.

IEMP – The Postal Service's Integrated Emergency Management Plan that improves coordination or planning and response activities among functional areas in the event of an emergency.

Lottery scheme – Advertisements seeking money or property by mail for participation in schemes to win prizes through chance.

Merchandise failure to pay scheme – Mail order merchandise acquired without providing payment.

Merchandise misrepresentation scheme – Mail order merchandise or services that are materially misrepresented in advertising.

OWCP – Administered by the U.S. Department of Labor, the Office of Workers' Compensation Programs (OWCP) provides direct compensation to providers, claimants, and beneficiaries.

PCIE ECIE – The President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency (PCIE ECIE) address integrity, economy, and effectiveness issues that transcend individual government agencies.

This organization also seeks to increase the professionalism and effectiveness of IG personnel throughout the government.

Postal Act of 2006 – Abbreviation for the Postal Accountability and Enhancement Act passed by Congress in December 2006.

Postal Regulatory Commission (PRC) – An independent federal agency that makes recommendations on Postal Service requests for changes in postal rates and mail classifications. The five commissioners are nominated by the President and approved by the U.S. Senate. The name was changed from Postal Rate Commission on Dec. 20, 2006.

Postal Reorganization Act – The statute that requires postal rates and fees to "provide sufficient revenues so that the total estimated income and appropriations... will equal as nearly as practicable total estimated costs." (Public Law 91-375, signed August 12, 1970.)

Priority Mail – First-Class Mail that weighs more than 13 ounces and, at the mailer's option, any other mail matter weighing 13 ounces or less. Priority Mail provides expedited delivery.

Processing and Distribution Center/Facility (P&DC /F) – A central mail facility that processes and dispatches part or all of both incoming mail and outgoing mail for a designated service area. It also provides instructions on the preparation of collection mail, dispatch schedules, and sorting plan requirements to mailers.

Retail facility – A postal unit of a Post Office and its subordinate units as well as military Post Offices that sell postage stamps and provide other postal retail services to customers. The subordinate units are within the service area of a main post office and include post office stations, post office branches, contract postal units, and nonpersonnel units.

SmartPay Purchase Card – SmartPay Purchase Cards are how the Postal Service acquires goods and services through contracts.

Standard Mail – A class of mail that includes advertisements, circulars, newsletters, magazines, small parcels, and merchandise.

Unsupported costs – Costs that are questioned because of inadequate supporting documentation for the proposed/claimed costs.

Verification – Process to check a mailing presented by a mailer to determine proper preparation and postage payment.

Value proposition – Develops audit work that maximizes benefits to the Postal Service and assists top management in reaching their goals.

Voyager Fleet Cards – These are credit cards are used by postal employees to acquire automotive goods and services, such as gasoline or repairs.

Work at home scheme – Schemes, such as envelope stuffing, that falsely purport to provide home employment.

The following are among the many trademarks owned by the United States Postal Service: United States Postal Service®, U.S. Postal Service®, USPS®, First Class Mail®, USPS.com®, Click-N-Ship®, Automated Postal Center®, APC®, Express Mail®, Priority Mail®, Standard Mail®, Parcel Post®, The Postal Store®, Media Mail®, Customized Market Mail®, United States Postal Service Office of Inspector General®, Post Office™, Postal Service™, Signature Confirmation™, Certified Mail™, Delivery Confirmation™, Registered Mail™, Post Office Box™, ZIP Code™, Carrier Pickup™, and Postmaster General™. The Sonic Eagle Logo, and the Mail Truck Design are also registered trademarks belonging to the U.S. Postal Service.

OFFICE OF INSPECTOR GENERAL

Report

Fraud, Theft, and Misconduct in the Postal Service

CONTACT THE HOTLINE AT:

1.888.USPS.OIG

1.888.877.7644

Fax: 1.866.756.6741

or www.uspsoig.gov

TTY (HEARING IMPAIRED)

1.866.OIG.TEXT

1.866.644.8398





PROMOTING INTEGRITY AND ACCOUNTABILITY