I am pleased to report that midway through our fifth year as an independent Office of Inspector General (OIG), we continue to serve as an independent and objective voice that illuminates areas where the Postal Service can prevent fraud, waste, abuse, and mismanagement and improve its critical management practices. After establishing our presence and forming a highly-talented, experienced, and dedicated team of OIG employees, the results of our efforts are clear. Our work is making a difference – not just to the Postal Service but also to the inspector general and federal law enforcement communities and to the American public.

By investing in our own future, we have invested in the future of the Postal Service. We are using the latest and best technology to improve our productivity to better assist the Postal Service. We have made great progress in clarifying our roles and responsibilities with those of the Inspection Service, and successfully transitioned field financial audit work previously handled by the Inspection Service. To better serve our customers, we broadened our presence nationwide – this reporting period, we opened four new offices across the country, bringing our total number of field offices to 15. We implemented a reorganization designed to focus our resources on the Postal Service’s needs and priorities. And, after months of aggressive recruiting efforts, we are close to meeting our staffing goal of 725 employees.

We are now focusing on more complex issues within the Postal Service. In our first four years of performing audits and investigations, clear trends have emerged. We have used these trends to identify areas in postal operations that need to be strengthened. As I noted in my April 4, 2001, statement to the House Committee on Government Reform, these areas include contracting, budget, return on investment, labor management, systems development, computer security and privacy, and strategic planning. Based on the work we have completed since our inception and the knowledge we have gained of the Postal Service, we have identified what we believe are the most challenging issues the Postal Service faces. These issues are discussed in detail on pages 14 through 19.

It is crucial that we continue to serve as an independent and objective voice that adheres to the highest quality standards possible. The past six months have been a turbulent time for the Postal Service. While it ended FY 2000 with high levels of customer satisfaction, record service delivery, and increased productivity, the Postal Service has projected a loss of $2 billion to $3 billion for this fiscal year. Because of this projected loss, the Postal Service’s operations, practices, policies, and services are being scrutinized intensely by competitors, the media, and stakeholders. We recognize that the Postal Service faces tremendous challenges in the emerging electronic marketplace and commend its efforts to address these issues. We believe that by strengthening its basic operations and ensuring its core business processes are sound, the Postal Service will be taking significant steps in overcoming these challenges.
This Semiannual Report to Congress details the significant activities and accomplishments of the OIG and the Inspection Service from October 1, 2000, through March 31, 2001. This report details the efforts of both the OIG and the Inspection Service toward combating fraud, waste, abuse, and mismanagement within the Postal Service and fulfills our reporting requirement under the Inspector General Act and Inspection Service requirements under the Mail Order Consumer Protection Act.

In this reporting period, we issued 88 audit reports and 117 management advisory reports and other products. These efforts resulted in over $109 million in questioned costs, unrecoverable costs, and funds to be put to better use. In addition, we closed 86 investigations resulting in 30 arrests; 34 indictments; 16 convictions; over $3 million in fines, penalties and restitution; as well as over $25 million in cost avoidances, savings, and funds to be put to better use. Our efforts resulted in 291 written products to strengthen Postal Service programs and operations.

In May we will bid farewell to one of our senior management members who will be retiring. We will miss Sylvia L. Owens, our Deputy Inspector General, who has been with the OIG since its inception. Ms. Owens has been a tremendous asset and was instrumental in establishing the investigative arm of this office. Based on her outstanding reputation in the law enforcement community, we have been able to attract highly-qualified investigators from many federal agencies. As Deputy Inspector General, she provided invaluable support and strategic vision in overseeing the day-to-day operations of the OIG.

The Postal Service will also undergo a significant change in leadership when William J. Henderson, Postmaster General and Chief Executive Officer, leaves in May 2001, after 30 years of federal service. Mr. Henderson used his vision and leadership to guide the Postal Service to record delivery service performance for First-Class Mail. During his tenure, the Postal Service also achieved a record productivity increase. In addition, the Postmaster General has directed the Postal Service to immediately begin enhancing whistleblower protection for its employees. This would ensure that Postal Service employees have protection similar to that of other federal employees under the Whistleblower Protection Act. These protections provide for the investigation of reprisal complaints and resolution by an independent decision maker if the parties cannot resolve the complaint. This action fulfills the former chairman of the House Subcommittee on the Postal Service's long-standing commitment to ensure such protection. Mr. Henderson's leadership and vision will be missed.

With our foundation secure and our independent status intact, this office will continue to provide postal management, Congress, and stakeholders with the timely, objective information necessary to help ensure a secure future for the Postal Service.

Sincerely,

Karla W. Corcoran
April 30, 2001
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What is the OIG’s primary responsibility?
The primary responsibility of the OIG is to conduct audits and investigations to prevent, detect, and report fraud, waste, abuse, and mismanagement; to promote efficiency in the programs and operations of the Postal Service; and to provide oversight of the Inspection Service.
This Executive Summary provides a synopsis of the work reported during this 6-month period. This issue of our Semiannual Report addresses Postal Service reported accomplishments, the major issues facing the Postal Service, and the many projects performed by the OIG and the Inspection Service that help improve postal operations.

The OIG is responsible for conducting all audits of Postal Service programs and operations. In addition, the OIG along with the Postal Inspection Service conducts investigations to prevent and detect fraud, waste, abuse, and mismanagement affecting the Postal Service. Both conduct investigations that play a vital role in helping the Postal Service make improvements. Work performed by the OIG and the Inspection Service is included in this report to present Congress and the Governors with a unified report of the Postal Service’s efforts to combat fraud, waste, abuse, and mismanagement.

In this, the OIG’s ninth Semiannual Report, the work has been categorized into seven subject areas: customer service, performance, financial management, technology, labor management, oversight of the Inspection Service, and other significant reviews. We believe presenting the work in this format provides a clear understanding of where our work falls within the following ten major management and program issues facing the Postal Service:

- increasing customer value;
- growing and protecting revenues;
- controlling costs by improving efficiency and productivity;
- leveraging technology;
- managing acquisitions;
- resolving workforce and workplace issues;
- ensuring data integrity and reliability;
- maintaining information security and customer privacy;
- restructuring for the future; and
- balancing public service and commercial enterprise.

The following highlights the accomplishments of the OIG and Inspection Service under the specific subject areas:

1. Organizational dynamics focuses on the OIG and the Inspection Service vision, values, culture, and diversity.
2. Organizational structure focuses on the OIG and the Inspection Service headquarters and field structure.
3. Customer service focuses on the OIG and the Inspection Service efforts to provide customer service, including support functions to enhance service to internal customers and Hotline operations.
4. Performance focuses on the critical core business processes needed to succeed in a competitive environment. The OIG conducted 27 reviews and investigations in this area, including projects that will help save the Postal Service about $40.5 million in current and future years. A few examples of OIG work in this area included:
   - Determining that the Postal Service could reduce costs by more than $17.5 million over a 5-year period by properly administering damage claims on leased trailers and improving controls over trailer use. The Postal Service also needed to account for $5 million in leased trailer inventory and properly secure and protect trailers.
   - Identifying major weaknesses in the controls over a $3.7 billion contractor-operated network. The audit disclosed that contractors were billing the Postal Service for work not performed, overstating the volume of equipment processed and repaired by 20-30 percent and improperly disposing of serviceable equipment.
   - Investigating a Postal Service manager who had developed a questionable relationship with a contractor and provided favorable treatment during the Postal

The OIG Management Committee is comprised of the Inspector General, Deputy Inspector General, General Counsel, Assistant Inspectors General, and Executive Representatives for Field Liaison.
Service’s testing and assessment of a transportation contract. The Postal Service decided not to proceed with the $23.5 million expenditure for the system as initially proposed to the Board of Governors. The current proposal is to purchase significantly fewer units from a different contractor at a cost of only $500,000, resulting in a cost avoidance of $23 million.

The Inspection Service conducted numerous investigations in the area of mail theft, resulting in arrests of over 390 employees and almost 3,100 non-employees, which included:

◆ Arresting an individual for the theft and possession of credit cards, guns, drugs, counterfeit identification cards, and forged birth certificates worth approximately $1 million.

◆ Conducting a joint undercover operation that resulted in the arrest of a mail handler at a local airmail center for the theft of 31 credit cards stolen from the U.S. mail.

◆ Arresting a processing and distribution clerk for conspiracy and possession of stolen mail, including 124 First-Class letters containing personal checks for credit card payments and 120 U.S. Treasury checks totaling almost $85,000.

(5) Financial management incorporates financial-related reviews, financial opinion work, and contracting and facilities reviews. The OIG completed 108 reviews that identified over $39 million in questioned costs and almost $11 million in potential savings. In addition, OIG investigations resulted in 6 convictions, 7 arrests, 14 indictments, and recoveries, restitution, and cost savings of over $6 million. Reviews in this area included:

◆ Identifying over $26 million in contract costs that were questioned or considered unsupported.

◆ Determining that the Postal Service improperly authorized over $12 million in contract commitments and could save almost $11 million by renegotiating a noncompetitive contract.

◆ Uncovering a corruption scheme, with international connections involving approximately $3 million in fraudulent invoices submitted by the owner of a computer company that was under contract to supply equipment to the Postal Service.

◆ Determining that the Fiscal Year 2000 headquarters budget formulation process was not based on current and complete analysis.

◆ Continuing to review relocation payments to postal executives to ensure such payments are reasonable and necessary.

◆ Successfully transitioning financial installation audit work from Inspection Service as scheduled.

In addition to other work, the Inspection Service reported:

◆ Revenue investigations that resulted in 45 arrests and 33 successful criminal convictions.

◆ Initiating 187 employee embezzlement investigations, which documented losses of over $2.2 million.

(6) Technology encompasses reviews of developmental systems, computer security, electronic commerce, and computer intrusion detection activities. The OIG performed 18 reviews and investigations in this area. Some of the more significant OIG activities included:

◆ Determining that postal managers failed to include $4.1 million needed for repairs, replacement parts and training in the request for approval of the Robotics Containerization System.

◆ Conducting audits that focused on security and privacy and working with the Postal Service’s Chief Privacy Officer to expand and clarify the Postal Service’s web privacy policy for disclosure, collection, and retention of information.

◆ Assigning a special agent to the Federal Bureau of Investigation’s National Infrastructure Protection Center who will keep the OIG abreast of trends in cyber-crime and emergent cyber-threats.

◆ Assisting Postal Service information technology management by developing a Computer Incident Response Team to respond to suspected computer

DID YOU KNOW?
Who investigates procurement fraud within the Postal Service?

The OIG investigates all procurement fraud within the Postal Service.
intrusions, and assisting in revising the Postal Service computer security policy to protect eCommerce against cybercrime.

In addition to other work, the Inspection Service reported:

- Working with Federal Express to discuss security issues relating to its business alliance with the Postal Service.
- Kicking off a security-messaging service on USPS TV. The campaign is designed to encourage postal employees at every level to get personally involved in helping improve security at their workplace.

(7) Labor management focuses on issues related to violence in the workplace, workplace climate, health care, and workplace safety. During this reporting period, the OIG conducted 79 reviews and investigations in this area. OIG investigations resulted in 9 convictions, 22 arrests, and 19 indictments. Reviews in this area included:

- Performing an audit resulting in the Postal Service addressing contentious labor management relations at a post office in the Mid-Atlantic Area.
- Conducting audits resulting in plans to enhance the violence prevention programs in 19 postal districts.
- Evaluating whether the Postal Service took appropriate disciplinary actions against managers responsible for safety violations.
- Reviewing the implementation and tracking of facility and health inspections.

The Inspection Service work included:

- Conducting numerous workers’ compensation investigations, resulting in over $53 million in long-term and continuation-of-pay cost savings.
- Arresting 32 individuals for selling drugs on postal property, 15 individuals for workers’ compensation fraud, and 190 individuals for assaults and threats against Postal Service employees.

(8) Oversight of the Inspection Service. In this area, the OIG completed 19 reviews of the Inspection Service, which included:

- Determining that building access controls at Postal Service Headquarters could be improved.
- Finding that international travel practices could be improved and additional controls could be established to ensure that international travel requests were properly justified and approved.
- Determining the need to improve the billing process for postal police services and including indirect expenses in billings for these services.

(9) Other significant reviews include projects that are not readily covered by the other six categories. The OIG completed 40 reviews of other significant issues including reviews of Postal Service Career Executive Service employees. Reviews in this area included:

- Identifying the misuse of a postal vehicle over 4 years by a Postal Service executive, which led to the employee’s retirement.
- Finding that controls over signature devices were not adequate to prevent unauthorized use.

The Inspection Service conducts numerous investigations covering significant issues in the areas of physical security; narcotics offenses and trafficking; child exploitation; prohibited mail; postal burglaries; and mail fraud including fraud against consumers, fraud against businesses, and fraud against government; and money laundering.
Are OIG employees Postal Service employees?

Yes, OIG employees are Postal Service employees; however, the OIG is not part of the Postal Service management chain and does not report to the Postmaster General, as do other Postal Service employees.
POSTAL SERVICE REPORTED ACCOMPLISHMENTS

The OIG works with the Postal Service to help ensure the American public receives the best mail delivery service in the world. Highlighting the Postal Service's accomplishments provides context to OIG and Inspection Service activities. In the past six months, the Postal Service announced the following accomplishments, which the OIG has categorized in the areas of performance, financial management, technology, and labor management.

PERFORMANCE

- Achieved high customer satisfaction ratings. Ninety-two percent of households surveyed had a positive perception of the Postal Service, with almost two out of three rating their satisfaction as "very good" or "excellent."
- Increased total factor productivity by 2.5 percent from last year's levels, which is equivalent to reducing expenses by $1.6 billion.
- Delivered 6.2 billion more pieces of mail, added 1.7 million delivery points, and used 6,200 fewer work years than in 1999.
- Continued working toward nationwide deployment of the Delivery Operation Information System. This system will assist delivery unit supervisors in managing daily delivery activities, planning street activities, and managing the route inspection and adjustment process. The Postal Service expects to fully deploy the Delivery Operation Information System by March 2003.
- Received, in partnership with the U.S. State Department, a Hammer Award for allowing U.S. citizens to apply for passports at post offices.

FINANCIAL MANAGEMENT

- Entered into a strategic partnership with FedEx for the transportation of Express, Priority, and First-Class Mail. FedEx will locate overnight service collection boxes at post offices nationwide. The Postal Service believes this partnership will enable it to provide more reliable service, reduce costs, and better manage future cost growth.
- Trimmed spending by approximately $1 billion, despite huge and unanticipated rises in the cost of fuel and some employee benefits.
- Entered into a strategic partnership with a major digital copier company to purchase digital copiers, maintenance, and supplies. The Postal Service expects that the agreement will save $7.4 million annually in reduced costs, including an almost 70 percent reduction in equipment costs and a 46 percent reduction in maintenance costs.
- Launched, with America Online, a new co-branded advertising campaign. This campaign, which featured ad banners promoting both America Online and the Postal Service on 10,000 postal delivery trucks in 11 major markets, ran for six weeks beginning in mid-December and is expected to increase revenues.

TECHNOLOGY

- Received a number one rating – among all shipping websites – from a leading Internet web page evaluation firm for its easy-to-use package delivery site. Also received a five-star rating for the time and effort required to find various shipping rates.
- Began deploying state-of-the-art flat-sorting equipment – the AFSM 100 – that should improve the efficiency, speed, and accuracy of processing catalogs, newspapers, magazines, and larger envelopes.
- Received from a leading computer products and service evaluation company its “best choice” selection for Postal Service eBillPay.™ its online bill-paying system that offers a quick, easy, and inexpensive way to receive and pay bills with the click of a mouse.
- Launched Signature Confirmation,™ an enhanced proof-of-delivery service, which provides hard copy delivery confirmation documenting delivery date, time, destination, and an image of the recipient's delivery acceptance signature.
Introduced NetPost™ Mailing Online, which allows mailers to electronically transmit documents, correspondence, newsletters, First-Class Mail, and Standard Mail (A), along with their mailing lists, to www.usps.com. Printing and mailing fees paid by users generate revenue.

**LABOR MANAGEMENT**

- Established teams to address recommendations made by the Report of the United States Postal Service Commission on a Safe and Secure Workplace.
- Completed, together with the National Association of Letter Carriers, the final stages of the nationwide rollout of the Dispute Resolution Process. This jointly developed grievance process streamlines the appeal procedures, increases contract compliance and resolution at the local level, and expedites the resolution of disputes. The Dispute Resolution Process has significantly increased the resolution of disputes at the local level and has reduced the number of appeals to arbitration.

**DID YOU KNOW?**

Does the OIG have a Workplace Enhancement Team?

Yes. The Workplace Enhancement Team provides support and services to the OIG in internal work life, organizational climate, diversity, equal employment opportunity, and other workplace-related issues.
Does the Inspector General report to the Postmaster General?

No. The Inspector General is independent of postal management and reports directly to the Governors and Congress.
MAJOR MANAGEMENT ISSUES FACING THE POSTAL SERVICE

Last year, after five years of positive net income, the Postal Service incurred a deficit of nearly $200 million, even though it reported the highest labor productivity ever. This year, the Postal Service is projecting a $2–$3 billion loss, in spite of a rate increase that went into effect in January 2001. It is apparent that the Postal Service is facing significant issues as evidenced by the deterioration in its current financial condition.

The Postal Service has indicated that the main reasons for this projected loss include reduced revenues, increased labor and overhead costs, and a continued soft economy. It has been suggested that another rate increase will be needed to address this shortfall. Postal management has also renewed its call for legislative reform to provide greater flexibility in the areas of labor and operations, pricing, products, investments, and oversight. While reform may be part of the solution, the Postal Service must continue to address critical management and financial practices in order to remain financially sound and relevant to its customers. Specifically, the OIG believes the ten major issues facing Postal Service management are:

- increasing customer value
- growing and protecting revenues
- controlling costs by improving efficiency and productivity
- leveraging technology
- managing acquisitions
- resolving workforce and workplace issues
- ensuring data integrity and reliability
- maintaining information security and customer privacy
- restructuring for the future
- balancing public service and commercial enterprise

In recent years, the Postal Service has made progress in addressing these issues. However, continued efforts must be given to improving performance and accountability throughout the Postal Service. These issues, their significance, and the key OIG projects that address them are included in this section.

INCREASING CUSTOMER VALUE

In today’s marketplace, customers have choices about how they conduct transactions, transmit messages, and deliver merchandise. Increasing customer value will be key to growing new business. The Postal Service views its access to the American household as a unique asset that it can leverage as it faces increasing competition. In addition, the postal delivery network continues to grow by about 2 million new household and business deliveries each year. The Postal Service must continue to develop products and services that retain relevance and value for customers with changing needs. For example, the Postmaster General highlighted the Postal Service’s effort to add value-added services like delivery and signature confirmation.

The Postal Service faces increasing competition, decreasing First-Class Mail volume, and a changing economy. As a result, the Postal Service may find it difficult to maintain its position as a self-supporting provider of universal postal services at reasonable rates. Customers are now seeking services other than traditional mail, such as electronic delivery services, and the Postal Service will need to balance its customer service with limited resources. For example, the Postal Service’s recent announcement that it was studying five-day delivery was met with substantial media, Congressional, and customer reaction—particularly in light of recent rate increases and potential future rate increases.

To assist the Postal Service in addressing this issue, the OIG:

- Assessed mail delays in a North Carolina Post Office
- Reviewed allegations of delayed certified tax mailings
- Audited the Postal Service’s Delivery Confirmation Program at five locations
- Is assessing Express Mail service in Tampa, Florida

GROWING AND PROTECTING REVENUES

During the past four months, projected financial losses have increased significantly.
These projected losses threaten affordable, high-quality, universal postal service on a self-financed basis. Consequently, the Postal Service will be required to grow substantial new revenues to compensate for projected loss of revenue. Past efforts by the Postal Service to introduce new products and services have frequently been met with opposition. Competitors have questioned whether it is appropriate for a government entity with monopoly protection to provide nontraditional commercial products and services. Nonetheless, the Postal Service believes that substantial revenues must be generated from new services and products.

The Postmaster General recently stated that the Postal Service was working hard to expand into the global market. In addition, he cited a number of improved or simplified products, such as PC Postage™ and a suite of new electronic services that make it more convenient for consumers and mailers to do business.

The Postal Service must also ensure that it has appropriate controls over acceptance, payment, and mail-preparation processes to protect existing revenues. Historically, the Postal Service has had difficulty establishing controls to protect its revenues without adversely affecting customer service.

To assist the Postal Service in addressing this issue, the OIG:

- Audited statistical tests for the fiscal year 2000 cost and revenue analysis
- Is assessing the role of the marketing group
- Is evaluating the profitability of postal retail stores

CONTROLLING COSTS BY IMPROVING EFFICIENCY AND PRODUCTIVITY

The Comptroller General of the United States recently cited the Postal Service's deteriorating financial condition as one of the reasons for placing the Postal Service on the General Accounting Office’s High Risk List. He emphasized the Postal Service’s need to cut costs and improve productivity. The Postal Service is projecting significant losses for FY 2001, which, in part, were attributed to total expenses that were $111 million higher than initially expected for the first half of this fiscal year. These expenses include greater fuel costs and costs passed on by its transportation contractors. In addition, employee-related costs, including wage increases, workers’ compensation benefits, and retirement expenses, continue to rise.

The Postal Service plans to reduce costs by $2.5 billion by 2003, through eliminating 75,000 work years and reducing administrative expenses by 25 percent and transportation costs by 10 percent. However, the OIG has noted that the Postal Service often has difficulties in realizing actual cost savings due to a number of factors. These include a requirement to service all communities, wages determined by binding arbitration, and extensive work rules and regulations that impede flexibility and innovation. Furthermore, federal law prohibits closing small post offices merely for operating at a deficit.

To assist the Postal Service in addressing this issue, the OIG:

- Audited the leased trailer fleet
- Is auditing stamp printing volumes
- Is evaluating the cost and productivity of flats processing operations

LEVERAGING TECHNOLOGY

The Postal Service continues to seek ways of leveraging technology to improve its service, productivity, and profitability. The Postal Service depends on technology to deliver more than 660 million pieces of mail every day. It must position itself to quickly adapt to each new wave of technology to maintain its competitive position. In particular, the Postal Service must adapt to the evolution of an Internet-familiar customer base and the impact this new force will have on its business. Some customers expect the Postal Service to transition its services to the point where most, if not all, services can be carried out on personal computers at the office or at home. To address changing customer needs, the Postal Service has committed resources to ongoing development of an “information platform” to help ensure better data management, track mail piece information, improve communications between the Postal Service and its customers, and provide activity-based costing.

The large size and diverse nature of the Postal Service’s customer base demands that...
technology-based solutions are accessible, easy to use, and competitive. Given the projected revenue downturn in the coming year, the Postal Service must vigorously pursue cost savings by efficiently redeploying resources replaced by new technology. Finally, all decisions on technology investments must be scrutinized more closely and be based on information that is current, accurate, and reliable.

To assist the Postal Service in addressing this issue, the OIG:

- Audited the Robotics Containerization System
- Evaluated the deployment of the Delivery Operations Information System
- Is conducting a review of the process used to approve capital projects
- Is reviewing the development of the Postal Operations Information System

**MANAGING ACQUISITIONS**

The Postal Service awards approximately $9 billion in contracts per year for essential goods and services, including facilities, transportation, mail processing equipment, and supplies. Over the last four years, the OIG conducted over 150 audits and investigations relating to contracting operations. These reviews have disclosed that such contracting practices have resulted in $434 million in monetary findings including fraud, waste, abuse, mismanagement, and other recoveries on postal contracting programs.

The Postal Service needs to take aggressive steps to ensure that appropriate monitoring and oversight exist and that systems and data are available to validate contractor charges for services rendered or work performed. Quality assurance, staffing, and training of contracting officials impact the Postal Service’s ability to properly monitor work performed by contractors.

The Postal Service must increase its efforts to prevent, detect, and deter fraud related to its contracting activities. Many postal contracts lack sufficient language, making it difficult to pursue criminal and/or civil action against contractors and, in some cases, may impede independent review. Because the Postal Service is exempt from standard federal contracting rules, it is afforded the opportunity to realize greater efficiencies and operate in a more businesslike manner than other federal agencies. However, the OIG’s reviews suggest that while the Postal Service has realized some efficiencies, there is a clear need to utilize best practices.

To assist the Postal Service in addressing this issue, the OIG:

- Conducted 38 contract audits
- Is reviewing responsibilities of contracting officers
- Is evaluating contracting for consulting and auditing services
- Is reviewing sole source contracting practices

**RESOLVING WORKFORCE AND WORKPLACE ISSUES**

Labor-related costs continue to account for more than three-quarters of the Postal Service’s total operating expenses. In competitive markets where customers face a myriad of choices, controlling these costs while expanding service is crucial to providing value and maintaining a competitive edge. The Postal Service will succeed only if it can effectively partner with its employees, their unions, and management association leadership. With more than 900,000 full and part-time employees, work environment and labor relations improvements are key to maximizing employee and organizational performance. The Postal Service faces the challenge of developing recruitment, training, communication, incentive, and other support systems that help employees realize the connection between their efforts and the results desired by customers.

Past attempts to replace labor through automation have not been as successful as planned. Future endeavors will succeed only if the Postal Service can engage the workforce in a shared vision of success, encouraging discretionary effort and eliminating the confrontational environment on the workroom floor.

With responsibility for more than 38,000 facilities, major transportation networks, and universal delivery, the Postal Service faces a significant challenge in the areas of health and safety. In addition to the direct costs and loss of productivity resulting from accidents, medical
costs under the Postal Service’s Injury Compensation Program have risen dramatically. Furthermore, the Postal Service is now subject to citations and monetary penalties for noncompliance with the Occupational Safety and Health Act.

To assist the Postal Service in addressing this issue, the OIG:

- Investigated allegations of health care fraud
- Audited the implementation of safety and health inspections at postal facilities in the Pacific Area
- Reviewed the Violence Prevention and Response Program
- Is reviewing the Associate Supervisor Program
- Is reviewing succession planning
- Is auditing the Postal Service’s management of staffing complements

ENSURING DATA INTEGRITY AND RELIABILITY

Changes in technology and the business environment emphasize the need for timely, accessible, and accurate data relevant to the needs of Postal Service decisionmakers. However, in many instances, the OIG has found that the Postal Service does not adequately capture or track the data necessary to support effective decisionmaking. For example, in one review the OIG noted some budget components were not based on current or complete analyses, consequently bringing some funding requirements into question and hampering management’s ability to effectively develop, justify, and defend budgets. The OIG has also noted an inability to track costs that have been incurred but not paid, making it difficult for managers to monitor expenses.

Given the importance of data quality to setting postal rates, the Postal Service must continue demonstrating to Congress, the Postal Rate Commission, stakeholders, and the public that it is making progress in improving the quality of its revenue, cost, and service measurements. Accurate measurement of mail volume and operations remains a key ingredient in the Postal Service’s efforts to improve and sustain service performance.

To assist the Postal Service in addressing this issue, the OIG:

- Audited the FY 2000 headquarters budget formulation process
- Reviewed FY 2000 Information System Controls in the Accounting Service Centers
- Is evaluating the quality of data supporting the ratemaking process
- Is assessing the reliability of the information in Retail Data Mart

MAINTAINING INFORMATION SECURITY AND CUSTOMER PRIVACY

Although computers have become indispensable to the Postal Service, reliance on automated systems increases the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services. The same attributes of computer networks that enhance operations also make it possible for individuals and organizations to compromise these systems. Attacks on websites, in both the government and private industry, serve to emphasize the damage a computer security breach can do to a brand’s integrity and an organization’s revenue stream.

Many organizations have built networks that are secure against outside threats. However, this practice sometimes fails to recognize the threat from within. Network intrusions are often carried out by insiders but most organizations are not publicly willing to admit this. Also, many organizations often neglect to address internal threats in their security designs. An ongoing audit of the Postal Service’s telecommunications security and infrastructure revealed weaknesses that could be exploited, resulting in the loss of confidentiality, integrity, and availability of vital financial and operational systems, and harm the Postal Service’s reputation as a trusted third party. Also, a recent initiative to allow employee access to Postal Service networks through home computers increases its vulnerability. Comprehensive computer security programs must be implemented at all levels. The Postal Service is currently taking steps to address security risks, but resolving them on a lasting basis will require substantial management commitment and attention.

Does the OIG provide support to other agencies in computer forensics?

Yes. The OIG has provided forensic support to several Offices of Inspector General that led to successful prosecution. The OIG has also assisted other Offices of Inspector General in developing their own computer forensics capabilities.
Furthermore, postal electronic commerce initiatives on the Internet raise concerns about the adequacy of security. Success in this arena will depend on the level of protection afforded sites such as www.usps.com and programs that operate in this environment, such as eBillPay,™ NetPost Certified,™ The Postal Store,™ and PosteCS.™ Most importantly, the Postal Service needs to protect consumer information that is collected and the guarantee of privacy implicit in such undertakings.

To assist the Postal Service in addressing this issue, the OIG:

- Conducted tests of server vulnerabilities
- Evaluated security and privacy requirements for the Postal Service’s online bill presentment and payment system
- Is reviewing Internet privacy
- Is assessing third party agreements and security of business partners

RESTRICTURING FOR THE FUTURE

Currently, the Postal Service has over 900,000 employees; a retail and delivery infrastructure with over 136 million delivery points; over 38,000 post offices; over 470 processing and distribution plants; and numerous administrative and support operations. In this time of increased budgetary pressure, the Postal Service has frozen capital improvements and is reviewing all current programs and projects in an effort to contain costs. Restructuring may be necessary to downsize, eliminate, or consolidate operations or organizational models that no longer add value.

In numerous reviews of postal programs, the OIG has identified organizational issues such as fragmentation, decentralization, and need for better focus; all of which affect the Postal Service’s ability to control its costs and improve performance. For example, individual Postal Service managers have direct authority over large sums of money and resources. Without effective accountability, oversight, and other controls within the organization, this autonomy may result in fraud, waste, abuse, and mismanagement.

By law, the Postal Service must maintain an infrastructure sufficient to ensure timely and affordable service to every delivery point in the United States. The number of households and businesses served continues to grow every year, while increased costs and declining mail volumes make each delivery less profitable. Organizational structure and strategic planning must address the statutory mission of the Postal Service and ensure a high level of efficiency throughout postal operations.

To assist the Postal Service in addressing this issue, the OIG:

- Evaluated the consolidation of Postal Service data centers
- Assessed the effectiveness of internal controls over contracting functions and mail processing operations
- Is conducting a comprehensive review of postal logistics

BALANCING PUBLIC SERVICE AND COMMERCIAL ENTERPRISE

Since 1970, the Postal Service has been tasked to operate in a businesslike manner. However, unlike private corporations, it is bound by statutory constraints that limit its ability to negotiate with customers and employees, develop and price new products, and generate and invest profits. Although the Postal Service is granted a monopoly on letter mail, it must deliver to all areas, in a timely fashion, and at uniform, affordable rates. The Postal Service’s obligation to serve as both a public service and commercial enterprise has become more challenging in the face of increased competition in the delivery and communication industries.

The Postal Service believes that legislative action is necessary to enable it to adapt to new market conditions and compete with the private delivery and expedited mail industry. While many foreign posts have been deregulated or privatized, the Postal Service remains a notable exception. The Postmaster General has stated that the Postal Service has only “blunt instruments” with which to improve its financial situation and compete with private industry. He and the Governors support statutory change to permit earnings growth and investment, streamline the ratemaking process, enable pricing flexibility, and eliminate the requirement of binding arbitration. While many stakeholders agree that reform of postal laws is needed, identifying and implementing the right changes pre-
sents a difficult challenge. This year, some members of Congress have renewed the call for bipartisan support of comprehensive postal reform but the contents of such a measure have yet to be determined.

While the reform debate continues, the Postal Service must maintain its public service role in a commercial environment. It must consider the scope of its universal service obligation and its ability to maintain it. It must identify its core businesses and ensure that new products and services are not cross-subsidized by the letter monopoly. Most importantly, the Postal Service must continue to refine its operations under the existing statutory model while developing and defining the role it will play in the future.

To assist the Postal Service in addressing this issue, the OIG:

- Reviewed the Postal Service's ability to meet requirements of an electronic commerce mailer
- Reviewed and provided comments on various pieces of proposed legislation impacting the Postal Service
- Is reviewing the Economic Variable Pay Program
- Is assessing supplier diversity
- Is evaluating revised rules governing commercial mail receiving agencies
Who determines what the OIG audits or investigates?

The OIG receives requests to conduct audits and investigations from many sources. However, the OIG independently determines what is audited or investigated.
This section describes the OIG and Inspection Service goals and strategies for assisting the Postal Service in achieving its operational, performance, and financial goals in the 21st century. In addition, this section describes the process by which the OIG translates its vision into an annual performance plan. In order to differentiate between the OIG and the Inspection Service, the pages concerning the Inspection Service have been color screened.

OFFICE OF INSPECTOR GENERAL

STRATEGIC GOALS

The OIG is committed to the principles of the Government Performance and Results Act, which helps ensure that government agencies operate efficiently and effectively. To ensure long-term success, it is necessary for the Postal Service and the OIG to plan appropriately. Planning includes defining strategic goals and developing strategies to achieve those goals. In addition, performance measures are established to evaluate how well the agency is doing in achieving its goals. These measures provide a “report card” on agency performance and results.

The OIG’s planning process analyzes relevant information; establishes goals, strategies, and measures based on its analysis; then measures how effectively and efficiently it is performing to meet these goals. There are four steps in this strategic planning process. First, the OIG determines major management issues facing the Postal Service. Second, the OIG broadly defines realistic goals, sets priorities in line with the Postal Service’s business vision, and conceives effective strategies and action plans. The goal of this step is to align the OIG’s activities to help the Postal Service improve its effectiveness and efficiency. Third, the OIG measures progress in meeting its goals. And fourth, the OIG periodically updates and revises goals, strategies, and measures to align OIG organizational efforts with Postal Service needs.

In March 2001, the OIG issued a revised Five-Year Strategic Plan, which is designed to address the Postal Service’s strategic direction and objectives outlined in its Strategic Plan for Fiscal Years 2001-2005. The Postal Service’s strategic direction and objectives reflect a growing uncertainty about the future impact of emerging technologies, changing customer requirements, and the impact of composition on mail volume and postal revenues. The OIG’s Five-Year Strategic Plan consists of two overarching goals and four strategies to meet these goals.

PERFORMANCE RESULTS

The OIG continuously monitors its performance and seeks ways to improve. By maintaining objective data on key performance areas, the OIG can periodically measure and assess its progress in achieving goals. The OIG established annual performance measures to emphasize program objectives, promote teamwork, and encourage innovation throughout the OIG.

Office of Inspector General
FY2001 Goals and Strategies

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<td>The OIG will be the independent voice that provides our stakeholders with timely, accurate, and relevant information that contributes to the success of the Postal Service.</td>
<td>Annually identify major management challenges and independently develop work priorities that assist the Postal Service in addressing major management challenges.</td>
<td>The OIG is an independent entity that maximizes resources, leverages cutting-edge technology, and provides a healthy organizational culture and environment.</td>
<td>Maintain a TLC3 values-based organization that attracts, develops, and retains a talented and diverse workforce.</td>
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<td></td>
<td>Independently provide the right information to the right people at the right time.</td>
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<td>Independently manage and optimize OIG resources, including leveraging cutting-edge technology.</td>
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These measures are linked to a team award that is structured to reward commitment to the strategic priorities of the OIG and to reinforce the importance of providing high-quality and value-added services that contribute to the success of the Postal Service. Each year, the OIG establishes annual performance goals to support its strategic goals. During FY 2000, the OIG accomplished over 85 percent of its projects. For FY 2001, the OIG has established ten annual performance goals, seven of which focus on Postal operations, and three of which focus on OIG operations.

**OIG PLANNING PROCESS**

The OIG is committed to providing timely and accurate information to Postal Service management. As part of its planning process, the OIG asks Postal Service managers to identify operations and emerging issues that would benefit from the OIG’s review. Their suggestions are considered during the annual planning process, and to the extent practical, are given priority consideration for inclusion in the OIG’s Annual Work Plan, which is summarized in this section of the semiannual report. This process creates a unique opportunity for the OIG to provide independent analysis and information that will assist Postal Service officials in fulfilling their responsibilities.

The OIG planning process has three interrelated components: the project universe; the annual performance plan; and the annual audit workload plan. Since its inception, the OIG has identified a universe of over 1,800 projects for consideration. Projects from the universe, which is the first component of the planning process, are selected on the basis of risk. The OIG considers the project’s potential impact on:

- Postal Service labor and capital resources
- Postalwide operations and goals
- Public trust

In the second component of the planning process, the OIG selects the highest priority projects for inclusion in the annual performance plan. The third component is the OIG annual audit workload plan, which is extracted from the annual performance plan. This audit workload plan is presented to the Postal Service Governors each year. The plan is adjusted as the OIG’s work reveals new issues or the Postal Service encounters new issues.

**OIG FY 2001 AUDIT WORKLOAD PLAN**

In the previous section of this semiannual report, the OIG discussed ten major management issues facing the Postal Service. These ten issues were consolidated into four major areas along with the oversight of the Inspection Service for the purposes of audit planning.

In FY 2001, the OIG will focus its audit attention on the following areas to help address major challenges facing the Postal Service:

- growing revenues and competing in a rapidly changing market;
- maintaining affordability by controlling costs;
- improving the workplace climate and labor relations;
- leveraging technology to enhance productivity; and
- overseeing the Inspection Service.

The following presents each of the five areas and the focus of our audit efforts.

**Growing Revenues and Competing in a Rapidly Changing Market**

Increasing competition from electronic commerce and other competitors has slowed the growth of postal revenue and is expected to have a continuing impact on the Postal Service’s financial viability. Electronic commerce threatens to reduce First-Class Mail volume, putting at risk as much as $33 billion in revenue over the next nine years. In addition, foreign postal services have recently set up offices in the United States, siphoning away millions of dollars in outbound international mail. Consequently, the Postal Service is being challenged to find new revenue sources at the same time the Postal Service is being challenged to fulfill its core mission of delivering mail in a timely manner and improving customer service.

To assist with this challenge, the OIG is assessing how the Postal Service develops new products and services to grow revenue, enhances core business processes to improve customer service, and maintains the public’s trust. OIG work will focus on the following:
New products and services:
- Justification and approval
- Marketing and sales
- Return on investment

Enhancing core business:
- Strategic alliances
- Marketing
- Financial initiatives
- International mail

Service performance and customer satisfaction:
- Timeliness and reliability of service
- Measurement systems
- Postal rates
- Re-engineering

Public trust:
- Brand integrity
- Employee integrity

Financial system integrity:
- Financial statements
- Field installations
- Cost and revenue analysis
- Treasury-related issues

Budget:
- Planning
- Execution
- Systems

Contracting activities:
- Fair and reasonable contract pricing
- Reasonableness and allowability of incurred costs

Adequacy of contractor systems
- Contract administration
- Facilities and real estate:
- Justification, approval, and budgeting
- Construction management

Logistics:
- Transportation systems and operations
- Material management

Health care:
- Workers’ compensation program administration
- Provider billing

Improving the Workplace Climate and Labor Relations

The Postal Service, with approximately 900,000 employees, has characterized labor management relations as one of its most formidable challenges in achieving its goals in the 21st century. To operate effectively in this rapidly changing environment, the Postal Service has recognized that it will need to give employee issues a higher priority and enhance each employee’s contribution to organizational performance. Labor and management cooperation is also critical if the Postal Service is to achieve its overall financial goals. However, employees sometimes view management attempts to achieve incentives under the Postal Service’s Economic Value Added Variable Pay Program as adversarial. The Postal Service will need to address this and other negative perceptions in order to resolve persistent labor management problems.

Since its inception, the OIG has been working with the Postal Service to address these issues. However, labor management relations continue to be one of the most difficult areas to adequately address. To date, the OIG has received over 3,100 individual employee complaints. Because of the emotional involvement, potential financial impact, and length of time to resolve these issues for the employee, manager, and Postal Service, it is important that OIG’s involvement in this area be meaningful and positive. Therefore, to deal with the sheer magnitude of complaints, the OIG focuses primarily on systemic issues and conducts postalwide reviews. These reviews are designed to identify...
and prevent potential problems that can detract from a healthy and productive work environment. OIG efforts will focus on the following:

- Workplace climate:
  - Conflict prevention and resolution
  - Threat assessment programs
  - Occupational safety and health
- Employee management:
  - Training and development
  - Succession planning
  - Workforce planning
  - Performance and compensation
  - Diversity

**Leveraging Technology to Enhance Productivity**

The Postal Service is seeking ways to leverage technology to improve its service, productivity, and profitability. While it depends on technology to handle more than 660 million pieces of mail every day, the Postal Service must continue to maintain its competitive position in the market. The unprecedented growth in computer activity and Internet usage is revolutionizing the way the nation communicates and conducts business and is reshaping customer expectations. To address these technology challenges, the Postal Service had planned to invest approximately $17 billion through Fiscal Year 2005 on capital investments, some of which are technology-related investments. However, with the Postal Service's current financial condition, the funding of these projects is uncertain. These projects were intended to automate and modernize mail processing and acceptance, enhance communications and access to information, and extend the postal infrastructure to better support core business processes and electronic products and services. In addition, the Postal Service continues to focus on commerce and computer security to protect these investments. OIG efforts will focus on the following:

- Information systems:
  - Information infrastructure and architecture
  - System performance and integrity
  - Systems development and implementation
- Computer security:
  - Access
  - Data protection
  - Data integrity
- Developmental:
  - Automation of core functions
  - Process re-engineering
- eCommerce:
  - Business partnerships and joint ventures
  - Brand integrity
  - Justification, cost, budgeting, and risk

**Overseeing the Inspection Service**

Enabling legislation requires the OIG to conduct oversight of the Inspection Service in addition to OIG's audit and investigative responsibilities over postal operations. As a law enforcement agency, it is essential that the Inspection Service be held to the highest standards of conduct to maintain the public's trust and the Postal Service's reputation of reliability. OIG efforts in this area will focus on the following:

- Public trust:
  - Function and role
  - Operational effectiveness
  - Management controls
The Inspection Service must supplement its reactive capability with proactive strategies to deter and prevent criminal activity. To accomplish this, the Inspection Service has developed five long-term strategic goals and related objectives. The new strategic plan begins with three critical imperatives: safety, security, and integrity.

**Inspection Service**

**FY2001 Goals and Objectives**

**GOALS**

**Safety**
- Ensure a safe and secure drug-free work environment

**Security**
- Reduce theft of the mail
- Reduce and deter criminal attacks of postal products, services, and assets

**Integrity**
- Reduce and prevent the use of the Postal System for prohibited, illegal, and dangerous mailings

**OBJECTIVES**

**Safety**
- Eliminate the use of the nation’s mail system by major organizations to transport illegal narcotics
- Reduce and deter the use of U.S. Postal Money Orders to launder money by disrupting money-laundering operations
- Reduce and deter the use of the postal system to procure or deliver materials that promote the sexual exploitation of children

**Security**
- Reduce and deter employee on employee assaults and credible threats
- Reduce and deter embezzlements of postal employees and facilities
- Reduce and deter illegal drugs in the postal environment

**Integrity**
- Reduce and deter employee on employee assaults and credible threats
- Reduce and deter embezzlements of postal employees and facilities
- Reduce and deter illegal drugs in the postal environment

**INSPECTION SERVICE**

The Inspection Service must supplement its reactive capability with proactive strategies to deter and prevent criminal activity. To accomplish this, the Inspection Service has developed five long-term strategic goals and related objectives. The new strategic plan begins with three critical imperatives: safety, security, and integrity.
Does the OIG have access to all Postal Service documents and information?

Yes. The Inspector General Act specifically provides that the Inspector General is authorized “to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material.”
OFFICE OF INSPECTOR GENERAL

AN INDEPENDENT VOICE

The OIG is an independent agency within the Postal Service and is under the general supervision of the nine presidentially appointed Postal Service Governors. From 1988 until the establishment of the OIG in 1996, the Chief Postal Inspector performed dual roles as the Inspector General and Chief Postal Inspector and reported to the Postmaster General. In January 1997, Karla W. Corcoran was sworn in as the first independent Inspector General of the Postal Service. In carrying out its responsibilities under the Inspector General Act, the OIG:

- Provides Congress, the Governors, and Postal Service management with timely, objective, and complete information and analysis of Postal Service operations.
- Conducts audits and investigations of all Postal Service operations and activities, including ratemaking, contract administration, labor management, computer intrusion, electronic commerce, computer security, and marketing.
- Maintains oversight of Inspection Service operations and performs independent reviews of complaints against its employees.
- Adds value to Postal Service operations, contributes to a more efficient, economical and effective organization, and helps the Postal Service maintain its integrity through independent investigations, audits, and reviews.
- Serves as an objective venue for all Postal Service employees and other stakeholders to report fraud, waste, abuse, mismanagement, and other improprieties and concerns, with protection from management retaliation.
- Identifies cost savings, enhances contract and program administration, and promotes employee integrity and program efficiency.
- Facilitates audit resolution, which provides a mechanism for resolving findings and recommendations when the OIG and Postal Service management disagree.

To improve Postal Service programs and operations, the OIG provides objective information, analysis, and recommendations. The OIG is continuing to work with Postal Service management to inform them of the duties and responsibilities of an independent OIG and to demonstrate how the OIG adds value to Postal Service processes.

OIG VISION AND VALUES

The vision of the OIG is “A Constellation of Talented People Making a Difference.” This vision reflects the OIG’s mission to shed light on problems and opportunities by emphasizing five fundamental values:

- **Teamwork**—Diverse talents and levels working cooperatively and collaboratively toward producing timely, relevant, and quality work products and services that add value to the Postal Service and our organization.
- **Leadership**—Encouraging each employee to be the best they can be regardless of position or grade, understanding that all levels of employees are expected to play a role in developing and directing every effort performed.
- **Creativity**—Cultivating fresh perspectives in the development of new processes and techniques that will improve the Postal Service and OIG operations.
- **Communication**—Ensuring cross level and cross functional sharing of all information as well as facilitating honesty, openness, respect, and consideration of the contributions and opinions of others.
- **Conceptualization**—Keeping one’s “eye on the ball” and recognizing interrelationships to accomplish desired results.
OIG CULTURE AND EMPLOYEES

Value and Benefit of a Diverse Culture

The OIG’s culture is defined by the diversity of its employees, who share the organization’s core values of teamwork, leadership, creativity, communication, and conceptualization. The OIG is committed to creating and maintaining a workplace that is enriched by the talents, contributions, and full participation of all of its employees and that reflects the tremendous diversity of the Postal community. Diversity is a tool for achieving the OIG’s mission and enhancing its organizational effectiveness by using the creative energies of employees who contribute different approaches, solutions, and innovations.

The OIG workforce is diverse in age, race, ethnicity, gender, and background, as well as education, professional accomplishments, work experience, and work style. The OIG workforce includes Certified Public Accountants, Certified Internal Auditors, Certified Fraud Examiners, Certified Information Systems Auditors, Certified Government Audit Professionals, and Certified Acquisition Auditors. OIG employees also hold law enforcement specialty certifications in areas such as polygraph examinations. In addition, many OIG employees have undergraduate or advanced degrees, while other employees are continuing to work towards professional and academic achievements. OIG teams include auditors, evaluators, criminal investigators, lawyers, technicians, and administrative personnel formerly from federal and state government agencies, private industry, non-profit organizations, and the Postal Service.

The OIG continues to carry out an aggressive hiring initiative to staff the organization with highly skilled employees. As of March 31, 2001, OIG had 655 employees, of whom, 50 percent were women and 47 percent were minorities. The senior staff is composed of approximately 40 percent women and 27 percent minorities. The senior staff is composed of approximately 40 percent women and 27 percent minorities. The senior staff is composed of approximately 40 percent women and 27 percent minorities. Based on 1990 U.S. Bureau of Census, Civilian Labor Force estimates, the OIG has met or exceeded the U.S. percentage of total population for women and for each minority group, except for Hispanics and Native Americans.

ADHERING TO THE HIGHEST PROFESSIONAL STANDARDS

The OIG reports to Congress and the nine presidentially-appointed Governors. The Inspector General is not supervised by the Postmaster General and cannot be removed by the Postmaster General. This independence allows the OIG to report all findings of fraud, waste, abuse, and mismanagement, which it is required to do by law. The OIG annually identifies major management issues and develops work priorities that assist the Postal Service in addressing these issues. This enables the OIG to provide critical information to stakeholders in a timely manner.

To ensure its work is of the highest quality and has a positive impact, the OIG adheres to the highest professional standards. The OIG complies with the following professional standards:

- The General Accounting Office’s Government Auditing Standards; and

- The President’s Council on Integrity and Efficiency’s Quality Standards for Inspections and Quality Standards for Investigations

Each audit is subjected to supervisory review at every stage of the audit process, and must meet established standards for due professional care, quality, and independence. Each report is subject to review by the OIG’s statisticians, lawyers, editors, and other experts, and is independently referenced by an individual not associated with the project. Draft reports are submitted to Postal Service management who have the opportunity to provide written comments in response to the report’s findings and recommendations. These comments are considered in preparing the final report and the actual comments are included in their entirety.

The OIG also ensures the highest ethical standards by performing full security background investigations on all of its employees. Most employees are required to provide annual financial disclosure statements to the legal staff, who review these statements to determine potential conflicts of interest. All employees are also required to complete ethics training each year, and OIG evaluators must meet standards for continuing professional education.
The OIG also has an aggressive internal quality assurance program that evaluates processes, programs, and work performance. Also, every three years, the OIG undergoes a peer review of its audit processes by another Office of Inspector General.

The OIG Quality Assurance and Internal Affairs team also ensures ethical standards by investigating complaints regarding OIG activities. In addition, complaints against senior OIG management officials are investigated by the Integrity Committee of the President’s Council on Integrity and Efficiency headed by a senior executive with the Federal Bureau of Investigation.

**NOTABLE OIG ACHIEVEMENTS**

**CD-ROM PROVIDES VIRTUAL TOUR OF OIG**

The OIG has prepared a credit card sized compact disc that provides information about what it is, what it does, and where its offices are located. This computer disk contains links to the OIG’s main website and useful websites such as the Postal Service, Congress, and other agency Offices of Inspector General. It also includes videos highlighting the OIG’s diverse staff, Hotline operations, and OIG teams in action. The CD-Rom was distributed at the National Postal Forum in March and will be used as an informational tool for stakeholders and the public, and as a recruiting tool.

**FEDERAL COURT AFFIRMS THE IMPORTANCE OF OIG VALUES**

On January 4, 2001, the U.S. District Court in Alexandria, Virginia, granted the OIG’s summary judgment motion in an employee termination lawsuit. This judgment affirmed the OIG’s right to use its core organizational values as a basis for measuring an employee’s performance. The OIG terminated a former evaluator during the probationary period for poor job performance based on a failure to adhere to the OIG’s core values of teamwork, conceptualization, and communication. In holding for the OIG, the court rejected the former employee’s claim that the firing was for discriminatory reasons.

**COMMENTARY HIGHLIGHTS SUPERVISORS’ RIGHTS**

The OIG was pleased with an article written by Vincent Palladino, President of the National Association of Postal Supervisors, in the February 20, 2001, edition of their magazine, The Postal Supervisor, that explains supervisors’ rights and responsibilities in OIG investigations and audits. The article discusses a legal opinion provided by the Association’s attorney that stated: the OIG has very broad audit and investigative authority; failure to cooperate with an OIG investigation or audit could subject the employee to disciplinary or criminal action; the OIG may not disclose the identity of complainants, unless the OIG determines the disclosure is unavoidable; employees who complain to the OIG may not suffer reprisal; and employees have limited rights with respect to OIG interviews, which are conducted within constitutional parameters. The article is consistent with OIG’s position regarding its authority.

**EXECUTIVE AWARDS**

Kirt West, Assistant Inspector General for Internal Business, and Ronald Stith, Assistant Inspector General for Oversight and Business Evaluation, received a 2000 National Executive Conference Executive Recognition Award for exceeding performance expectations and delivering outstanding results while representing the Postal Service OIG in challenging proposed audit standards that would have impaired its organizational independence. Together, they prepared position papers and made oral presentations to professional associations and government agencies, which resulted in the Comptroller General agreeing that the OIG is organizationally independent. This decision allows the OIG to continue to function effectively and add value to the Postal Service by rendering independent audit and investigative services.

**OIG SPECIAL AGENT RECEIVES AWARD FROM U.S. ATTORNEY’S OFFICE**

At its Second Annual Awards Ceremony, the U.S. Attorney’s Office, Central District of California, presented Special Agent Dave Sermos an award for his outstanding contribu-
tions relating to a significant product substitution investigation involving Postal Service equipment. This product substitution case affects post offices throughout the country. The U.S. Attorney commented that this complex investigation and its pending prosecution is the direct result of Special Agent Sermos’ technical and professional skills.

**OIG SPECIAL AGENT AWARDED TOP HONORS AT TRAINING PROGRAM**

The Inspector General Criminal Investigator Academy presents two awards to students who attend the four-week Inspector General Investigator Training Program. The William Barton Award is based on performance in the training program and qualitative standards such as demeanor, attitude, responsibility, professionalism, and integrity. The Honor Graduate Award is based on quantitative academic standards. OIG Special Agent Gregory Tremaglio received both awards for the March 2001 program. Special Agent Tremaglio received the Honor Graduate award for scoring 100 percent on the program’s two required examinations.

**OIG HOSTS ASSOCIATION OF DIRECTORS OF INVESTIGATIONS CONFERENCE**

The OIG was honored to host the Association of Directors of Investigations Conference in Williamsburg, Virginia, from March 12–16, 2001. The conference is an annual event attended by the heads of investigations of the President’s Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency Office of Inspectors General. Forty-seven federal agencies were represented at the conference. The theme of this year’s conference was “Addressing the Challenges of the 21st Century.”

In addition to presentations from experts in the Inspector General community, the week was highlighted by presentations on ethics and stress management; futuristic law enforcement; working with Congress; interactive interviewing; managing “Generation X” employees; communications and customer service; and Inspector General investigations from a criminal defense perspective. The conference provided an opportunity to address the emerging issues facing the Inspector General investigative community, as well as to promote the ability and reputation of the OIG and the Postal Service as leaders in the use of technology and modern management techniques to improve federal law enforcement.

**OIG HOLDS FOURTH ANNUAL TRAINING AND RECOGNITION EVENT**

The OIG celebrated its fourth anniversary with an employee training and recognition conference in Washington, DC, from January 8–11, 2001. The event emphasized the OIG’s core values and featured technical training sessions, job-related seminars, and a ceremony recognizing the accomplishments of OIG staff. Awards were presented to four Postal Service employees—Jayne Schwarz, Wendy Hocking, Stephen Leavey, and Michael Wolfe—in recognition of the tremendous support they have provided to the OIG. Awards were also given to 20 staff members who best exemplified the OIG’s core values and performed in a truly outstanding manner: James Campbell, John Cihota, George Davis, Sean Dawson, Annette Demory, Carrie Fox, Gladis Griffith, Felicia Hawthorne-Richardson, Roger Holland, Nancy Lynham, Rose Madden, Sam Montalvo, Beverly Partney, Concha Perry, Hugh Reynolds, Charles Stephens, Michael Striglers, Nora Tijerina, Mike Vogel, and Barbara Will.

The four-day event was highlighted by presentations from: Governor John Walsh of the Postal Service Board of Governors; Debbie Willhite, Postal Service Senior Vice President of Government Relations and Public Policy; as well as professional authorities on customer service and relationship building.

**MAIL ACCEPTANCE TRAINING COURSE TAILORED TO OIG NEEDS**

OIG employees developed and taught a mail acceptance training course as an alternative to a two week course taught at the Postal Service Training Academy in Norman, Oklahoma. Approximately 50 evaluators and investigators attended the course which was held at OIG headquarters and the Dallas, Texas, field office. This in-house training saved the OIG approximately $62,000 in travel expenses.
OIG CONDUCTS COMPUTER FRAUD AND SECURITY AWARENESS BRIEFINGS

The OIG conducted Computer Fraud and Security Awareness briefings for the following Postal Service stakeholders during this reporting period:

- Computer Operations Service Center staff, San Mateo, California; Information Systems managers’ meetings for the Pacific, Allegheny, and Western districts;
- Postal Service staff including Hawaii district postmasters and Information Systems staff; Van Nuys, California, district staff and plant managers; Portland, Oregon, district manager and staff; Santa Ana, California, Operations and Customer Service staff; Philadelphia district manager, postmasters and station managers;
- Western Area Managers’ meeting in Las Vegas, Nevada; and
- Information Technology managers meeting at the National Center for Employee Development Conference in Norman, Oklahoma.

OIG PARTNERS WITH DISTRICT OF COLUMBIA REHABILITATION SERVICES ADMINISTRATION

As part of its continuing efforts to reach out to persons with disabilities, the OIG has entered into an employer partnership with the D.C. Rehabilitation Services Administration. The Administration’s mission is to help people with disabilities prepare for the workforce. An OIG representative serves on the Rehabilitation Services Administration’s Employer Advisory Council. The Council serves as an advisory body to the Rehabilitation Services Administration on providing employment opportunities for persons with disabilities. The OIG participated in a career fair co-sponsored by the Rehabilitation Services Administration and its Council on October 24, 2000.

OIG RECEIVES COMBINED FEDERAL CAMPAIGN AWARDS

The OIG’s Combined Federal Campaign for 2000 was a tremendous demonstration of the OIG’s core values and our employees’ generosity. Headquarters staff raised over $80,000, exceeding last year’s efforts by 50 percent. Field office contributions were equally impressive, totaling over $20,000 and increasing the OIG’s fundraising efforts to over $100,000. The headquarters campaign garnered two awards from the National Capital Area Combined Federal Campaign: the President’s Award ($275 per person or 75 percent participation) and the Pacesetter Award (3.4 percent or better over last year’s fundraising effort). Both awards were presented at the OIG Fourth Annual Training and Recognition Conference by Ed Kiess, Senior Campaign Manager for National Capital Area Combined Federal Campaign. The OIG Dallas Field Office also received the Pacesetter Award from the Dallas, Texas, Regional Combined Federal Campaign for the 1999 Campaign. The Award was presented during the field office’s Combined Federal Campaign 2000 kick-off celebration.

OIG PROVIDES TRAINING AND SUPPORT TO INSPECTOR GENERAL COMMUNITY

The OIG has provided computer forensics services to several Offices of Inspector General at their request, including the Securities and Exchange Commission, Department of the Interior, Department of Treasury, National Credit Union Administration, and National Archives and Records Administration. Most of this assistance has involved providing forensic analysis of seized media for evidence. The OIG examinations have led to successful prosecution and or administrative action against the subjects involved in the cases. The OIG has also assisted other Offices of Inspector General in developing their own computer forensics capabilities.

OIG team members gave numerous presentations this reporting period, including presentations on computer forensics to:

- International Organization on Computer Evidence;
- Department of the Interior;
- Diplomatic Security Service; and
- Association of Directors of Investigations.

OIG’S TECHNOLOGICAL ADVANCES FEATURED IN LEADING TECHNICAL JOURNAL

The OIG successfully installed and deployed its Voice Over Internet Protocol net-
work to four field locations. This technology allows the OIG to transmit voice communications over its data network, thus reducing telecommunications costs. The OIG is one of the first federal government organizations to use this technology. Packet Magazine, a leading technical journal, highlighted the OIG’s implementation of Voice Over Internet Protocol in its second quarter 2001 edition.

**CHALLENGES FACING THE OIG**

During the past five months, the OIG has opened four new field offices in Boston, Massachusetts; Pittsburgh, Pennsylvania; Portland, Oregon; and Tampa, Florida; for a total of 15 field offices. These offices will increase the OIG’s nationwide presence and reduce travel costs. Adding new offices has been a challenge, requiring the OIG to rely on state-of-the-art technology to ensure effective communication among its field offices and headquarters. Communication, one of the OIG’s core values, is crucial to maintaining the flow of information and coordination required to effectively start up and staff new field offices.

Further, as the OIG moves forward in its efforts to help the Postal Service maintain and enhance its position as best in the world, the OIG faces several external and internal challenges. These include:

- Continuing to hire and retain talented and diverse staff;
- Building processes, policies, and procedures;
- Promoting values and culture;
- Demonstrating sensitivity to employee needs;
- Providing meaningful and timely results;
- Educating the Postal Service on the OIG’s role;
- Resolving differences regarding authority and responsibility of the OIG and Inspection Service;
- Balancing our responsibility to report our findings with the Postal Service’s competitive needs;
- Strengthening liaison with postal stakeholders;
- Establishing a significant presence with the Inspector General and law enforcement communities;
- Responding effectively to Hotline and Congressional inquiries; and
- Resolving disagreements with Postal Service management in a timely manner.
The Inspection Service, the traditional law enforcement arm of the Postal Service, is a highly specialized, professional organization with over 4,300 employees that performs investigative and security functions essential to a stable and sound postal system. Through its security and enforcement functions, the Inspection Service provides assurance to: businesses for the safe exchange of funds and securities through the U.S. mail; postal customers of the “sanctity of the seal” in transmitting correspondence and messages; and postal employees of a safe work environment.

Postal Inspectors are federal law enforcement officers who carry firearms, make arrests, execute federal search warrants, and serve subpoenas. Postal Inspectors work closely with U.S. Attorneys, other law enforcement agencies, and local prosecutors to investigate postal cases and prepare them for court. There are approximately 2,000 Postal Inspectors stationed throughout the United States who enforce over 200 federal laws covering investigations of crimes that adversely affect or fraudulently use the U.S. Mail and postal system.

To assist in carrying out its responsibilities, the Inspection Service maintains a security force staffed by 1,400 uniformed Postal Police Officers, who are assigned to critical postal facilities throughout the country. The officers provide perimeter security, escort high-value mail shipments, and perform other essential protective functions.

The Inspection Service operates five forensic crime laboratories, strategically located in cities across the country. The laboratories are staffed with forensic scientists and technical specialists who assist Postal Inspectors in analyzing evidentiary material needed for identifying and tracking criminal suspects and in providing expert testimony for cases brought to trial.

The Inspection Service’s 900 professional and technical employees also include forensic specialists, program analysts, financial analysts, information technology experts, and others, who play a vital role in supporting the criminal investigation and security functions of the Inspection Service. They perform a wide variety of tasks, including developing, maintaining and continually upgrading management systems; providing forensic examinations of evidence; developing, procuring and deploying electronic security and surveillance equipment; publishing policy handbooks and consumer awareness guides and brochures; supplying photography and video services; and facilitating direct communications with Congress and the public.

Operating with a staff of 10 Postal Inspectors, an Assistant Inspector in Charge, four support employees and 39 Postal Police Officers, the Office of Inspections has a threefold mission. It ensures integrity and excellence within the Inspection Service by conducting independent internal investigations of its employees. The office oversees the quality and thoroughness of Inspection Service operations by conducting reviews at field divisions and headquarters units. Finally, it protects the safety of postal employees and customers by providing security and preventive services at national Headquarters.

The Office of Counsel provides legal advice and services in support of Inspection Service investigations, programs and goals, and processes requests for access to Inspection Service records. The Counsel’s office is composed of 20 inspector-attorneys and a support staff of paralegal specialists, information disclosure specialists, a labor relations specialist, a program specialist, and an administrative support specialist.

The Inspection Service’s national information technology infrastructure supports over 4,300 users at more than 220 sites nationwide. Inspection Service offices are linked nationally via a dedicated frame-relay network, with online connections to the Postal Service, the National Crime Information Center, the National Law Enforcement Telecommunications System, and the Internet.

The Inspection Service extends full cooperation to all federal, state, and local investigative and prosecutorial authorities in law enforcement matters to ensure greater protection to the public. Working with other agencies, Postal Inspectors regularly participate in joint task force cases aimed at curtailing widespread criminal acts of an organized nature.

More information on the Inspection Service can be found at http://www.usps.com/postalinspectors.
Organizational Structure

Who does the OIG employ?

The OIG staff consists of auditors, criminal investigators, evaluators, lawyers, technicians, and administrative personnel from federal and state government agencies, private industry, nonprofit organizations, and the Postal Service.
This section describes the organization of the OIG and the Inspection Service. In order to differentiate between the OIG and the Inspection Service, the pages concerning the Inspection Service have been color screened.

OFFICE OF INSPECTOR GENERAL

The OIG supports the Postal Service’s business and public policy objectives. It is a unique, nontraditional, diverse organization that conducts audits, reviews, investigations, and other core functions identified by the Inspector General Act of 1978, as amended.

The OIG’s values of teamwork, leadership, communication, creativity, and conceptualization are demonstrated by teams that focus on improving Postal Service business processes and overall organizational achievement. The following section describes the OIG organizational structure as of March 31, 2001.

DEPUTY INSPECTOR GENERAL
Sylvia L. Owens - assists the Inspector General and the OIG Management Committee in leading the organization.

CONGRESSIONAL & PUBLIC RELATIONS TEAM
Director, Laura Whitaker - serves as liaison and responds to requests from Congress, the Board of Governors, and the media; and coordinates Congressional testimony and presentations.

QUALITY ASSURANCE & INTERNAL AFFAIRS TEAM
Director, George Davis - conducts internal reviews of OIG operations and procedures to ensure that they are effective and appropriate, and reviews allegations against OIG employees.

STRATEGIC PLANNING TEAM
Director, vacant - anticipates and plans for current and future changes in the Postal Service, OIG operations, and technology by identifying workload and providing research and statistical analysis.

How many field offices does the OIG have?
The OIG has 15 field offices in addition to its headquarters offices. Field offices supporting headquarters in Rosslyn, Virginia, are located in San Mateo and Los Angeles, California; Denver, Colorado; Atlanta, Georgia; Chicago, Illinois; Minneapolis, Minnesota; St. Louis, Missouri; New York, New York; Raleigh, North Carolina; Dallas, Texas; Boston, Massachusetts; Tampa, Florida; Pittsburgh, Pennsylvania; Portland, Oregon; and Arlington, Virginia.

GENERAL COUNSEL TO THE INSPECTOR GENERAL
Thomas Coogan
Deputy General Counsel, Ronnie Wainwright

LEGAL SERVICES TEAM
Director, Gladis Griffith - provides legal advice to the Inspector General and OIG staff in all areas of law, including criminal, civil, and administrative issues; processes subpoenas; responds to Freedom of Information Act and Privacy Act requests; serves as liaison with Postal Service and Department of Justice legal staffs; manages compliance with Office of Government Ethics regulations; and reviews existing and proposed legislation, regulations and policies affecting the economy and efficiency of the Postal Service.

ASSISTANT INSPECTOR GENERAL FOR AUDIT (BUSINESS OPERATIONS)
Debra Ritt
Deputy Assistant Inspectors General, John M. Seeba and Tracy LaPoint (Acting)

ACCEPTING & PROCESSING TEAM
Director, Stew Dorris - plans and directs audits and reviews focusing on mail acceptance and collection operations, and mail processing and distribution processes.

DELIVERY TEAM
Director, Chris Nicoloff - plans and directs audits and reviews to enhance delivery processes and operations and improve customer satisfaction.

FINANCIAL TEAMS
Director - Financial Field, Sheila Bruck and Director - Financial Statements, vacant - plan and direct work in support of independent public accounting firm’s annual financial audit opinion and conduct other financial-related audits to identify areas for improvement.

MARKETING & ENABLING TEAM
Director, Larry Chisley - plans and directs audits and reviews examining the major sources of revenue from marketing, advertising, stamp services, retail and international business, and Postal Service support operations such as government relations and customer service as well as performs rate case monitoring.
TRANSPORTATION TEAM
Director, Joe Oliva - plans and directs audits and reviews of domestic and international transportation and logistics operations, specifically addressing Postal Service fleet operations and contracts for air, highway, and rail services.

ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS (BUSINESS PROTECTION)
Billy Sauls
Deputy Assistant Inspectors General, Daniel O’Rourke and Kim Stroud (Acting)

CONTRACTS TEAM
Director, Kim Stroud - plans and directs audits and investigations of purchasing activities and operations to improve Postal Service contracting.

CORRUPTION & NON-FINANCIAL CRIMES TEAM
Director, Michael Shiohama - investigates bribery, kickbacks, conflict of interest, embezzlement, fraudulent tort claims, executive misconduct, employee retaliation/reprisal, and cases involving expenditures and contract fraud dealing with product substitution.

FACILITIES TEAM
Director, Russ Barbee - plans and directs audits, reviews, and investigations of all aspects of postal facilities, including repair, renovation, and new construction.

FINANCIAL CRIMES TEAM
Director, Anthony T. Cannarella - initiates proactive approaches to prevent and detect fraud, waste, abuse, and mismanagement in the expenditure of Postal Service funds.

HEALTH CARE FRAUD TEAM
Director, Katherine K. Johnson - identifies and investigates medical providers that have falsely billed the Postal Service for work-related injury claims; investigates allegations of wrongdoing by medical providers under contract with the Postal Service; and plans and directs audits and reviews of systemic issues involving the Workers’ Compensation Program.

ASSISTANT INSPECTOR GENERAL FOR INTERNAL BUSINESS
Kirt West
Deputy Assistant Inspector General, Wayne Goleski

SELF DIRECTED TEAMS
EXPERTS - provide support to OIG staff in the areas of statistical sampling; statistical and other quantitative methods used by the Postal Service; the selection, development, and use of analytical methods; economic forecasting; cost/benefit analysis; estimation of monetary benefits; and activity-based costing.

INTERNAL QUALITY - facilitates the success of OIG operations by providing consulting services to strengthen internal processes and promote the vision and core values of the OIG — teamwork, leadership, communication, creativity, and conceptualization.

ADMINISTRATIVE RESOURCES TEAM
Director, Steve Spratt - provides the OIG staff with facilities, procurement, financial, budget, and other services necessary to accomplish the OIG mission.

COMMUNICATIONS & POLICY TEAM
Director, Jim Nugent - provides video, graphics, writing, and editorial services; coordinates and publishes OIG reports as well as other documents for Congress, Governors and Postal Service management; and manages development of internal policies and procedures.

HUMAN RESOURCES TEAM
Director, Eufemia Lucero - provides full-service human resources programs to the OIG in the areas of employee relations, pay and benefits, retirement, awards, performance management, counseling, and training.

WORKPLACE ENHANCEMENT TEAM
Director, Sharon Solomon - provides support and services to the OIG on internal work life, organizational climate, diversity, equal employment opportunity, and other workplace-related issues.

ASSISTANT INSPECTOR GENERAL FOR OVERSIGHT & BUSINESS EVALUATIONS
Ronald K. Stith
Deputy Assistant Inspector General, Debbie Pettitt
HOTLINE TEAM

Director, Bob Pemberton - operates the OIG Hotline to provide a vital and confidential communications link for postal employees, other stakeholders, and the public to report fraud, waste, abuse, and mismanagement in the Postal Service.

LABOR MANAGEMENT TEAMS

Directors, Bennie Cruz and Joyce Hansen - plan and direct audits and reviews of labor management and employee relations issues within the Postal Service to assist in maintaining a healthy and safe organizational climate for employees and improving operational efficiency.

OVERSIGHT TEAM

Director, Cathleen Berrick - plans and directs audits and reviews to provide oversight of Inspection Service programs and operations.

ASSISTANT INSPECTOR GENERAL FOR eBUSINESS

Bob Emmons

Deputy Assistant Inspector General, Donna Edsall

COMPUTER INTRUSION TEAM

Director, Howard Cox - detects and investigates computer hacking and other high-technology crimes involving Postal Service computers and telecommunications systems; and assists in identifying vulnerable computer systems so that appropriate countermeasures may be implemented.

DEVELOPMENTAL TEAM

Director, Tracy LaPoint - plans and directs audits and reviews of new or redesigned Postal Service systems, programs, and operations that are under development.

ELECTRONIC COMMERCE TEAM

Director, Robert Batta - plans and directs audits and reviews in the emerging field of electronic commerce, focusing on new electronic business initiatives and revenues.

FORENSIC & TECHNICAL SERVICES TEAM

Director, Tommy Hampton - provides technical support in such areas as surveillance, evidence recovery, firearms, computer forensics, and polygraph examinations; and maintains close liaison with technical experts in the law enforcement community.

INFORMATION SYSTEMS TEAM

Director, Dave Berran - plans and directs audits and reviews of major automated Postal management information systems to determine whether general and application controls are properly established and systems are designed to provide accurate data to management; and provides computer-assisted audit techniques for data retrieval and analysis in support of the OIG administrative, audit, and investigative staff.

INFORMATION TECHNOLOGY TEAM

Director, David Sidransky - manages computer operations and telecommunications within the OIG; operates the local and wide-area networks; provides computer security and technical support to the OIG staff; and manages agency wide information systems.

EXECUTIVE REPRESENTATIVES FOR FIELD LIAISON

Colleen McAntee (West) and Ronald Merryman (East)

Provides senior-level communication links between the OIG Headquarters and its 15 field offices, and all Postal Service field operations.

OIG FIELD LOCATIONS

During this reporting period, the OIG opened four new field offices in Tampa, Florida; Boston, Massachusetts; Portland, Oregon; and Pittsburgh, Pennsylvania, for a total of 15 field offices. In addition, the OIG expanded its headquarters facility in Rosslyn, Virginia. Other field offices supporting headquarters are located in San Mateo and Los Angeles, California; Denver, Colorado; Atlanta, Georgia; Chicago, Illinois; Minneapolis, Minnesota; St. Louis, Missouri; New York, New York; Raleigh, North Carolina; Dallas, Texas; and Arlington, Virginia. OIG locations are depicted in the following map.

The OIG Forensic & Technical Services Team provides technical support to OIG evaluators and investigators.
INSPECTION SERVICE

At the end of FY 2000, the Inspection Service completed a realignment of reporting relationships among field divisions. Over the last few years, 30 Inspection Service Field Divisions have been consolidated to 18. This has resulted in increased efficiency and effectiveness. The consolidation of specific support functions, the availability of additional staff resources for emergency response, and a more uniform span of control among division Inspectors in Charge will enhance the Inspection Service's ability to address its goals. The Inspection Service remains committed to the ongoing evaluation of organizational performance, employee development, and customer service, with the goal of continuous improvement.

The national headquarters offices of the Inspection Service are organized into functional groups that report to Deputy Chief Inspectors for Investigations, Security & Technology, and Professional Standards & Resource Development. The Inspection Service has 18 field divisions, which report directly to two Deputy Chief Inspectors for field operations. Five Inspection Service Operations Support Groups support field offices. The Inspection Service’s Executive Committee, which consists of the five Deputy Chief Inspectors and the three Inspectors in Charge who report directly to the Chief Postal Inspector, establishes the direction of the organization. The National Leadership Team consists of the Deputy Chief Inspectors and all Inspectors in Charge.

Inspection Service Organizational Structure
Customer Service

OFFICE OF INSPECTOR GENERAL
  External Communications
  Internal Communications
  Specialized Services

INSPECTION SERVICE
  External Communications
  Specialized Services
The OIG is responsible for keeping members of Congress and the Governors fully and currently informed. The OIG keeps Congress informed by issuing Semiannual Reports to Congress, testifying at oversight and other hearings, and briefing members and their staffs on issues related to the Postal Service. The OIG keeps the Governors informed through regular briefings at monthly Board meetings, a monthly activity report from the Inspector General, and responses to requests for information. The OIG also regularly provides Congress and the Governors with copies of audit and management advisory reports.

CONGRESSIONAL TESTIMONY

Each year, the OIG has testified before Congress on various matters. During this period, the OIG provided one written statement for the record.

OIG Submits Written Testimony to House Committee on Government Reform

On April 4, 2001, the Inspector General provided a written statement to the House Committee on Government Reform. The Inspector General highlighted opportunities to improve critical management and financial practices of the Postal Service, including contracting, budget, return on investment, labor management, systems development, computer security and privacy, and strategic planning. The Inspector General stated that the Postal Service needs better controls to strengthen its performance and improve efficiency, whether or not postal reform occurs. The testimony also applauded efforts the Postal Service has made to continue its role as a world leader in the delivery of communications and logistics services.

RESPONDING TO REQUESTS FROM CONGRESS AND THE POSTAL SERVICE GOVERNORS

One of the OIG’s highest priorities is to provide accurate and timely responses to Congress and the Postal Service Governors. The OIG responds to many of these requests by conducting audits and investigations. However, the OIG does not normally perform an audit or investigation when the allegation involves an individual employee issue that can be resolved through contractual grievance-arbitration procedures or the Equal Employment Opportunity process. Instead, the OIG incorporates individual concerns into a database to identify systemic issues for review. When systemic issues have been identified, the OIG conducts independent audits or investigations of Postal Service programs and operations to help ensure their economy, efficiency, effectiveness, and integrity.

During this 6 month reporting period, the OIG completed 103 Congressional inquiries. Appendix G of this report lists the OIG responses to these inquiries by subject area. A few examples of OIG work in response to Congressional requests are highlighted below:

◆ A review of allegations that a hostile work environment existed at a Virginia post office confirmed that it was potentially volatile because of harassment and intimidation by the postmaster. As a result of the review, the postmaster was reassigned to another facility and performance and conduct were monitored at the new assignment. We verified with Postal Service management, district management, and union officials that the work environment improved as a result of the actions taken.

◆ An allegation that the Postal Service was not properly conducting the site selection process for a new Postal Service facility prompted us to perform a review which found that the process was fundamentally sound and followed Postal Service guide-
lines. Although we identified minor errors in some of the solicitation notices, the errors were not material and did not adversely affect the site selection process. In addition, we found no indication that these errors occurred as a result of inappropriate or unethical behavior by Postal Service personnel.

OIG HOTLINE PROVIDES A VITAL AND CONFIDENTIAL COMMUNICATIONS LINK

The OIG Hotline provides a vital and confidential communications link between the OIG and individuals who contact the Hotline to report allegations of fraud, waste, abuse, and mismanagement.

Responding to Hotline Inquiries

The Hotline receives complaints from Postal Service employees, customers, and the general public concerning alleged violations of laws, rules, or regulations; mismanagement; waste of funds; abuse of authority; or danger to public health and safety. Complaints and allegations received by the Hotline are analyzed to identify systemic issues affecting the Postal Service, and referred for appropriate action. The OIG considers all Hotline contacts when planning audits and reviews.

During this reporting period, the Hotline received nearly 11,000 contacts, some of which were addressed by the OIG on such issues as waste, fraud, abuse, mismanagement, deficient postal operations, personnel matters, and other concerns. In addition:

- Twenty-six percent were addressed by the Inspection Service and involved criminal issues such as mail theft, assaults and threats, and workers compensation fraud;
- Seventeen percent were addressed by the Office of Consumer Advocate involving complaints related to customer service issues, particularly mail delivery;
- Forty-five percent were related to miscellaneous requests for information such as ZIP Codes, postage meters, and other Postal Service related matters; and
- Eight percent were related to operational and human resource issues that were referred to Postal Service management.

The OIG Hotline is staffed from 7 a.m. to 7 p.m., Eastern Standard Time, Monday through Friday (except federal holidays). Calls can be made 24 hours a day, 7 days a week. Threats and any other potentially violent work situations are routed immediately to the Postal Police Control Center for action 24 hours a day, either by an OIG Hotline analyst or through a caller-directed menu system. Anyone interested in contacting the Hotline can call toll-free, 1-888-USPS-OIG (1-888-877-7644); write to the United States Postal Service, OIG, ATTN: Hotline, 1735 North Lynn Street, Arlington, VA 22209-2020; e-mail the OIG at hotline@uspsoig.gov; or fax information toll-free to (866) 756-6741.

PROPOSED LEGISLATION AND REGULATIONS

As required by the Inspector General Act, the OIG monitors existing and proposed legislation and regulations to advise Congress and the Governors of their impact on Postal Service programs and operations. During the 6 month reporting period, the OIG evaluated 43 legislative proposals and 36 regulatory initiatives. Highlights of the legislative and regulatory proposals are included at the end of the appropriate section that describes the OIG and Inspection Service reviews performed in the last six months.

FREEDOM OF INFORMATION AND SUBPOENA REQUESTS

The OIG releases all final audit and management advisory reports when requested pursuant to the Freedom of Information Act, 5 U.S.C. 552, unless the law prohibits disclosure. In addition, the Electronic Freedom of Information Act amendments, Public Law No. 104-231, require federal agencies to make certain records accessible electronically. The OIG established its Internet reading room in order to make certain information available to the public without requiring a Freedom of Information Act request.

Each request is reviewed on a case-by-case basis in accordance with the Freedom of Information Act, the Privacy Act, and the Postal Reorganization Act. The OIG may coordinate its review and response with Postal Service management and the Law Department
when it deems appropriate. In deciding what information to release, the OIG balances the public’s right to access federal agency records with the government’s need to safeguard certain protected information, such as those affecting business needs and employee privacy. As a result, requested information may be deleted to protect proprietary or confidential information, or withheld in its entirety.

The OIG received sixty-eight Freedom of Information Act requests which were handled as follows:

- 11 were answered in full, 12 were answered stating no OIG documents existed, 12 were withheld totally, 23 were partially withheld, 1 was withdrawn, and 9 were referred outside the OIG. Nine of the 68 requests were appealed. Of the nine appeals, seven were upheld by the Postal Service, one was partially upheld, and one appeal was withdrawn. To date the OIG has no appeals pending.

In addition, the Inspector General is authorized under the Inspector General Act to issue subpoenas for audits and investigations, and in support of selected investigations for the Inspection Service. In the last 6 months:

- The OIG issued 184 subpoenas; 141 supporting Inspection Service investigations and 43 supporting OIG investigations.

**INTERNAL COMMUNICATIONS**

In addition to responding to official requests by Congress and the Governors for information, the OIG responds to Postal Service management and other agency requests.

**MONITORING COMPUTER MATCHING REQUESTS FOR POSTAL INFORMATION**

Under the Privacy Act, a computer matching program is defined as any computerized comparison between the automated federal system of records of a federal agency with the automated records of another federal, state, or local agency. Information contained in a system of records may be disclosed to a recipient agency for use in a computer matching program pursuant to a written agreement between the source and recipient agencies, and after publication in the Federal Register. The Postal Service receives requests from other government agencies for Postal Service data that are used in computer matching programs for a variety of purposes, including statistical studies and law enforcement activities. Pursuant to the Privacy Act, the Postal Service Data Integrity Board reviews requests for information needed to perform computer matches. The Inspector General is a member of the Data Integrity Board, along with the Postal Service Vice President, Employee Resources Management; Vice President, General Counsel; Chief Financial Officer and Executive Vice President, Finance; and the Chief Postal Inspector.

During this 6 month period, the Inspector General, as a member of the Data Integrity Board, reviewed and approved one request for computer matching data from the Postal Service. The Alaska Department of Labor and Workforce Development requested information from the Postal Service in order to identify postal employees who are former students of the state of Alaska’s education system and to determine whether their postal job duties related to the funded education they received. The match will be used to generate statistics, determine program effectiveness, and identify potential improvements.

**SPECIALIZED SERVICES**

**COMPUTER FORENSICS**

The OIG’s Computer Forensics Team is staffed by specialists trained and certified in computer seizures and the recovery of electronic evidence. The team’s mission is to provide technical support to extract data to help identify individuals who use computers for criminal purposes, generally in one of three ways. First, a computer may be the target of the offense where the criminal’s goal is to steal information or cause damage to a computer. Second, the computer may be a tool of the offense. This occurs when an individual uses a computer to facilitate some traditional offense, such as fraud. Third, computers are sometimes incidental to the offense but significant to law enforcement because they contain evidence of a crime.
During this reporting period, the Computer Forensics Team:

- Examined data seized in a variety of cases involving postal employee misconduct, intrusion into postal computer systems, and contract frauds.
- Seized and examined a subject’s computer, uncovering evidence that led to the individual’s conviction for vandalizing the OIG website of numerous other federal and state government agencies.
- Assisted the Treasury Department and State Department Inspectors General with the seizure and examination of computer evidence.

**POLYGRAH SERVICES**

The OIG polygraph program aids criminal investigators and is an effective tool to assist in proving guilt as well as innocence. OIG polygraph examiners represent the OIG within the polygraph community and on the Federal Polygraph Executive Committee.

**COMPUTER ASSISTED ASSESSMENT TECHNIQUES**

The OIG’s Computer Assisted Assessment Techniques team uses automated methods and tools to extract and analyze electronic data located in over 900 postal systems in support of OIG audit and investigative efforts. This team has supported several significant OIG efforts during this reporting period, including:

- Conducting data retrieval analyses of Postal Service databases to identify contract irregularities that may indicate corruption. As a result, two companies admitted to paying bribes in exchange for postal contracts and scheming to delay the issuance of the solicitation to ensure they received the contract award.
- Gathering data from three purchasing systems and the Highway Payment System in support of a benchmarking study of supplier diversity.
INSPECTION SERVICE

The Inspection Service has adopted numerous initiatives to improve customer service. The Inspection Service alerts consumers and businesses to current crimes by attracting media attention to postal crime trends, publicizing positive law enforcement accomplishments, circulating media releases, and hosting crime prevention presentations.

EXTERNAL COMMUNICATIONS

The Inspection Service is responsible for communicating its law enforcement and crime prevention achievements to the American public, Congress, the Postal Service, and the law enforcement community.

PROVIDING CONGRESSIONAL LIASION

The Inspection Service provided members of Congress with the following information relating to Postal Service and Inspection Service issues:

- An introductory package, including a new brochure entitled Congressional Guide to Postal Crimes, was completed and delivered to all members of the 107th Congress.
- To further educate Congress and the American public on current mail related crime, an updated brochure, Sweepstakes Advertising: A Consumer’s Guide, was distributed to Congressional offices. Published in cooperation with the Direct Marketing Association, the brochure helps consumers distinguish between legitimate sweepstakes offers and fraudulent promotions.
- In February, members of the Senate Subcommittee on International Security, Proliferation and Federal Services were briefed about the Inspection Service’s enforcement of the Deceptive Mail Prevention and Enforcement Act. Also in February, a briefing was held with staffers of the Senate Permanent Subcommittee on Investigations regarding cross border lotteries and gold card merchandising schemes.

CONSUMER PROTECTION

In an effort to maintain the integrity of the mail and to ensure the confidence and trust that government agencies, businesses, and customers place in the Postal Service, the Inspection Service conducts mail fraud investigations that focus on a variety of schemes. Because of their complexity and far-reaching implications, mail fraud investigations are often conducted jointly with other federal and local law enforcement agencies to take advantage of the expertise of each agency and to maximize resources. Postal Inspectors also work with other law enforcement agencies and consumer groups in prevention efforts to raise awareness of fraud.

ANNUAL REPORT OF INVESTIGATIONS

The 2000 Annual Report of Investigations of the Inspection Service was released in November 2000. The accomplishments described in the report are intended to inform the Governors, the Postmaster General, Postal Service managers, and employees about Inspection Service activities and give greater insight into the value and benefits provided by the Inspection Service.

SPECIALIZED SERVICES

FORENSIC SERVICES

Inspection Service forensic analysts provide expert examinations and testimony on evidence submitted by Postal Inspectors for document, fingerprint, chemical, and physical evidence analyses. Laboratory personnel are available to respond to the most critical criminal investigations of violent crimes to assist in processing and evaluating evidence. During this reporting period, over 780 sets of fingerprints were searched on Automated Fingerprint Identification System searches yielding 34 identifications.

TECHNICAL SERVICES

Technical services personnel assist and support field division staff in the acquisition and use of various sophisticated equipment and services to make their job easier and safer. The unit utilizes Postal Inspectors, security technicians, and communications specialists to meet program objectives. Programs include radio and
Electronic surveillance and mail screening. Two examples of technical services support follow:

- The technical services unit has been instrumental in assisting the revenue asset protection program division in identifying, evaluating, procuring, deploying, installing, and providing training in the use of special equipment needed by field inspectors to conduct difficult embezzlement investigations. In three unrelated cases in two field divisions, the new equipment was used to assist in the identification of three postal employees for embezzlement of Postal Service assets totaling over $123,000.

- Portable X-ray equipment training was provided to 33 Postal Inspectors and 18 new portable X-ray units were deployed to the field in support of our mail screening and prohibited mail investigations. The technical service unit also conducted a survey of the 2002 Olympic games venue to identify security, mail screening, and communication issues.

**POLYGRAPH SERVICES**

Polygraph examinations continue to be excellent aids in criminal investigations and have proven to be very effective in resolving cases involving employee assaults, registered and other mail thefts, allegations of assault, and misappropriation of postal funds or property.

- In December 2000, a Texas bank sent several registered bags to two other banks located in Texas. A transfer point reported one of the bank bags missing, which contained $25,000 in cash. Polygraph assistance was requested. In January 2001, during the pretest interview, a postal clerk admitted taking the registered bank bag containing the cash. During the interview process, the employee retrieved $24,500, was terminated, and has been indicted on federal mail theft charges.

- A postal clerk submitted a claim for allegedly being injured while on duty at a postal station in Texas. A review of a video tape revealed that the employee had not lifted any parcels on the day the claimed injury occurred. A polygraph test was administered and the employee admitted that the injury occurred in a nonwork-related incident. As a result of the admission, the Department of Labor denied the claim for worker’s compensation. This resulted in savings of over $41,000 to the Postal Service.

**DIGITAL EVIDENCE RECOVERY**

Inspection Service personnel also preserve, access, retrieve, and recover evidence stored on computers, and conduct forensic examinations of audio and video media. This reporting period, the Inspection Service received 431 new requests and completed 275 requests. An example of the use of digital evidence follows:

- Forensic analysis of a notebook computer identified several documents and databases relevant to a financial investments mail fraud case that promised customers a 70 percent per month return on investments. Following a 6 week trial in a federal district court, a jury convicted the defendants on all counts.

The Pan-American Inverts

Pan-American Exposition Buffalo 1901

Pan-American Exposition Buffalo 1901

Pan-American Exposition Buffalo 1901

Pan-American Exposition Buffalo 1901
Performance Reviews

OFFICE OF INSPECTOR GENERAL
Accepting and Processing Reviews
Transportation Reviews
Delivery Reviews
Marketing Reviews
Legislative and Regulatory Reviews

INSPECTION SERVICE
Mail Theft Investigations
Service Investigations
This section highlights audits, reviews, and investigations performed by the OIG and the Inspection Service in the Performance area. Report numbers are shown in parentheses after the narrative, as appropriate. Also, the OIG legislative and regulatory reviews are included at the end of this section. In order to differentiate the work reported by the OIG and Inspection Service, the pages containing the work reported by the Inspection Service have been color screened.

OFFICE OF INSPECTOR GENERAL

To deliver world-class service, businesses and government agencies must excel in performing their core business processes. For the Postal Service, these core business processes and systems encompass accepting, processing, transporting, and delivering the mail as well as marketing postal products and services worldwide. During the past six months, the OIG has completed 27 reviews of key and emerging issues relating to the Postal Service’s performance of core business processes. OIG reviews and investigations identified opportunities to save about $40.5 million during current and future years.

ACCEPTING AND PROCESSING REVIEWS

On average, over 660 million pieces of mail are accepted each day by the Postal Service in a variety of ways, including collections from more than 300,000 blue collection boxes as well as residential and business collection mailboxes. Express Mail, First-Class Mail, and some Priority Mail and periodicals are sorted at more than 470 processing and distribution plants, while Standard Mail is generally handled at the 21 bulk mail centers. In order to ensure timely and accurate delivery of mail, accepting and processing equipment must be state-of-the-art. Situations that result in delayed mail processing must be vigorously evaluated and the underlying causes must be promptly resolved. The Postal Service continues to explore ways to enhance the acceptance and processing of mail through innovative automation. During the past six months, the OIG issued two reports in the accepting and processing area, which are discussed below:

DELAYS IN CERTIFIED MAIL DELIVERY IDENTIFIED

At the request of a Congressional subcommittee chairman, the OIG reviewed allegations of delayed certified tax mailings reported by the media. The audit confirmed that mail was delayed in four of the five reported locations. The delays, ranging from 2 to 38 days, were primarily due to a lack of planning and supervision. Additionally, one postal facility processed 1,417 pieces of certified mail, but the courier only picked up 294 pieces. Of the 1,123 remaining pieces, 1,003 were not picked up for approximately three weeks. The Postal Service could not account for the remaining 120 pieces.

The OIG also identified that in some locations, delays were caused by manual processing and inaccurate reporting. The OIG recommended and Postal Service management agreed to establish standard procedures for processing, measuring, and reporting certified mail. Management also agreed to develop methods to leverage existing mail processing technology and establish plans to handle seasonal increases in certified mail processing.

MAIL CONTAINERS IMPROPERLY LABELED

In response to complaints to the OIG Hotline, the OIG conducted a review of alleged mail processing delays at a Mid-Atlantic Area post office. The OIG found no evidence of delays; however, mail containers were improperly labeled and mail was arriving late from a processing and distribution facility. The review also identified two contracted delivery trailers that did not comply with safety standards. The OIG suggested and Postal Service management agreed to repair or remove unsafe trailers from service and to determine the feasibility of reassigning responsibility for the post office’s mail to a processing and distribution facility that was 57 miles closer to the existing facility.

TRANSPORTATION REVIEWS

Transportation of mail is a vital part of the Postal Service’s mission of binding the nation
together by providing prompt, reliable, efficient, and universal mail delivery. To fulfill this mission, the Postal Service spends in excess of $4.7 billion annually for air, highway, rail, and water transportation contracts. For example, in January 2001, the Postal Service contracted with Federal Express to transport Express, Priority, and First-Class mail. This contract is expected to provide more reliable service, reduce costs, and manage future cost growth. Contractors provide most transportation; however, the Postal Service operates its own fleet of trucks for some highway routes. During the past six months, the OIG completed three transportation related audits and a number of investigations, some of which are highlighted below:

**OIG INVESTIGATION LEADS TO COST AVOIDANCE OF $23 MILLION**

An OIG investigation revealed that a Postal Service manager developed a questionable relationship with a contractor and provided favorable treatment during the Postal Service’s testing and assessment of a transportation contract. As a result, the Postal Service decided not to proceed with the $23.5 million expenditure for the system as initially proposed to the Board of Governors.

The product ultimately experienced catastrophic failures on critical safety testing measures, a fact that the manager did not fully disclose to senior Postal Service management. The OIG was able to prove that during the time the manager was providing favorable treatment to the contractor, he was receiving gratuities from the contractor. The manager was given a notice of proposed removal; however, prior to removal, the manager resigned. In addition, this program was drastically scaled back. The current proposal is to purchase significantly fewer units from a different contractor at a cost of only $500,000, resulting in a cost avoidance of $23 million.

**AUDIT OF SAFETY AND SECURITY OF LEASED TRAILER FLEET IDENTIFIES POTENTIAL COST REDUCTION OF $17.5 MILLION**

The OIG conducted a nationwide audit of the Postal Service’s leased fleet of about 8,700 trailers to determine compliance with federal safety standards and identify opportunities for cost savings. The audit projected that more than 25 percent of the leased trailers did not meet standards because the Postal Service did not have adequate procedures to verify contractor compliance with preventive maintenance and safety requirements. Specifically, the OIG found bald tires, damaged or missing lights, reflectors, mud flaps, doors, load restraint systems, and bumpers. The OIG also found that the Postal Service could not account for $5 million in leased trailer inventory and did not always secure and protect trailers.

In addition, the OIG identified that the Postal Service paid trailer damage claims to contractors without determining fault or verifying the cost of the repairs, and trailers leased for transportation were being used for storage. As a result, the OIG projected that the Postal Service could reduce costs by more than $17.5 million over a 5-year period by properly administering damage claims on leased trailers, and improving controls over trailer use. The OIG recommended and Postal Service management agreed to include requirements regarding safety, maintenance, and liability insurance in contracts; establish procedures to account for trailer inventory; secure and protect trailers; and update policies governing damage claims. (OIG TR-AR-01-002)

**LEASED TRAILER SAFETY DEFICIENCIES FOUND**

The OIG conducted a review of the New York Metro Area’s leased trailer fleet involving six locally negotiated contracts for over 2,400 trailers. The OIG’s review was intended to determine compliance with safety standards and identify opportunities for cost savings. The OIG observed trailers that appeared in substandard condition and which reflected poorly on the Postal Service. The OIG brought the substandard condition of the trailers to the attention of Postal Service management who conducted an inspection of 1,300 trailers and identified 239 that were unsafe, required repair, or needed to be completely refurbished. In addition, management performed a survey of trailer usage and identified over 1,000 trailers, or more than 41 percent of the trailers leased for transportation, were being used for equipment storage. As a result, the Postal Service paid for...
trailers that were not needed. The OIG suggested and Postal Service management agreed to require contractors to meet provisions regarding trailer safety, maintenance, and appearance; to evaluate equipment and storage requirements in the New York Metro Area; and to prohibit storing equipment in trailers leased for transportation. (OIG TR-MA-01-001)

**POSTAL SERVICE MANAGER ACCEPTS GRATUITIES - OIG RECOUPS COST OF INVESTIGATION**

The OIG investigated allegations that a Postal Service manager accepted gratuities and provided favorable treatment to a subcontractor regarding the procurement of transportation equipment. Postal Service management issued a termination letter to the manager. In lieu of debarment, the subcontractor agreed to repay the Postal Service over $125,000 as reimbursement for the cost of the OIG’s investigation. In addition, the subcontractor has agreed to adhere to a set of ethical standards, receive ethical training, and make its internal records available for OIG inspection. The subcontractor has also agreed to repay the Postal Service for the cost of reviewing their internal records.

**LACK OF CONTROLS ON MAIL TRANSPORT EQUIPMENT SERVICE CENTER NETWORK**

Based on a request from a Governor, the OIG assessed the internal controls over the Mail Transport Equipment Service Center Network. This network, consisting of 22 contractor operated centers, supplies Postal Service facilities and customers with mailbags, trays, sleeves, pallets, hampers, and rolling containers to move the mail. The audit found equipment processing was improperly invoiced, repairs were incorrectly reported, and serviceable equipment was inappropriately condemned and discarded. The OIG recommended and Postal Service management agreed to segregate network oversight from service center operations; have qualified staff test and verify the serviceability of equipment before it is discarded; and require documentation for container repair and service histories. Management also agreed to fully staff the quality assurance function. (OIG TR-AR-01-001)

**DELIVERY REVIEWS**

Universal service—delivering mail to everyone, everywhere in America, at uniform rates—is the cornerstone of the Postal Service’s mission. To fulfill this mission, the Postal Service developed a delivery network of over 235,000 mail routes that are serviced by nearly 300,000 letter carriers and 200,000 delivery vehicles. During FY 2000, the Postal Service delivered almost 208 billion pieces of mail to 136 million homes and businesses—a yearly average of 1,500 pieces of mail for every household and business in America. During the last six months, the OIG issued the following report:

**IMPROVEMENTS NEEDED IN THE DELIVERY CONFIRMATION PROGRAM**

In response to complaints to the OIG Hotline regarding improper scanning of mail delivery times, the OIG conducted an audit of the Postal Service’s delivery confirmation program at five locations. The review substantiated that improper scanning of mail occurred and that computer connection problems at one facility resulted in the inaccurate reporting of delivery information to customers. For example, the OIG identified that two of the five facility managers instructed employees to scan mail as delivered or attempted delivery, before actual delivery was attempted. As a result, Postal Service customers were not provided with accurate delivery status information and facility scanning scores were inflated. The OIG recommended and Postal Service management agreed to monitor procedures to detect and prevent improper scanning, and determine if improper scanning was occurring at other facilities. However, Postal Service management did not fully agree that connectivity tests should be performed because of recent software modifications. (OIG DE-AR-01-001)

**MARKETING REVIEWS**

The Postal Service operates in a competitive environment. The Postal Service’s ability to maintain or increase its market share is essential to provide universal service at affordable rates. Therefore, the Postal Service designs its products and features to build customer awareness and loyalty. The Postal Service also wants to ensure that its services are available at places...
where customers choose to do business. During this reporting period, the OIG completed one review of marketing operations, which is highlighted below:

**INABILITY TO MEET REQUIREMENTS OF AN eCOMMERCE MAILER MAY LEAD TO ANNUAL REVENUE LOSS OF $25-40 MILLION**

The OIG determined whether the Postal Service had the flexibility to compete in the eCommerce parcel delivery market by conducting an audit of one of its largest eCommerce mailers. The audit found that, although the Postal Service met the basic requirements of the mailer, regulatory constraints prevented Postal Service officials from quickly meeting the mailer's requests for discount rates and deferred payments. As a result, the mailer signed a three-year agreement with a Postal Service competitor. Postal Service officials estimate they may lose $25–40 million annually in future revenue. (OIG MK-AR-01-001)

**LEGISLATIVE AND REGULATORY REVIEWS**

During this reporting period, the OIG identified the following legislation and regulation affecting Postal Service performance.

**ENACTED LEGISLATION**

**Public Law 106-384 - Nonprofit Relief Act of 2000**

This legislation modified rates on nonprofit mailings. In January 2000, the Postal Service Board of Governors proposed postage rate increases for all classes of mail. Under the ratemaking schedule in effect at that time, some nonprofit rates would have been higher than corresponding commercial rates. In October 2000, Congress passed legislation proposed by the Postal Service and nonprofit mailers to correct this anomaly. As a result, the Postal Rate Commission was able to employ the new rate formula for nonprofit mailers to ensure that nonprofit rates are lower than corresponding rates.

This legislation was a corrective measure that addressed a rare and specific situation. It has minimal impact on Postal Service operations.

**PROPOSED LEGISLATION**

**H.R. 76 - George Thomas 'Mickey' Leland Hunger Relief Stamp Act**

**H.R. 116 - Book Stamp Act**

Both bills require the Postal Service to establish a semipostal stamp with a special rate of postage no higher than 125 percent of the current First-Class rate to promote certain causes. Postal Service patrons who desire to support the cause depicted on the stamp pay the higher rate to purchase the stamp. The George Thomas 'Mickey' Leland Hunger Relief Stamp bill would fund emergency food relief programs in the United States; the Book Stamp bill would fund child literacy programs. The organizations would receive revenues in excess of the First-Class rate, less any reasonable costs incurred by the Postal Service for printing, selling, and distributing the stamps.

Last year, Congress enacted the Semipostal Authorization Act, authorizing the Postal Service to issue and sell semipostals to promote causes the Postal Service considers to be in the national public interest. H.R. 76 and H.R. 116, if enacted, would require the Postal Service to issue particular semipostal stamps authorized by Congress outside of the Postal Service’s established review and selection process set forth in the Semipostal Authorization Act.

The OIG previously audited the Breast Cancer Research Semipostal Stamp program, the first semipostal initiative. The audit raised concerns about the Postal Service's ability to account for its costs in producing and marketing semipostal stamps. The Postal Service needs adequate controls in this area to keep track of costs associated with the production and marketing of the semipostal stamp.

**S.122 - Armed Services Voting Rights Protection Act of 2001**

This bill prohibits a state from determining that a ballot submitted by an absent uniformed services voter was improperly or fraudulently cast unless that state finds clear and convincing evidence of fraud. It requires the Postal Service to conduct joint studies with each branch of the armed services to examine why state election officials threw out many overseas military ballots cast in the 2000 election.
The Postal Service would be expected to cooperate fully with the armed services in this effort. However, because the armed services are responsible for military mail and its postmarking, it would be appropriate for the armed services to provide the majority of resources to support this effort.

**PROPOSED REGULATION**

Semipostal Stamp Program, Proposed Rule, Postal Service, Federal Register, February 15, 2001

This proposed rule creates implementing regulations for the Semipostal Authorization Act, enacted July 28, 2000. The Act authorizes the Postal Service to determine which causes will be selected for semipostal stamp issues, and then produce and market the stamps. The regulations establish evaluation criteria and procedures for selecting causes and agencies to receive funds raised. Under the proposed regulations, the Postal Service must establish a baseline in order to determine the amount of reasonable costs to be recovered from the revenue in excess of the First-Class rate.

The OIG provided written comments to the regulations. The OIG raised concerns that the proposed regulations do not require the Postal Service to establish a baseline of reasonable costs before any costs for the semipostal are incurred. In addition, the OIG recommended that the regulations be revised to clearly define the advertising costs recoverable from the revenue in excess of the First-Class rate.
INSPECTION SERVICE

The Inspection Service is responsible for investigations that ensure the sanctity of the mail. This section describes some of its work in the areas of mail theft and service investigations.

MAIL THEFT INVESTIGATIONS

Postal Inspectors are committed to reducing mail theft to maintain the public’s confidence in the Postal Service and preserve the sanctity of the mail. Postal Inspectors are currently working with major mailers to prevent mail theft and related problems. During this reporting period, Postal Inspectors arrested over 390 employees and almost 3,100 non-employees or contractors for mail theft. Mail theft targets include not only items of obvious value in the mail, such as jewelry, computers, cash, credit cards, and checks but mail containing personal and financial information.

NON-EMPLOYEE MAIL THEFT

Thieves frequently concentrate on targets that offer a large volume of mail. Despite Inspection Service efforts to lessen the vulnerability of such targets, volume attacks continue to be a challenge. To date, volume attacks equal 2,950 compared to 2,062 for the same period last year. An example of case activity related to mail theft by non-employees is highlighted below:

- Postal Inspectors in the Southwest Area arrested an individual involved in mail theft in New Mexico, Colorado, Nebraska, Utah, and Idaho. After searching the vehicle, inspectors found guns, drugs, credit cards, counterfeit identification cards, and forged birth certificates. Approximately $1 million in losses have been attributed to this individual.

EMPLOYEE MAIL THEFT

The overwhelming majority of Postal Service employees work conscientiously to move the nation’s mail to its proper destination and they take their responsibilities seriously. Unfortunately, a small number of employees abuse the public’s trust. It is the job of the Inspection Service to identify these individuals and take steps to have them prosecuted and removed from the Postal Service. According to the revised designation of functions between the OIG and Inspection Service, effective April 2000, the Inspection Service is responsible for conducting mail theft investigations including those involving postal employees. Examples of case activity related to mail theft by employees follow:

- Postal Inspectors and local law enforcement officers in New York conducted an undercover operation that resulted in the arrest of a mail handler at a local airmail center. This employee sold undercover agents 31 credit cards that were stolen from the mail.
- A Louisiana processing and distribution clerk was arrested for conspiracy and possession of stolen mail. At the time of the arrest, this employee was in possession of 120 U.S. Treasury checks totaling almost $85,000, and 124 First-Class letters containing personal checks for credit card payments. The employee subsequently pled guilty to all charges.

SERVICE INVESTIGATIONS

Service investigations are conducted to address localized service related concerns or to verify the accuracy and timeliness of reports of mail processing conditions or delivery services. During the reporting period, the Inspection Service reported completing two service investigations: return-to-sender mail on hand and national mail condition review.

DID YOU KNOW...

The Post Office Department operated the telephone and telegraph systems of the United States from July 31, 1918, to July 31, 1919.
OFFICE OF INSPECTOR GENERAL
Financial Opinion Audits
Financial-Related Reviews
Contracting and Facilities Reviews
Legislative and Regulatory Reviews

INSPECTION SERVICE
Revenue Investigations
The Postal Service is a $65 billion business that relies on strong financial management controls to maximize revenue and minimize costs. In the past six months, the OIG has completed 108 financial management reviews. These reviews resulted in the identification of $49 million in questioned costs and funds that could be put to better use. In addition, OIG investigations resulted in 6 convictions, 7 arrests, 14 indictments, and over $6 million in recoveries, restitution, and cost savings. These projects add value to the Postal Service by identifying opportunities for cost savings and improving financial management, contracting, and facilities practices, and detecting and deterring fraud, waste, abuse, and mismanagement.

FINANCIAL OPINION AUDITS

The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. The OIG conducts these audits in support of the independent public accounting firm's overall opinion on those statements. These audits assess the integrity and reliability of the financial information contained in the Postal Service financial statements. These centers and headquarters oversee the collection of approximately $65 billion in revenue and the recording and disbursement of about a similar amount each year. Examples of reviews in this area are highlighted below:

- The OIG conducted audits at Postal Service headquarters in Washington, D.C., and the Information Technology and Accounting Service centers located in Eagan, Minnesota; St. Louis, Missouri; and San Mateo, California.

The OIG disclosed that management’s policies, accounting procedures, and internal controls conformed with generally accepted accounting principles. However, OIG identified weaknesses in the following areas:

- remittance processing;
- tax liability reporting;
- protection and destruction of obsolete money orders and imprints;
- processing of money order data;
- capitalization of new equipment; and
- adjustments of fuel inventory.

The OIG recommended and Postal Service management generally agreed to these recommendations for improvements in these areas. In addition, OIG recommended adjustments to the financial statements totaling about $94 million. Postal Service management accepted approximately $77 million of these adjustments. The remainder of the adjustments Postal Service management waived, rejected, or partially accepted were evaluated together and we determined that they did not have a material impact on the financial statements. (OIG FT-AR-01-007 through OIG FT-AR-01-009)

- An audit at Postal Service Headquarters examined cash, investments, workers’ compensation, and unemployment compensation totaling over $1.6 billion. This audit disclosed that the Postal Service policies, accounting procedures, and internal controls complied with generally accepted accounting principles. (OIG FT-AR-01-003)

- The OIG reviewed travel and miscellaneous expenses for the Office of the Board of Governors and travel and representation expenses for Postal Service officers. The reviews determined expenses were properly supported, reasonable, and complied with Postal

What is a seven-day letter?

Although rarely used, under Section 5 of the Inspector General Act, the Inspector General must report to the Governors any serious or flagrant problems relating to the administration of Postal Service programs. Within seven calendar days, the Governors must transmit the letter to Congress.
Service policies and procedures and Board of Governors’ guidelines.
(OIG FT-AR-01-004 and OIG FT-AR-01-005)

**FY 2001 FINANCIAL INSTALLATION AUDITS**

The OIG successfully transitioned financial installation audit work from the Inspection Service and began its FY 2001 audit work in October 2000, as scheduled. In addition, the OIG contracted with four accounting firms to assist in conducting the financial installation audit work. The OIG completed financial transactions audits at seven Postal Service facilities and determined that transactions were reasonably and fairly represented in the accounting records, and that internal controls were in place and effective. (OIG FF-AR-01-002 through OIG FF-AR-01-008)

**FINANCIAL-RELATED REVIEWS**

Financial related audits examine areas that have significant financial implications and offer the Postal Service an opportunity to save resources. The OIG has taken a proactive approach to identify areas that offer potential cost savings and improve postal operations. In the past six months, the OIG has completed over ten financial-related audits and investigations. The most significant reviews and investigations are highlighted below:

**POSTAL SERVICE’S FY 2000 BUDGET FORMULATION PROCESS GENERALLY EFFECTIVE**

The Postal Service’s FY 2000 budget formulation process was generally effective in allocating funds for programs and operations for the six functional areas reviewed. However, budget allocations were not always based on current and complete analyses and may not have been sufficient to support the Postal Service’s strategic goals for reducing costs and increasing revenue. In addition, program budget officials did not have complete financial information to effectively evaluate and manage their programs. The lack of a comprehensive accrual accounting system and a cost accounting methodology prevented managers from effectively making informed decisions about the benefits of funding, delaying, or eliminating programs. The OIG recommended and management generally agreed to update and fully document studies, analyses, and program benefits; and evaluate the benefits of implementing accrual and cost accounting systems at the program level.

(OIG FT-AR-01-006)

**TORT CLAIMANT CONVICTED ON PERJURY CHARGES**

Based on a referral from the U.S. Attorney’s Office, Northern District of California, the OIG investigated a tort claimant who filed a $1 million lawsuit against the Postal Service. The claimant filed the lawsuit as a result of a car accident with a postal vehicle. Although the claimant’s car sustained less than $64 in property damage, the claimant later alleged physical and emotional trauma totaling $1 million as a result of the accident. However, the claimant failed to disclose a prior car accident occurring the month before, in which the claimant suffered extensive injuries. The claimant, who was arrested during the previous reporting period, was found guilty and is awaiting sentencing.

**OIG EFFORTS REDUCE CIVIL CLAIMS AGAINST POSTAL SERVICE BY OVER $2.8 MILLION**

- As a result of an OIG investigation, a $1 million federal tort claim was reduced to $45,000. An individual overstated the extent of injuries in a $1 million lawsuit claiming that a letter carrier’s mailbag caused the individual to trip, fall, and sustain severe and protracted personal injuries. The OIG investigation revealed that the subject’s claims were exaggerated.

- As a result of an OIG investigation, the federal district court for the Northern District of Illinois reduced a $1.5 million claim by more than $1 million. The investigation determined that a contracted truck driver, injured in the performance of Postal Service work, had exaggerated disabilities. The driver filed a $1.5 million tort claim against the Postal Service alleging permanent knee damage that would prohibit returning to work. However, the OIG investigation revealed that the subject owned, operated, and was actively working at a restaurant and bar. The awarded damages were reduced to $411,000.
An OIG investigation resulted in a $135,000 settlement in the case of a former postal employee who filed a $800,000 tort claim against the Postal Service. The subject claimed that the Postal Service failed to accommodate a disability while employed as a maintenance technician. The OIG investigation revealed that the disability was overstated and the subject was capable of operating with no visible limitations.

A $360,000 tort claim was reduced almost by half after an OIG investigation determined that a private citizen exaggerated injuries after being involved in an accident with a postal delivery truck. The subject claimed sustained lifestyle changing injuries. The OIG investigation determined that the subject overstated injuries and the damages were reduced to $175,000.

POSTAL SERVICE EMPLOYEE PLEADS GUILTY TO MISAPPROPRIATION OF POSTAL FUNDS

An OIG and Inspection Service joint investigation disclosed that a Postal Service tort claims coordinator fraudulently prepared, approved, and submitted vehicle accident claims. The embezzlement scheme resulted in 14 checks being fraudulently issued with the employee receiving almost $68,000. The employee has pled guilty and sentencing is pending.

REVIEW OF WITHHOLDINGS AND CONTRIBUTIONS FOR EMPLOYEE BENEFITS

The OIG assisted the United States Office of Personnel Management in a review of employee withholdings and employer contributions for health benefits, life insurance, and retirement, totaling almost $8 billion. The review did not identify any errors or differences that exceeded the materiality limits established by the Office of Personnel Management and the OIG made no recommendations regarding the sufficiency of the procedures.

(OIG FT-AR-01-001)

WEAKNESSES IN MANAGEMENT CONTROLS OVER STATISTICAL TESTS FOR FISCAL YEAR 2000 COST AND REVENUE ANALYSIS

The OIG issued a report on the adequacy of statistical tests used to validate costs and revenues supporting postal rates. The OIG identified minor test errors and weaknesses in management controls in 17 of the 33 districts reviewed. Incorrect data in Postal Service systems could affect postal rate decisions. The OIG recommended and Postal Service management agreed to reinforce policies and procedures related to marking sample items and coordinating test schedules; provide training in areas identified; and modify specific training topics. Postal Service management also agreed to coordinate with district officials to ensure that supervisors and employees provide accurate information to data collectors.

(OIG FF-AR-01-001)

SUBJECTS IN BID-RIGGING SCHEME SENTENCED

As a result of an OIG investigation, two subjects of a bid-rigging scheme involving violations of the Sherman Antitrust Act have pled guilty. The investigation revealed that the individuals conspired to defraud the Postal Service by rigging bids for various lots of books being auctioned at the Postal Service Mail Recovery Center auction in the San Francisco District. In this case, the subjects conspired not to bid against each other, resulting in the book lots being sold at the minimum bid price. The subjects were each sentenced to 2 months in prison, with 1 year supervised probation, and ordered to pay a fine of $20,000.

CONTRACTING AND FACILITIES REVIEWS

The Postal Service awards approximately $9 billion in contracts per year for essential goods and services, including facilities, transportation, mail processing equipment, and supplies. During FY 2000 purchases included over $592 million in noncompetitive contracts and $348 million in credit card purchases. The Postal Service is also one of America’s largest owners, developers, and managers of real estate, committing nearly $1 billion in FY 2000 for repair, renovation, and construction of new
facilities, and paying $780 million in rent.

The OIG is responsible for contract audits designed to assist Postal Service contracting officers in determining fair and reasonable contract prices, as well as providing them with reviews of contractor financial systems. In the past six months, the OIG conducted 38 reviews of contracting and facilities related issues with the assistance of a contract audit agency, which specializes in pre-award and post-award contract audits. Also, the OIG has many open criminal investigations targeting fraud and corruption in these areas. The most significant contracting and facilities reviews and investigations are highlighted below:

**CONTRACT AUDITS IDENTIFIED OVER $26 MILLION IN QUESTIONED COSTS**

In the past six months, the OIG completed 36 audits of contracts valued at over $227 million. These audits resulted in over $26 million in questioned and unsupported costs. These contract audits include: incurred cost audits that evaluate the reasonableness of costs incurred by contractors; proposal audits that evaluate the reasonableness of contractor cost estimates; defective pricing audits that are performed to determine whether contract prices significantly increased because of defective contractor pricing data; and contractor financial systems, such as accounting, estimating, and billing systems that are reviewed to determine their adequacy to account for contract costs. These audits, which are summarized in the graph in the margin, focused on whether contractors:

- Proposed and incurred costs were allowable and reasonable;
- Pricing data was accurate, complete, and current; and
- Accounting systems for allocating costs to the Postal Service were adequate.

In addition to raising questions about costs, the audits disclosed that a major contractor did not have an adequate accounting system. Inadequate accounting systems may affect accuracy of costs charged to Postal Service contracts. Following is a summary of five significant contract audits completed in the last six months:

- Audits of three contractor cost proposals valued at $139.1 million disclosed questioned and unsupported costs of $23.1 million. These proposals were for the following services: expanded capability for the delivery bar code sorter; an optical character reader/video coding system; and optional character readers for Flat Sorting Machine 1000. The OIG found that none of the three proposals were acceptable for negotiation because of the contractors’ inability to provide supporting documentation for some of the proposed costs. Postal Service contracting officers were still in the process of determining whether to withhold questioned costs identified by these audits. (OIG CA-CAR-01-002, OIG CA-CAR-01-013, and OIG CA-CAR-01-026)

- An audit of another contractor’s accounting system disclosed that the system was partially inadequate for reporting costs. The contractor provides delivery of Priority Mail. The report also identified that the contractor lacked formal written accounting policies and procedures, costs were not segregated by contract line item, and subcontract rate agreements and modifications were not maintained. The OIG recommended that the Postal Service contractor take corrective actions to address the issues identified and improve the reliability of the data. The Postal Service has not yet provided the OIG with adequate documentation that corrective actions have been implemented. (OIG CA-CAR-01-001)

- An audit of a contractor’s $24.5 million proposal for control system upgrade options for a small parcel bundle sorter questioned almost $1.3 million in costs. The audit determined the proposal was adequate as a basis for negotiating a fair and reasonable contract price. Postal Service contracting officers entered into negotiations with the contractor. (OIG CA-CAR-01-011)

**POSTAL CONTRACTOR RECEIVES ILLEGAL KICKBACK**

As the result of a joint OIG investigation
with other federal agencies, two former employees of a Postal Service contractor pled guilty to charges relating to conspiracy, receiving kickbacks, and tax evasion. The investigation disclosed that a contractor in the New York Metro Area conspired with its subcontractors to get kickbacks while performing work on various environmental and construction engineering projects for the Postal Service, the Department of Defense, and other government agencies. For approximately 5 years, the company's invoices to the Postal Service and other federal agencies were based on subcontractor invoices, which included approximately $800,000 in kickbacks remitted to a shell company created by a company manager. The Postal Service had an estimated $26 million in contracts with the contractor. In addition, the contractor's accountant pled guilty to filing false tax returns by failing to disclose $315,000 received by the client in the form of kickbacks and gratuities. Sentencing is pending.

FORMER POSTAL MANAGERS ORDERED TO REPAY OVER $3 MILLION

A joint investigation by the OIG, the Inspection Service, and the Internal Revenue Service disclosed that two former Postal Service managers, a married couple, devised a scheme to defraud the Postal Service of several million dollars. The postal employees conspired with the owner of two computer companies to submit fraudulent invoices to the Postal Service for computers and supplies not received. The employees then laundered the proceeds overseas. This investigation was reported in the September 30, 2000, Semiannual Report to Congress.

During this reporting period, the managers pled guilty and were sentenced to 71 months in prison, 3 years supervised probation, and over $31,000 in fines. The couple was also ordered to jointly make restitution of over $3 million. In addition, they were ordered to forfeit their residence, boat, jewelry, and other tangible property as well as their Postal Service pensions as payment toward the restitution amount. The computer company pled guilty and was ordered to pay almost $257,000 in restitution and a $10,000 fine. A criminal information was filed charging an accountant with aiding and assisting in the fraudulent activities of the postal managers. The accountant has pled guilty and is awaiting sentencing. As of March 31, 2001, the Postal Service has recovered over $1.2 million of the court-ordered restitution.

UNSAFE STRUCTURAL CONDITIONS RESULT IN RELOCATION OF POSTAL FACILITY

The OIG requested the Army Corps of Engineers to assess structural deficiencies at a renovated postal facility. The assessment indicated that the roof posed a potential safety risk and required immediate attention. It was determined that the roof could not support the design load and that any additional weight or stress brought onto the roof by snow, rain, or wind could result in failure of the roof system. As a result, management took immediate action to relocate the facility temporarily. The retail operation and the carriers have since returned to the facility. As of March 31, the carriers were able to use about 80 percent of the facility and repairs are continuing on the dock area. Negotiations are ongoing regarding the contractor's financial liability for costs associated with the relocation.

POSTAL MANAGER INDICTED FOR VEHICLE REPAIR SCAM

A former vehicle maintenance facility manager in the Northeast Area was indicted on embezzlement and conspiracy charges relating to having his family's vehicles repaired at Postal Service expense. The manager conspired with a repair contractor who inflated bills by $87,000 to cover the costs of repairs to the vehicles. The manager has been fired from the Postal Service and is awaiting trial and the contractor was given immunity for cooperating with the investigation.

POSTAL SERVICE COULD PAY MILLIONS MORE BECAUSE OF NONCOMPETITIVE CONTRACTS

An audit of the mail transport equipment service center project disclosed that the Postal Service could save almost $11 million by renegotiating a noncompetitive contract. In addition, the Postal Service may pay up to $42 million more than necessary on three contracts awarded noncompetitively to the same contractor.
OIG also found that the three noncompetitive contracts were initially awarded with undefined contract prices and terms, which potentially exposed the Postal Service to performance and cost risks. Additionally, a Postal Service manager improperly directed contractors to perform over $12.5 million of additional work that was not authorized. Postal Service management generally agreed with the OIG’s recommendations. (OIG CA-AR-01-001)

CONSTRUCTION CONTRACTS FRAUDULENTLY OBTAINED

The OIG, working with other federal and state agencies, investigated allegations that a contractor defrauded the Postal Service and other federal and state agencies, by fraudulently obtaining construction contracts valued at over $11 million under programs designed to give preferential treatment to small, minority-owned businesses. The contractor purported to own and operate a general construction company; however, the company was established as a pretext to commit fraud and was actually run out of an apartment.

The fraud scheme involved submitting fictitious contract documents in an effort to obtain government contracts. The total Postal Service contract amount was over $530,000. The subject brokered the contract to a non-minority company for approximately 12 percent less than the contract amount, resulting in a loss to the Postal Service of over $68,000. The company and its president defaulted on several contracts, causing a loss to the government of approximately $1 million. The company president pled guilty in New Jersey on behalf of himself and his company to charges of major fraud against the government and making false statements. The company president also pled guilty in New York to mail fraud charges. Sentencing is pending.

CONTRACTOR DEBARRED FOR SUBMITTING FALSE CLAIMS

A construction company executive pled guilty to submitting false claims for constructing a post office in the Mid-Atlantic Area. As part of a plea agreement, the company agreed to be debarred from doing business with the federal government for a period of 3 years. The plea agreement was the result of an OIG investigation that exposed multiple counts of false claims by the company. Sentencing is pending.

LEGISLATIVE AND REGULATORY REVIEWS

During this reporting period, the OIG identified the following legislation affecting Postal Service financial management.

ENACTED LEGISLATION

Public Law 106-554 - Consolidated Appropriations Act of 2001

Section 401 of the Miscellaneous Appropriations Act of 2001, incorporated by reference into the Consolidated Appropriations Act, adds a new Subparagraph (5) to Section 43-1552(b) of the District of Columbia Code requiring Inspectors General to analyze and report to Congress on each agency’s promptness of payment for water services to the District of Columbia. Similar language amending Section 43-1612(b) requires the same report for sewer services.

The Postal Service appears to be within the scope of this law. However, the Postal Service does not pay into the U.S. Treasury’s “Federal Payment for Water and Sewer Services” account. Bills from the District of Columbia Water and Sewer Authority are forwarded to the financial accounting center in San Mateo, California, for payment. In a letter to the District of Columbia Appropriation Committees and Subcommittees, the OIG informed Congress of this procedure and plans no further reporting on the matter.

PROPOSED LEGISLATION

S. 95 - Federal Energy Bank Act

This bill would promote energy conservation investments in federal facilities, including postal facilities. The legislation requires agencies at the beginning of fiscal years 2002, 2003, and 2004 to transfer to the Secretary of the Treasury five percent of the amount of their utility bill for the previous fiscal year. The money would be used for loans to agencies to assist in financing energy efficient projects.

This legislation would have an impact on Postal Service finances and could result in further postal rate increases.

Does the OIG employ in-house experts?

Yes. For example, the OIG has two statisticians, an economist, a cost benefit analyst and an activity-based cost analyst who provide expert support to OIG staff.
INSPECTION SERVICE

Within the financial management area, the Inspection Service performs various types of revenue investigations.

REVENUE INVESTIGATIONS

The Inspection Service conducts revenue investigations to help ensure that Postal Service revenue is properly assessed and collected. Priority is given to investigations of alleged schemes to avoid payment of postage and to identify, pursue, and seek prosecutive actions against violators through civil, administrative, and criminal remedies.

Postal Inspectors focus on revenue investigations where there is customer intent to defraud the Postal Service. In the last six months, there were 45 arrests and 33 successful criminal convictions resulting from revenue investigations.

Embezzlements may occur when employees steal money from cash drawers or in sophisticated kiting schemes involving postal money orders and through the falsification of financial records. Postal Inspectors initiated 187 employee embezzlement investigations this reporting period, which documented losses of over $2.2 million. Examples in this area are summarized below.

- A former postmaster in Maryland was sentenced to 18 months supervised release and community service for embezzling 150 postal money orders valued at over $58,000. The postmaster made full restitution to the Postal Service.

- A window clerk in Maryland was sentenced to 8 months in prison, 3 years supervised release, and ordered to pay full restitution of over $49,000 for embezzling postal stamp stock.

- A postal timekeeper in Connecticut was sentenced to 10 months imprisonment, 3 years supervised release, and ordered to pay over $34,000 in restitution for overstating time records and altering payroll records to receive compensation for hours not worked.
Technology Reviews

OFFICE OF INSPECTOR GENERAL
Developmental Reviews
Information Systems Reviews
eCommerce Reviews
Computer Intrusion Detection Activities
Legislative and Regulatory Reviews

INSPECTION SERVICE
eCommerce Activities
The OIG evaluated the Postal Service’s use of the Robotics Containerization System, which automates the dispatch of letters and flat tubs within mail processing facilities.

**OFFICE OF INSPECTOR GENERAL**

The Postal Service recognizes that technology, including electronic commerce, is key to productivity and affordability. Through technology, the Postal Service is able to handle more than 660 million pieces of mail every day and maintain its network of over 38,000 post offices and facilities. Its technology strategy is to provide convenient access to all customers on a daily basis through increasingly sophisticated retail systems, expansion in new electronic access channels, and electronic linkages that integrate customer and postal processes. In addition, the Postal Service is using modern technology, such as NetPost Mailing Online, NetPost Cardstore, and eBillPay. These initiatives will improve and build on its existing services and relationships with customers and continue meeting traditional customer demands.

OIG reviews have covered developmental systems, information systems, electronic commerce, and computer intrusion detection activities. In the past six months, the OIG performed 18 reviews and investigations in the technology area, some of which are highlighted below.

**DEVELOPMENTAL REVIEWS**

The Postal Service is developing business systems and mail processing equipment to improve performance, enhance service, and reduce operating costs. The typical development process begins with the identification of a business need. After the business need has been identified, a solution is developed which is followed by the proof of concept test, and first article test and final deployment. The OIG recognizes the importance of reviewing these systems as they are developed and has completed four audits of major projects currently under development during the reporting period. These reviews are highlighted below:

**ROBOTICS CONTAINERIZATION SYSTEM WORK HOUR SAVINGS QUESTIONABLE**

The Robotics Containerization System automates the dispatch of letter trays and flat tubs within the mail processing facilities. The OIG audit of the system disclosed that the total work hour savings of $346.6 million, as forecasted by Postal Service management, would only be realized if planned staffing levels are achieved. Work hour savings were based on the assumption that one person would be required to operate a robotic system. However, during testing, between four and eight persons were used to operate one system. The audit also disclosed that the system could only process 10 trays of mail per minute instead of the 15 as forecasted. Finally, the audit identified an additional $4.1 million needed for repair parts and maintenance training that had not been included in the project justification. The OIG recommended changes to the program and management agreed to address the issues identified. (OIG DA-AR-01-002)

**COMPUTER CONTROLS OVER ROBOTICS CONTAINERIZATION SYSTEM SHOULD BE REVISED**

An OIG audit found that computer access controls over the Robotics Containerization System did not comply with Postal Service policy that requires, “data and information handled by computer equipment and associated telecommunication equipment systems to be properly safeguarded.” The audit identified concerns with the length, format, and apparent sharing of logon identifications and passwords. These concerns could impact the ability to identify, report, and assign accountability for potential compromises of system integrity. The OIG suggested computer access controls over the Robotics Containerization System be revised to meet Postal Service policy and that statements of work include standards for access...
control. Postal Service management agreed with OIG’s suggestions. (OIG DA-MA-01-001)

**DELIVERY OPERATIONS INFORMATION SYSTEM DID NOT ADDRESS BUSINESS GOALS**

The OIG conducted an audit to evaluate the deployment of the Delivery Operations Information System. The System is a management tool intended to help delivery unit supervisors manage mail carriers’ workload. The audit disclosed that the system did not fully address emerging business goals in support of the Postal Service Information Platform. The OIG also found conditions that affected the ability of the System to provide accurate, timely, and useful information. Postal Service management agreed with OIG’s recommendations. (OIG DA-AR-01-003)

**CONSOLIDATION OF SAN MATEO ACCOUNTING SERVICE AND DATA CENTER WOULD PRODUCE SAVINGS**

The OIG evaluated the potential benefits, costs, and operational issues relating to the potential consolidation of the Postal Service’s Information Service Centers. The Postal Service had estimated that consolidating the San Mateo data center operations with other Information Service Centers located in Eagan, Minnesota; St. Louis, Missouri; and Wilkes-Barre, Pennsylvania, could produce approximately $78 million of savings in staffing, utilities, maintenance, and contractor systems software support. These savings include approximately $49 million from the sale of the San Mateo facility.

However, the OIG found that the projected $78 million in savings understated the cost of leasing space for the remaining San Mateo accounting service center personnel by $4–8 million. Despite this underestimation, the Postal Service would still realize savings and a positive cash flow from the consolidation. The Postal Service has updated the cash flow analysis and disclosed that the consolidation could impact workforce diversity and has planned or taken corrective actions to address OIG’s recommendations. (OIG DA-AR-01-001)

**INFORMATION SYSTEMS REVIEWS**

The Postal Service relies on a massive computer infrastructure to accomplish and streamline operations, manage one of the largest civilian workforces in the world, and move billions of pieces of mail each year. The Postal Service has initiated several information technology projects to enhance efficiency and increase revenue. However, computer security overall needs to be improved and maintained to reduce the risk of fraud, inappropriate disclosure of sensitive data, unauthorized disclosure of customer information, and disruption of critical operations and services. The OIG has initiated a postalwide telecommunications review and an annual assessment of general controls at major processing centers. The most significant reviews are highlighted below:

**NETWORK VULNERABILITIES IDENTIFIED**

The OIG issued four technical reports on the results of vulnerability tests of selected networks within the Postal Service’s network infrastructure. The OIG noted various weaknesses in the server systems that required remedial action to reduce security risks. As requested by Postal Service managers, OIG categorized the risks into high, medium, and low vulnerabilities to help management focus its resources for corrective action.

The reports give the results of tests run against four networks covering more than 140 servers at one location. The reports contain a CD-ROM with detailed information on the vulnerabilities identified for each server, and the potential impacts if the security exposures are exploited. The reports will assist managers and system administrators in locating weaknesses, establishing priorities for corrective action, making immediate repairs, and evaluating the completeness of baseline security models for the selected servers. Postal Service management plans to use this information to strengthen network security. (OIG IS-CS-01-001 through OIG IS-CS-01-004)
WEAKNESSES IDENTIFIED IN GENERAL CONTROLS OVER INFORMATION SYSTEMS

The OIG audited the adequacy of general controls over financial systems and included information system security and software at the Eagan, Minnesota; San Mateo, California; and St. Louis, Missouri, Information Technology and Accounting Service Centers. General controls, such as passwords, detect and prevent unauthorized or inaccurate transactions in financial systems and help ensure the reliability of financial data and reports. The audit revealed that controls over software and data security at these sites were generally adequate. However, controls over local area network, mainframe security, and change control procedures needed improvement. Postal Service management agreed with the recommendations and provided a summary of initiatives that are planned, in progress, or completed to address these issues. (OIG FT-AR-01-002)

eCOMMERCE REVIEWS

The Postal Service continues to provide customers with new online products and services to enhance customers’ personal and business lives. Some of the newer services available through the website, www.usps.com, include NetPost Mailing Online,™ NetPost™ Cardstore, The Postal Store,™ and eBillPay.™ In addition, the Postal Service continues to improve the performance and usability of its web presence to ensure secure access and the protection of customer privacy. The Postal Service has recently appointed a Chief Privacy Officer and a Manager, Information Security, to help focus Postal Service management’s efforts in these important areas.

The OIG is committed to helping the Postal Service meet the eCommerce challenge. OIG efforts during this period focused on eCommerce architecture, customer privacy, and ensuring the Postal Service enters into sound strategic eCommerce agreements. OIG comments are highlighted below:

eCOMMERCE AUDITS

One of the main concerns faced by eCommerce companies today is the preservation of personal privacy and the continued availability of Internet services. The OIG conducted two audits focusing on security and privacy and reported concerns involving the protection of information and disaster recovery. In one audit, OIG recommended updating the pre-implementation security review process and establishing minimum requirements for the collection, use, and disclosure of information gathered via the Internet. In another audit, OIG recommended improvements to backup and recovery procedures to restore functionality in emergencies. Postal Service management agreed with OIG’s recommendations and has implemented or plans to implement procedures and controls to address the issues identified in the reports. (OIG EC-AR-01-001 and OIG EC-AR-01-002)

OIG PROVIDES INPUT ON INTERNET PRIVACY POLICY

Working with the Postal Service’s Chief Privacy Officer, the OIG commented on the Postal Service’s Web Privacy Commitment Statement. The OIG recommended expansion of the privacy policy in the areas of information disclosure, collection, and data retention. The OIG also suggested changes to the policy that would clarify the customer information that would be collected, how it would be collected, and what would be done with the information that was collected. Postal Service management generally agreed with the comments and is in the process of updating its privacy statement.

DID YOU KNOW?

What is Voice Over Internet Protocol capability?

Voice Over Internet Protocol allows the OIG to transmit voice communications over its data network, reducing telecommunications costs.
COMPUTER INTRUSION DETECTION ACTIVITIES

The OIG Computer Intrusion Team investigates criminal violations of laws enacted to protect the authenticity, privacy, integrity, and availability of electronically stored and transmitted information. Rapidly expanding eCommerce ventures make the protection of postal information systems critical to the financial viability of the Postal Service. Because such ventures involve connectivity between postal systems and eCommerce partners, the Computer Intrusion Team conducts investigations of attacks upon the security of those systems in order to maintain the integrity of eCommerce information.

The team proactively informs Postal Service management and eCommerce partners regarding emerging threats to information systems, and assists them in identifying and eliminating potential vulnerabilities. These efforts include assisting the Postal Service in developing security policies, information systems, and eCommerce procedures that conform to the best practices in industry and government. The most significant activities are highlighted below:

OIG PARTICIPATES IN SEARCH WARRANT RELATED TO ELECTRONIC CRIMES

The OIG participated in the execution of a search warrant in a joint investigation involving the theft and fraudulent use of an Internet provider's personal identification numbers. Task force members included several California state law enforcement agencies, the OIG, the Federal Bureau of Investigation, the Internal Revenue Service, and the United States Secret Service. The investigation is ongoing.

OIG TESTS SECURITY OF POSTAL ELECTRONIC INFRASTRUCTURE

The OIG continued testing postal information systems to identify weaknesses that cyber criminals can exploit to impair the authenticity, privacy, integrity, and availability of electronically stored and transmitted information. When security holes are discovered, the OIG investigates to determine whether the vulnerabilities have been exploited and may refer such intrusions for criminal prosecution. The OIG provides timely information to Postal Service management so that it can eliminate vulnerabilities and mitigate risks to the Postal Service's and customers' sensitive information. During this six month period, OIG completed tests of eight postal computer facilities.

MEMBER OF A NOTORIOUS HACKER GROUP CONVICTED AND SENTENCED

A member of a notorious hacker group pled guilty under Texas law to six charges of breach of computer security and one charge of aggravated theft for hacking into websites operated by the OIG, Canadian Department of National Defense, State of Texas, and a corporation. The OIG initiated and directed this international multi-agency, criminal investigation into the online activities of the “High Voltage 2000” hacking group. This group compromised and defaced more than 60 websites between September 1999 and January 2000. The OIG coordinated and led the activities of various Canadian and American law enforcement agencies, including the Royal Canadian Mounted Police, Canadian Defense Forces National Investigative Service, Texas Department of Public Safety, and Army Criminal Investigations Division.

The hacker received a 2-year suspended sentence for each charge of breach of computer security and a 10-year suspended sentence for the aggravated theft charge. In addition, the hacker was placed on 2 years probation and ordered to pay $45,000 in damages to the victims. After the hacker was subsequently arrested on an unrelated drug charge and brought back before the same Texas court, probation was revoked and the hacker was ordered to serve 2 years in jail for probation violations related to the breach of computer security and aggravated theft charges, and to serve 5 years probation upon release from prison. The hacker subsequently pled guilty to two additional breach of computer security charges and was sentenced to an additional 30 days in jail and fined.

OIG PROPOSES COMPUTER SECURITY CLAUSES

The OIG proposed developing and including standard clauses in Postal Service contracts and agreements with its eCommerce business.
partners. These clauses would address standard requirements regarding computer security, Privacy Act compliance, and access to contractor records, computers, and facilities by the Postal Service and the OIG. The Postal Service's recent eCommerce agreements have not adequately addressed these issues or contained the standard clauses found in the Postal Service’s procurement manual. The Postal Service agreed with the OIG's concerns and continues to refine the agreement language.

**OIG ASSISTS POSTAL SERVICE IN STRENGTHENING eCommerce INFRASTRUCTURE**

The OIG assisted Postal Service Information Technology management in:

- Developing a Computer Incident Response Team to be a first-responder for suspected computer intrusions. The team will perform initial assessments of suspected computer intrusions and will notify the OIG of unauthorized intrusions in Postal Service systems.
- Revising the Postal Service computer security policy to ensure that the operations and the integrity of eCommerce remain protected in the cyber crime environment.

**OIG CRIMINAL INVESTIGATOR ASSIGNED TO NATIONAL CYBERCRIMES CENTER**

The OIG assigned a criminal investigator to the FBI’s National Infrastructure Protection Center to keep abreast of trends in cyber crime and emergent cyber threats. The Center was established by the President in 1998 to serve as the federal government’s focal point for threat assessment, warning, investigation, and response for threats or attacks against America’s critical infrastructure. OIG participation in the Center will further assist the OIG in protecting postal computer systems from criminal attacks.

**LEGISLATIVE AND REGULATORY REVIEWS**

During this reporting period, the OIG identified the following legislation affecting Postal Service information technology.

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**DID YOU KNOW?**

Does the OIG use a backup and recovery system for its laptop computers?

Yes. This technology allows employees to restore any files that may have accidentally been deleted from their hard drive up to 90 days ago. In addition, if an employee's system crashes, or gets damaged, lost, or stolen, the complete system can be recovered without losing any data.

**ENACTED LEGISLATION**

**Public Law 106-398 - Government Information Security Reform Act**

The Government Information Security Reform Act, enacted on November 30, 2000, provides a framework for ensuring the security of federal information systems. It did so by amending the Paperwork Reduction Act of 1995, which is not specifically applicable to the Postal Service. The Act requires the Postal Service to report to Congress on its information security policies. However, the Postal Service is not governed by other provisions of the Act.
**INSPECTION SERVICE**

The Inspection Service plays an important role in the support of Postal Service eCommerce initiatives and technical applications. The Inspection Service evaluates the need for and processes security clearances of employees and contractors accessing postal systems or sensitive information. The Inspection Service also monitors and reviews the physical security of individual systems before and after implementation.

**eCOMMERCE ACTIVITIES**

The Inspection Service monitors the development of new postal electronic products and services and consults with Postal Service managers on the capabilities for security, loss prevention, revenue protection, and data retention. The Inspection Service has developed and conducted training on computer crimes, particularly those involving the Internet, and provides program management and guidance to field divisions conducting online investigations.

The Inspection Service continues to review security clearance requirements for all Postal Service new electronic products, including: eBillPay,™ NetPost,™ Mailing Online,™ and NetPost Certified,™ and enterprise public key infrastructure. The Inspection Service is evaluating the risks associated with contractor employees having access to sensitive customer information and the appropriate security clearance for those individuals.

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**DID YOU KNOW...**

On average, each household and business receives 1,500 pieces of mail annually.
Labor Management Reviews

OFFICE OF INSPECTOR GENERAL
- Violence in the Workplace Reviews
- Workplace Environment Reviews
- Human Resource Process Reviews
- Health Care Reviews
- Legislative and Regulatory Reviews

INSPECTION SERVICE
- Workplace Safety Investigations
- Postal Robbery Investigations
- Drugs in the Workplace Investigations
- Workers’ Compensation Investigations
OFFICE OF INSPECTOR GENERAL

The Postal Service has characterized labor management as one of the most important challenges in achieving its goals in the 21st century. To operate effectively in a rapidly changing environment, the Postal Service recognizes the need to give employee issues a higher priority and enhance each employee's contribution to organizational performance. The OIG supports the Postal Service in its overall goal of fostering an inclusive and welcoming workplace consistent with the Postal Service values of fairness, opportunity, safety, and security. The labor management area includes issues involving workplace violence, workplace environment, human resource processes, and health care.

While the OIG has worked diligently and closely with the Postal Service and Congress to address these issues, reviewing labor management areas continues to be one of the OIG's greatest challenges. The OIG has received over 3,100 individual labor management complaints since 1997. During this reporting period, the OIG conducted 79 reviews and investigations in the labor management area.

VIOLENCE IN THE WORKPLACE REVIEWS

Recognizing that workplace stress continues to be an issue and comprehensive steps are needed to improve the work environment, both the OIG and the Postal Service are dedicated to preventing violence and consider early intervention and cooperation with management and employee groups essential. During this reporting period, the OIG completed 19 reviews of workplace violence issues, which are highlighted below:

OIG REVIEWS OF VIOLENCE PREVENTION PROGRAMS IDENTIFY NEED FOR IMPROVEMENT

OIG reviews of Postal Service's violence prevention program in 19 postal districts disclosed that management generally followed the Postal Service's Threat Assessment Team Guide; however, some controls designed to prevent violence had not been fully implemented. Specifically, these reviews disclosed that although all 19 districts established threat assessment teams, the districts did not proactively monitor and evaluate climate indicators and mandate violence awareness training. In addition, some districts did not conduct the required physical security reviews, measure team performance, and fully engage in case management. The OIG recommended and Postal Service management agreed to improve controls to prevent violence.

(OIG LB-AR-01-001 through OIG LB-AR-01-012; OIG LB-AR-01-015 and OIG LB-AR-01-016; OIG LC-AR-01-001 through OIG LC-AR-01-003; OIG LC-AR-01-005 and OIG LC-AR-01-006)

WORKPLACE ENVIRONMENT REVIEWS

The Postal Service believes that signs of workplace stress are present and that comprehensive steps are needed to improve the workplace environment, including aligning human resources with business requirements. In addition, the Postal Service became subject to the monetary penalties of the Occupational Safety and Health Act in September 1998. To assist the Postal Service in this area, the OIG conducted five reviews of workplace environment, three of which are highlighted below:

MANAGERS NOT HELD ACCOUNTABLE FOR SAFETY VIOLATIONS

An OIG review found that local Postal Service management did not promptly cease operations of unsafe mail processing equipment or warn employees of safety hazards. As a result, employees were exposed to potential hazards.
including electrical shock and fire. In addition, the OIG found that managers responsible for the unsafe operation were not held accountable for their actions. Postal Service management did not agree with our findings but stated they would discipline some of the managers and issue a directive to all districts reemphasizing the importance of complying with Postal Service safety policies. (OIG LB-AR-01-014)

**SAFETY AND HEALTH INSPECTIONS IN THE PACIFIC AREA NEED IMPROVEMENT**

An OIG audit found that Postal Service officials did not conduct all required safety inspections at postal facilities in the Pacific Area. The lack of safety and health inspections could put the Postal Service at risk for fines and penalties by the Occupational Safety and Health Administration and expose employees to possible injury and sickness. The OIG recommended and Postal Service management agreed to conduct necessary inspections, and establish a system to track when inspections are needed and ensure they are completed. (OIG LC-AR-01-004)

**ALLEGATIONS OF A HOSTILE WORK ENVIRONMENT CONFIRMED**

An OIG review confirmed contentious labor management relations at a post office in the Mid-Atlantic Area. Additionally, the review found that district officials were aware of the long-standing labor management problems; however, past approaches to resolve these issues were unsuccessful. The OIG recommended and Postal Service management agreed to develop a plan to improve the work environment at the post office. (OIG LB-MA-01-001)

**HUMAN RESOURCE PROCESS REVIEWS**

Postal Service managers are responsible for preserving and protecting official records and privacy information. In addition, managers must avoid conflicts of interest, which could affect both the public’s trust and confidence in human resource processes. The OIG conducted the following audits to assess controls over these processes:

**DEFICIENCIES FOUND IN EQUAL EMPLOYMENT OPPORTUNITY SETTLEMENT PROCESS**

An OIG review found that a former Postal Service executive settled an equal employment opportunity complaint filed against that executive, and authorized a $52,000 payment to the individual who filed the complaint. The OIG recommended that current policy be changed to require a higher-level review of Equal Employment Opportunity complaint settlements involving executives. Postal Service management agreed to take appropriate corrective action. (OIG LB-AR-01-013)

**ABANDONED PERSONNEL RECORDS FOUND**

An OIG audit found records, which were subject to the Privacy Act, abandoned on unused floors at a Southwest Area postal facility. These records included Equal Employment Opportunity complaints, payroll, recruiting, and workers compensation files. In response to OIG concerns that the records were not safeguarded, Postal Service officials directed custodians to remove and properly store active records and dispose of inactive files. (OIG LB-LA-01-001)

**HEALTH CARE REVIEWS**

In FY 2000, the Postal Service paid over $670 million for employee injury claims, a $90 million increase over the $580 million paid in FY 1999. Controlling injury claims costs continues to be a key to the Postal Service’s financial well being because the Postal Service is self-insured for workers’ compensation costs and makes payments out of operating funds, which directly affects the Postal Service’s net income.

The OIG assists in protecting the health and welfare of the Postal Service’s workforce by conducting audits and investigations to prevent and detect fraud, waste, abuse, and mismanagement related to Postal Service health care program costs. As part of its investigative program, the OIG has initiated proactive projects to identify improper billing practices, such as false claims and false statements by health care providers. During this reporting period, OIG health care fraud investigations have resulted in 22 arrests, 19 indictments, and 9 convictions.
Some activities are highlighted below:

- A two-year undercover multi-agency investigation resulted in 11 arrests and indictments for violations related to health care fraud. The investigation identified medical providers who routinely submitted claims for services not rendered, inflated fees to maximize insurance reimbursements regardless of medical necessity, and misrepresented services rendered through widespread billing manipulation, including workers’ compensation fraud.

- As a result of a task-force investigation, five individuals were arrested since the last reporting period for violations related to health care fraud. Two individuals, who were indicted, allegedly fabricated or stole employee health insurance information from the Postal Service to generate and submit fraudulent medical claims. These claims resulted in fraudulent payments to the individuals of $20 million.

- An unqualified individual who billed for psychotherapy services provided to a Postal Service employee agreed to pay restitution in a pre-trial diversion agreement. To qualify for payment workers’ compensation psychotherapy services must be performed or supervised by a psychiatrist. A joint agency investigation found that the individual, who was not a psychiatrist, fraudulently billed for the services as if they were provided or supervised by a psychiatrist when they actually were not. Of the $125,000 restitution paid almost $29,000 was returned to the Postal Service.

- The OIG participated in a joint investigation involving the diversion of rejected or substandard pharmaceuticals to health care providers. The investigation resulted in five arrests and four indictments during the reporting period. The investigation disclosed that pharmaceuticals, which were rejected after failing quality control tests, were stolen from their place of manufacture and sold to a suspected drug trafficker. The trafficker resold the pharmaceuticals to pharmacies and other health care providers used by Postal Service employees.

### LEGISLATIVE AND REGULATORY REVIEWS

During this reporting period, the OIG identified the following legislation affecting Postal Service labor management.

### PROPOSED LEGISLATION

**H.R.135** — A bill to require that the same transit pass transportation fringe benefits that are currently being offered to certain executive branch employees in the National Capital Region be extended to other federal employees, including Postal Service employees

This legislation would create a local travel benefit subsidy, not to exceed $65 monthly, for Postal Service employees in the Washington Metropolitan area. This benefit was extended last year to nearly every federal employee in the region by executive order. This legislation would have an impact on the Postal Service’s finances and the additional costs could result in further postal rate increases.

**H.R. 250 (companion bill: S.177)** — Postmasters Fairness and Rights Act of 2001

This bill would amend provisions of Title 39, United States Code, relating to the manner in which pay policies, schedules, and fringe benefit programs for postmasters are established. The legislation would require the Postal Service to propose changes in pay policies, schedules, and fringe benefit programs for postmasters within 45 days of the date on which a collective bargaining agreement is made with the largest postal union. The bill provides for binding arbitration if the postmasters and the Postal Service are unable to reach agreement.

The bill also defines “postmaster” and “postmasters’ organization” and gives the postmasters’ organization the right to participate in the planning and development of pay policies and schedules, fringe benefit programs, and other programs relating to supervisory and other managerial employees. This legislation would have an impact on Postal Service negotiations with management associations.

**DID YOU KNOW?**

Who controls the OIG’s documents and information?
The OIG controls its own records. Requests for information pertaining to OIG documents and information go directly to the OIG.
H.R. 1049 — A bill to amend Chapter 89 of Title 5, United States Code, to make available to federal employees the option of obtaining health benefits coverage for dependent parents

This bill will establish a third enrollment category for federal employees participating in the federal health benefit plan—that of “self and extended family.” It defines extended family to include a dependent parent of the enrolled employee.

Under the Postal Reorganization Act, Congress gave the Postal Service broad authority to set employee compensation and terms of employment. Most laws dealing with federal employees do not apply to the Postal Service. However, by statute, Postal Service employees are covered under the federal health benefit programs. The Postal Service pays a higher portion of the premiums than other federal agencies because of its collective bargaining agreements with the employee unions.

Adding dependent parents to postal employees’ health plans may result in higher premiums. Health insurance premiums are an expense to the Postal Service, and are higher than in other federal agencies. This legislation would have an impact on Postal Service finances and could result in further postal rate increases.

**FINAL REGULATIONS**

**Occupational Injury and Illness Recording and Reporting Requirements Final Rule, Department of Labor, Occupational Health and Safety Administration, Federal Register, January 19, 2001**

This rule revises the procedure for recording and reporting occupational injuries and illnesses, including the forms employers use to record those injuries and illnesses. The objectives of the rule are to produce more useful records, collect better information, simplify the recordkeeping process, make better use of technology, and to promote employee awareness and involvement in occupational safety.

Implementing a new reporting system throughout the Postal Service could increase costs. However, if the efficiencies anticipated by the rule are realized, any initial implementation costs for the Postal Service could be later offset by savings in the record-keeping process. Implementation of this rule was postponed pending completion of a presidentially mandated review. The OIG will continue to monitor this rule and will take appropriate steps to follow implementation of the rule if it goes into effect on January 1, 2002.

**Ergonomics Program Standard, Final Rule, Occupational Safety and Health Administration, Federal Register, November 14, 2000, Repealed by Public Law 107-5**

Congress recently voted to repeal new workplace ergonomics regulations issued by the Occupational Safety and Health Administration. Issued at the close of the Clinton Administration and set to take effect in October 2001, the new regulations would have required employers to design workplace routines to guard against repetitive motion injuries, such as carpal tunnel syndrome. The Occupational Safety and Health Administration estimated compliance costs to be $4.5 billion nationally, but that figure was widely contested. The Postal Service estimated that implementing the rules might have cost over $3.4 billion in the first year and $1.5 billion per year thereafter. While the Occupational Safety and Health Administration is not precluded from issuing new regulations on this matter, it may not re-issue the same regulations as those that were repealed. The OIG will continue to monitor further developments with this issue.

**Standards for Privacy of Individually Identifiable Health Information, Final Rule, Department of Health and Human Services, Federal Register, December 28, 2000**

This rule sets forth standards to protect the privacy of an individual’s medical records, outlines procedures for accessing these records, and delineates the authorized uses and disclosures of such information. Because it targets only health care providers, health plans, and their administrative contractors, the rule would not apply to the Postal Service. However, it may have an impact on OIG operations. For example, the rule specifically states that it shall not be construed to limit the authority of any Inspector
General, but there is a concern that the exception language is not sufficiently clear. This, when read in conjunction with other restrictive provisions of the rule, could lead health care providers to refuse OIG access to an individual's medical records. The OIG will continue to monitor further developments on this rule.
INSPECTION SERVICE

The Inspection Service reviews a number of labor management relations areas, including workplace safety, postal robberies, drugs in the workplace, and workers’ compensation investigations involving individual Postal Service employees.

WORKPLACE SAFETY INVESTIGATIONS

The Inspection Service is committed to employee safety in the workplace, and partners with Postal Service management and employee groups in early interventions and other efforts to prevent violence in the workplace. There were 190 arrests and 148 convictions for assaults and threats in this reporting period. Examples of significant investigations follow:

◆ An individual was sentenced to 14 years and 6 months in prison for the shooting of a city carrier. The individual was also ordered to pay restitution to the Postal Service over $261,000 to cover the cost of the employee’s medical expenses.

◆ An individual was sentenced to 10 months in prison for the attempted abduction and sexual assault of a city letter carrier. At the time of this assault, the individual was on probation for a prior abduction and assault conviction.

POSTAL ROBBERY INVESTIGATIONS

The Inspection Service regards the prevention of robberies as one of its highest organizational priorities and affords task force attention to facility, letter carrier, and other postal robberies to deter these attacks on employees. Letter carrier robberies are generally committed for the purpose of stealing mail and postal keys to mail receptacles while robberies of facilities are committed for cash and money orders. The total number of robberies this six month period is down compared to the same period last year. There have been 45 arrests and 41 convictions this reporting period related to robberies compared to 32 and 55, respectively, for the same period last year. An example of an investigation follows:

◆ In November 2000, an individual was sentenced in a North Carolina courtroom to a Federal prison term of 272 months followed by 5 years supervised probation for his role in the 1999 armed robbery of a postal employee. A co-defendant was previously sentenced to a term of 141 months in prison.

DRUGS IN THE WORKPLACE INVESTIGATIONS

Postal Inspectors investigate the possession, personal use, and sale of narcotics by Postal Service employees or others while on postal property. Information regarding the possession or personal use of illegal drugs by postal employees is referred through Postal Service management to the Employee Assistance Program for attention. In the last six months, Postal Inspectors arrested 32 individuals for the sale of drugs on postal property.

◆ In January, a part time flexible postal carrier in Illinois was sentenced to two years and six months probation, with fines and restitution in the amount of $620 for possession of cocaine with the intent to deliver. The carrier sold drugs while in uniform and on official duty.

◆ Working with U.S. Customs Service agents, Postal Inspectors intercepted an Express Mail parcel shipped from Columbia to Connecticut. The parcel was found to contain one pound and ten ounces of cocaine. The parcel was delivered and a federal search and arrest warrant executed. A loaded handgun was found in the individual’s residence. In January, an indictment was returned charging the individual with importation of cocaine, attempted possession of cocaine with intent to distribute and possession of a firearm as a prohibited person. Each of the drug charges carries a mandatory minimum 5 year prison sentence and the firearm charge carries a 10 year prison sentence.

◆ Postal Inspectors arrested a Bulk Mail Center mail handler, who was charged with possession and delivery of marijuana while on duty at the local Bulk Mail Center.

WORKERS’ COMPENSATION INVESTIGATIONS

The Inspection Service assists the OIG by

DID YOU KNOW...

Walt Disney was a substitute carrier and former presidents Abraham Lincoln and Harry S. Truman were postmasters.
investigating fraudulent claims and receipt of workers’ compensation benefits by individual employees. Unlike other federal agencies, these claims are paid from postal revenues, thereby affecting the Postal Service’s net income. Prosecution of workers’ compensation fraud serves as a deterrent and prevents future benefit payments from being made to violators. Normally, prosecution is based on showing that the allegedly disabled claimant is receiving outside earnings and failing to report them to the Department of Labor.

Inspection Service investigations resulted in over $53 million in long-term and continuation-of-pay cost savings for this reporting period, compared to over $66 million for the same period last year. In the last six months, 15 individuals were arrested for workers’ compensation fraud.

◆ A former Ohio mail handler was sentenced in February to one year in prison and three months probation for failure to report income and misrepresenting a physical condition while receiving workers’ compensation benefits. The former employee received these benefits for 31 years. The investigation revealed that the former employee had worked as a restaurant manager and was being paid “under the table.” As a result of the investigation, the Postal Service realized over $347,000 in future cost savings.

◆ In March, a former Georgia carrier was sentenced to six months in prison, three years and two months home detention, and a $200 penalty assessment. The former carrier had been on the periodic rolls since 1994 for a traumatic left wrist injury and a subsequent claim in 1995 for carpal tunnel to the right wrist. The Department of Health and Human Services partnered with the Inspection Service because this individual also received social security disability benefits for the alleged injuries. The investigation resulted in court ordered restitution of over $45,000 and the Postal Service realized over $841,000 in future cost savings.

To whom does the OIG report information?
The OIG is required by law to keep the Governors and Congress fully and currently informed. The OIG also reports its findings and issues to postal management so that they can take appropriate and timely action to improve the efficiency and effectiveness of postal programs and operations.
Oversight of the Inspection Service

OFFICE OF INSPECTOR GENERAL

Oversight Reviews
Legislative and Regulatory Reviews
One of the primary reasons the OIG was established within the Postal Service was to provide oversight of all Inspection Service activities. The Inspector General Act as amended provides for the OIG to conduct, supervise, coordinate, and provide policy direction for investigations, including those of the Inspection Service, relating to the programs and operations of the Postal Service.

In addition, the 1996 amendment of the Inspector General Act provided specific “oversight responsibility for all activities of the Postal Inspection Service, including any internal investigations performed by the Postal Inspection Service.” This additional authority means that any and all activities of the Postal Inspection Service are subject to the OIG’s scrutiny and review, except as it may be limited by the Governors, for specified reasons and with notification to Congress.

The OIG’s oversight efforts provide an independent voice with objective information and analyses of Inspection Service operations and issues. In addition, the OIG keeps the Governors, Congress, and postal stakeholders fully informed of Postal Service law enforcement efforts to detect and prevent fraud, waste, abuse, and mismanagement, by reporting the activities of the OIG and the Inspection Service.

Finally, the OIG works with the Inspection Service to ensure that all relevant Inspection Service statistics are accurate, complete and included in OIG publications such as the Semiannual Report to Congress and the President’s Council on Integrity and Efficiency’s Annual Report to the President. The OIG indicates which organization is responsible for the statistics so that each organization receives appropriate credit. The OIG believes it is important to include both organizations’ statistics because some Inspection Service activities involve fraud, waste, and abuse.

The Inspection Service has 4,300 employees including 2,000 Postal Inspectors who are criminal investigators, and 1,400 Postal Police Officers. The Inspection Service also operates five forensic science laboratories. The agency’s annual budget for FY 2001 is $465 million, including salary and benefits and nonpersonnel expenses. During this reporting period, the Inspection Service reported 6,379 arrests and over $407 million in fines and restitutions.

OVERSIGHT REVIEWS

As a law enforcement agency, it is essential that the Inspection Service be held to the highest standards of conduct to maintain the public’s trust and the Postal Service’s reputation of reliability. During the last six months, the OIG focused on security issues impacting the Postal Service, the appropriate use of Postal Police Officers, and the international travel and overseas assignments of Postal Inspectors. During this reporting period, the OIG completed 19 oversight reviews, as well as numerous monitoring actions, some of which are highlighted below:

**ENHANCED SECURITY BADGE CONTROLS NEEDED**

An OIG review determined that building access controls at Postal Service Headquarters could be improved. Specifically, Postal Police Officers did not request photo identifications from all personnel with temporary badges entering the Headquarters building because Inspection Service management required only spot checks of photo identifications. As a result, there was an increased risk that unauthorized personnel may have been admitted into Postal Service Headquarters. Inspection Service management agreed with our observations and stated that they would work with Postal Service management to ensure that photo identifications would be reviewed for all persons holding temporary nonphoto badges during the modification of existing systems and the implementation of new security systems at field locations.

(OIG OV-LA-01-001)
FULL COST SHOULD BE RECOVERED FOR POSTAL POLICE OFFICERS USED ON CONSTRUCTION PROJECT

Postal Police Officers were used for traffic and pedestrian control on postal property impacted by the Massachusetts Highway Department's Central Artery/Tunnel construction project. The OIG review found that Postal Service and Inspection Service officials acted within the scope of their authority when performing these services; however, they needed to improve the billing process for postal police services.

Specifically, Postal Service officials did not bill the Massachusetts Highway Department using current rates or for indirect expenses associated with services provided. The audit further revealed that controls were not in place to ensure the highway department was billed for total labor hours worked and that all payments were received. The OIG suggested and Inspection Service management agreed to seek reimbursement for an additional $26,000 from the Highway Department and to adjust labor rates to include indirect expenses.

(OIG OV-MA-01-001)

DOCUMENTED APPROVAL AND JUSTIFICATION NEEDED FOR INSPECTION SERVICE INTERNATIONAL TRAVEL

An OIG audit disclosed that the Inspection Service could not provide evidence that all international travel was properly approved and justified for fiscal years 1997-2000. Although international travel practices could be improved, we found that international assignments of Postal Inspectors were in the best interest of the Postal Service. The OIG recommended and the Chief Postal Inspector agreed to establish additional controls to ensure that international travel requests are properly justified and approved prior to the travel.

(OIG OV-AR-01-001)

REVIEW OF COMPLAINTS REGARDING THE INSPECTION SERVICE

The OIG’s oversight of the Inspection Service provides customers, employees, and other interested persons with an independent avenue to address their complaints regarding the Inspection Service. At the same time, the OIG provides the Inspection Service with an unbiased review of accusations that, if left unresolved, could harm its reputation as a professional law enforcement agency.

Over the past six months, the OIG closed 16 Congressional inquiries and 8 Hotlines related to the Inspection Service. The inquiries resulted from complaints made by Postal Service and Inspection Service employees, and the general public concerning a variety of issues including the inadequate conduct and selection of investigations. Examples of Congressional and Hotline inquiries are highlighted below:

* An OIG review determined that an allegation that the Inspection Service failed to properly investigate a mail-tampering incident was unsubstantiated. However, based in part on the allegation that correspondence submitted as evidence was never returned, the OIG has planned an audit of Inspection Service evidence handling.

* The OIG reviewed an allegation that Postal Service and Inspection Service management were not responsive to a claim of a hostile work environment. The OIG determined that it was unsubstantiated. However, based in part on this information, the OIG initiated an audit of the Inspection Service's support to Postal Service threat assessment teams, which included an assessment of the Inspection Service's efforts in reducing workplace violence.

* The OIG reviewed a Hotline allegation that the Inspection Service was inappropriately conducting surveillance of a former Postal employee and the employee's family. The individual threatened to take legal actions if the surveillance did not stop. The OIG investigated the allegation and found that another federal agency had conducted the surveillance.

* An OIG review found that a Hotline allegation concerning Postal Inspectors sponsoring “beer parties” using Inspection Service funds was unsubstantiated. The allegation, if true, would have been a violation of postal policy. The investigation revealed that Postal Inspectors annually sponsored a hospitality room during a Sheriff's Conference.
and served food and beverages at their own personal expense.

**MONITORING INSPECTION SERVICE INTERNAL INVESTIGATIONS**

The OIG’s Oversight Team is responsible for monitoring internal investigations of Inspection Service non-executive employees performed by the Inspection Service. These investigations are conducted when allegations of employee misconduct affect the performance of duties or when managers have information of employee misconduct. The OIG’s Oversight Team continually reviews the results of internal investigations, including conclusions reached and recommended actions. Internal investigations reviewed this period include the inappropriate use of official position, accidental discharge of a duty weapon, loss of investigative funds, and an accident in a law enforcement vehicle while a postal inspector was under the influence of alcohol.

At the beginning of the reporting period, the Inspection Service had 49 open internal investigations. During the reporting period, 27 cases were closed and 20 new cases were opened. As of March 31, 2001, 42 cases remain open. During this fiscal year, the OIG plans to establish a program to perform a quality review of the results of Inspection Service internal investigations to ensure they are performed in a consistent and fair manner and in accordance with best practices in the federal law enforcement community.

**LEGISLATIVE AND REGULATORY REVIEWS**

During this reporting period, the OIG identified the following legislation affecting the mission of the Inspection Service.

**PROPOSED LEGISLATION**

**S. 118 - Fruit, Vegetable, and Plant Smuggling Prevention Act of 2001**

This bill will strengthen the penalties for violating plant quarantine laws, including plants sent through the mail. The bill also provides for the forfeiture of any property used by a person in committing a plant quarantine felony, or any real or personal property acquired with proceeds derived by violating the plant quarantine law. When this property is sold, the proceeds can be used to reimburse the Postal Service for any costs incurred to initiate and complete the forfeiture proceeding. This legislation would benefit the Postal Service by providing additional revenue and ensuring the security and sanctity of the mail.
Other Significant Reviews

OFFICE OF INSPECTOR GENERAL

Executive Investigations
Support Operations Reviews
Legislative and Regulatory Reviews

INSPECTION SERVICE

Prohibited Mail Investigations
Physical Security Activities
Narcotics Offenses and Trafficking Investigations
Child Exploitation Investigations
Postal Burglary Investigations
Mail Fraud Investigations
Money Laundering Investigations
Office of Inspector General

The OIG has completed 40 investigative efforts and reviews of other significant issues related to Postal Service operations.

Executive Investigations

The OIG is responsible for reviewing allegations involving Postal executives for criminal violations and misconduct, including retaliation against individuals who have previously provided the OIG with information about possible fraud, waste, abuse, and mismanagement. This reporting period, the OIG completed 26 executive investigations, two of which are highlighted below:

Improper Use of Postal Vehicles by Postal Executive

An OIG investigation disclosed that over a period of four years, an area executive was frequently transported by postal employees from the executive's residence to the workplace in postal vehicles. In lieu of being transferred, the executive retired.

Postal Executive Submits Fraudulent Relocation Voucher

An OIG investigation determined that an area executive submitted a fraudulent relocation expense voucher in an amount over $3,000. The executive retired and was required to repay the amount of the fraudulent expense.

Support Operations Reviews

The OIG is responsible for reviewing Postal Service support operations such as government relations and customer service. During this reporting period, the OIG conducted two reviews in this area, which are highlighted below:

Controls Over Signature Devices Inadequate

At the request of the Board of Governors, the OIG audited controls over signature devices used by Postal Service officers. Devices such as signature machines and signature stamps are used when postal officers are absent for extended periods. The audit revealed that controls over signature devices were not adequate to prevent unauthorized use of these devices on official documents. Postal Service management agreed to develop policies and procedures recommended by the OIG to improve controls over signature devices. However, while policies are being developed, Postal Service management decided to continue using signature devices on a limited basis.

New Indemnity Claims System Improves Customer Service

The OIG reviewed the Postal Service's efforts to redesign its indemnity claims system. The Postal Service redesigned this system because of lengthy claims processing times, which resulted in poor customer service and lost revenue to commercial insurance services. The OIG found that controls over the redesigned claims process were generally adequate; however, customer service, product tracking, record retention, and the reliability of insurance claims data could be improved. The OIG suggested and Postal Service management agreed to handle customer inquiries and to determine the feasibility of modifying the product tracking system. Management disagreed with the OIG's suggested record retention period; however, they proposed a satisfactory alternative.

Legislative and Regulatory Reviews

During this reporting period, the OIG also identified the following significant legislation affecting the Postal Service.

DID YOU KNOW...
The Postal Service has developed a delivery network of over 235,000 mail routes.
ENACTED LEGISLATION

Public Law 106-422 - Amending the Inspector General Act of 1978

This law established a Criminal Investigator Academy and an Inspectors General Forensic Laboratory within the Department of the Treasury. The Academy will train investigators working in the OIG community. The laboratory will perform forensic services for the OIG community. Training for existing and newly hired agents is essential for maintaining a high level of investigative expertise and professionalism. The OIG community will benefit by having its own training academy and forensics lab. The legislation also authorizes annual appropriations for these establishments.

PROPOSED LEGISLATION


This bill would amend the Inspector General Act of 1978 to increase the efficiency and accountability of OIGs within federal departments. The bill specifies reporting requirements, prohibits the receipt of any cash award or cash bonus by an Inspector General; increases the rate of pay of Inspectors General to offset the prohibition against bonus and awards; and provides for an external review of OIGs at least every three years by the General Accounting Office or a private entity.

In addition, the legislation changes the Congressional reporting requirement from semi-annually to annually, although, a Congressional oversight committee or the Comptroller General may request a semiannual report. A final provision calls for a study by the Comptroller General to determine whether any OIGs should be consolidated.


This proposed rule modifies existing regulations to exempt the OIG Investigative File System from certain provisions of the Privacy Act and corresponding agency regulations in order to prevent disclosures that may compromise investigations or violate the privacy of third parties. This rule is central to preserving the integrity of information contained in investigative files. The exemption has been previously published in the Postal Service's Administrative Support Manual, Appendix Section 300.010. Disclosure of information otherwise covered under these exemptions could alert a subject to the fact that he or she is the target of an investigation. This could compromise investigation and evidence, endanger the witnesses or law enforcement personnel, or intrude upon the personal privacy of the third parties.
**INSPECTION SERVICE**

The Inspection Service conducted numerous investigations and reviews relating to significant issues in the following areas: prohibited mail; physical security; narcotics offenses and trafficking; child exploitation; postal burglaries; mail fraud including fraud against consumers, fraud against businesses, fraud against government; and money laundering.

**PROHIBITED MAIL INVESTIGATIONS**

The Inspection Service considers the investigation of mail bombs among its highest priorities. In the last six months, Postal Inspectors arrested 33 individuals and convicted 22 defendants for their involvement in incidents related to mail bombs and bomb threats. These include threats against postal facilities, placement of hoax devices and other suspicious items in the mail, and bombs and devices placed in private mail receptacles. Examples of significant investigations follow:

- Three members of a gun smuggling ring that hid more than 100 guns inside children’s toys and electronics gear and then shipped the guns to Ireland were arrested in Florida and sentenced to five years in prison.
- The writer of a threatening letter that was sent through the U.S. mail was sentenced to 10 months in prison and 3 years probation. In the letter, the writer threatened to sexually abuse the young child to whom the letter was mailed as well as the child’s father, mother, and grandmother.

**PHYSICAL SECURITY ACTIVITIES**

The Inspection Service devotes significant resources to prevent crimes by conducting employee and customer awareness training programs and implementing security measures. Potential problems and deficiencies are identified and priorities set based on trend analyses of criminal activity. When trends are identified, prevention and security measures are developed to reduce or eliminate the risk of criminal activity against the mail, the Postal Service, and its employees.

The Inspection Service kicked off a security messaging program on Postal Service television. The campaign is designed to encourage postal employees to get personally involved in workplace security. Employees are being asked to wear their identification badges and politely challenge strangers in postal facilities to ensure that they are properly secure. The Postmaster General and the Chief Postal Inspector jointly signed a letter to all postal employees explaining this campaign. In March, post offices began to receive a copy of the new Poster 66 on workplace security.

The Inspection Service Division has been responsible for coordinating and implementing the rollout of MARIA 2000 worldwide. This program enables countries to identify high loss route segments by comparing the effects of various routings with documented mail losses and thefts. The program supports our customer confidence initiatives by identifying international mail loss trends, which have an adverse effect on customers, since over 40 percent of the world’s international mail originates in the United States.

**NARCOTICS OFFENSES AND TRAFFICKING INVESTIGATIONS**

The Inspection Service interdicts mailings of illegal drugs and drug proceeds to protect postal employees from violence related to drug trafficking and to preserve the integrity of the mail. Postal Inspectors, working with other law enforcement agencies, arrested 843 individuals during this semiannual period for drug trafficking and money laundering via the mail. Seizures from the mail for this period included over 5,700 pounds of illegal narcotics and about 170,000 units of steroids. Investigations also resulted in the seizure of over $1.8 million in cash and monetary instruments, 9 vehicles, and 54 firearms. Examples of significant investigations follow:

- A major figure in a heroin conspiracy ring who mailed heroin from California to Iowa was found guilty in an Iowa federal court and stands to receive in excess of 40 years in prison.

DID YOU KNOW?

**Why does the Office of Inspector General review proposed legislation, regulations, and policy?**

Section 4 of the Inspector General Act requires the Office of Inspector General to review all proposed legislation, regulations, and policies and make recommendations to the Postal Service.
Three former California processing and distribution employees were indicted by a federal grand jury and subsequently arrested by Postal Inspectors for possession and distribution of methamphetamine.

**CHILD EXPLOITATION INVESTIGATIONS**

Postal Inspectors employ proactive investigative techniques to identify and bring to justice individuals who use the mail to distribute or knowingly receive child pornography. During this reporting period, 72 child pornographers were identified and stopped as a result of the Inspection Service’s efforts to rid the mail of child pornography. In addition, 75 children were rescued from further incidents of ongoing child sexual abuse, and three other previously victimized children were identified. Postal Inspectors nationwide are investigating 636 cases involving child exploitation.

During this reporting period, Inspection Service efforts have resulted in 179 arrests and 126 convictions. Some of the more significant child exploitation cases are highlighted below:

- In a joint federal criminal investigation, Postal Inspectors in Texas arrested and convicted a husband and wife team on 88 counts of conspiring with an international webmaster to distribute and possess child pornography. In this investigation, which is believed to be the largest case of commercialized child exploitation ever encountered in the history of U.S. law enforcement, the subjects made a profit of over $1 million.
- A South Carolina individual was sentenced to nine years in prison for trafficking in child pornography. This investigation by the Inspection Service found that the subject had been continually molesting a minor daughter.
- Postal Inspectors arrested a husband and wife and charged them with possession of child pornography. This investigation began after the couple mailed film to a commercial film developer that depicted minor females being sexually abused. A search of the couple’s residence disclosed a large quantity of child pornography and the identification of the children who were being molested.

**MAIL FRAUD INVESTIGATIONS**

Postal Inspectors protect postal customers, business mailers, and local, state, and federal governments from schemes involving investments, insurance, Medicare/Medicaid fraud, telemarketing, loans, and merchandise misrepresentations. The elderly and disadvantaged individuals who depend on mail delivery for purchases are particularly susceptible to fraudulent schemes. These citizens trust the Postal Service to maintain the integrity of the mail while opportunists take advantage of the anonymity the mail offers. Postal Inspectors are currently conducting over 3,500 mail fraud investigations. As a result, 937 individuals were arrested and 756 individuals were convicted. Examples of significant investigations follow:

- In October 2000, an individual was sentenced to life imprisonment without the possibility of parole for robbing a postal facility. This sentence was based on a federal “three strikes” law and followed the subject’s earlier conviction in 1995 for the robbery of a letter carrier and the attempted murder of a witness to this robbery.
- An individual was sentenced to 11 years and 6 months in prison, 5 years probation, and ordered to pay restitution over $8,200 for the armed robbery of a California post office and the attempted robbery of another California post office.
- An individual was sentenced to 9 years and 7 months in prison, and 5 years probation for involvement in the armed robbery of a New Jersey post office, two bank robberies, and the robbery of a jewelry store.
Postal Inspectors arrested an account executive of a finance company who was charged with conspiracy to submit false loan applications using the identity of elderly victims. Using this scheme, the executive stole over $400,000 from the finance company.

Postal Inspectors along with other law enforcement agencies arrested three individuals and charged them with identity theft from more than 90 victims that they used to steal in excess of $500,000. These individuals used six different commercial mail receiving agency addresses as mail drops to obtain the identification.

Postal Inspectors and local law enforcement officers arrested two individuals for the theft of personal identification from numerous unsuspecting victims. The identification was then used to establish fraudulent bank accounts that resulted in the loss of over $1 million. Federal prosecution is pending.

FRAUD AGAINST CONSUMERS

Consumers are targeted by sweepstakes, telemarketing, work at home, lottery, merchandise misrepresentations, vacation, real estate and investment scams, just to name a few. Postal Inspectors are currently conducting 1,447 investigations relating to mail fraud against consumers. During this reporting period, Postal Inspectors have made 328 arrests and 243 convictions have been obtained. Examples of significant investigations follow:

In December 2000, an individual was imprisoned for 36 months for participating in a mortgage flipping scheme. Mortgage flipping occurs when distressed properties are purchased for a small price and then are sold to low-income, first-time homebuyers at a substantially inflated price. This case was highlighted in a Senate Appropriations Subcommittee hearing on nationwide mortgage flipping and predatory lending practices.

Three individuals were convicted in connection with operating two illegal telemarketing operations in California. These companies defrauded 2,200 victims (mostly elderly) of over $1.2 million.

In New York, a telemarketer was found guilty of operating a fraudulent investment vending machine business. No vending machines were delivered and the telemarketer subsequently went out of business. Victims’ investments ranged from $2,000 to $25,000, with total losses exceeding $250,000.

FRAUD AGAINST BUSINESSES

Postal Inspectors devote considerable resources to protecting the business community from being victimized by mail fraud scams. Postal Inspectors are currently conducting 1,440 investigations relating to frauds against businesses. During this reporting period, there have been a total of 339 arrests and 302 convictions. Following are a few examples of actions taken. Examples of significant investigations follow:

Florida Division Postal Inspectors, U.S. Secret Service Agents, and other law enforcement officers arrested two people for operating large-scale credit card fraud, identity theft, and mail diversion schemes from recently deceased individuals. Total losses exceeded $1 million.

Postal Inspectors working with representatives of the recording industry arrested a Florida resident for using the Internet and U.S. mail to sell pirated compact discs, audiocassettes, and videos. This individual also established a Postal Service customer account and received over 700 Domestic and Global Priority Mail envelopes to further fraudulent sales.

An Illinois doctor and the hospital the doctor controlled agreed to pay the United States and the State of Illinois a total of $14 million to settle allegations that both the doctor and the hospital defrauded Medicare and Medicaid for over 8 years.

In October 2000, the U.S. Attorney’s office in New York forwarded a check in the amount of over $3.1 million to the Postal Service as a representative share of the net proceeds realized from an investigation where Postal Inspectors discovered that the owner of a company defrauded various manufacturers by improperly redeeming manufacturers’ coupons. The overall net worth of the coupon scheme was in excess of $5 million.

DID YOU KNOW?

Is employee diversity important to OIG?

Yes. The OIG is proud of the diverse talents, skills, and professional experience of our staff. The OIG believes diversity has enhanced our work environment.
FRAUD AGAINST GOVERNMENT

A total of 270 individuals have been arrested and 211 convicted for fraud against the government. The mail is used to commit a variety of frauds against government agencies at all levels, including Medicare/Medicaid fraud, false claims for tax refunds, and false claims for a variety of benefits such as education, housing, and welfare. Examples of significant investigations follow:

◆ As a result of an investigation by Postal Inspectors and agents from the Department of Labor for the State of Massachusetts, the ringleader of an unemployment scheme was convicted of filing more than 40 fraudulent claims for unemployment benefits under fictitious company names. The fraudulent claims exceeded over $350,000.

◆ In Missouri, a clinical psychologist pled guilty to defrauding Medicare of at least $442,600 by submitting over 3,000 fraudulent claims for undocumented psychotherapy services on behalf of nursing home patients.

MONEY LAUNDERING INVESTIGATIONS

The Inspection Service investigates criminals who use postal money orders and other postal financial products to launder illicit proceeds and avoid federal reporting requirements in violation of the Money Laundering Control Act and the Bank Secrecy Act. Illicit proceeds may include those gained through narcotic sales, the smuggling of illegal aliens, tax evasion, or the selling of counterfeit merchandise. Following are examples of investigated money laundering cases:

◆ In February 2001, Postal Inspectors seized $148,000 from two bank accounts in California after an investigation disclosed that the proceeds in these accounts were directly derived from the deposit of postal money orders. These accounts were specifically structured to avoid federal reporting regulations.

◆ On March 29, Postal Inspectors and High Intensity Financial Crimes Area task force agents in Puerto Rico arrested an individual for structuring bank accounts to avoid federal reporting regulations. The individual purchased numerous postal money orders at different postal stations from January 2000 through March 2001, with each purchase totaling under $3,000. A total of over $133,000 was seized, with over $72,000 representing postal money orders.
Is OIG responsible for all audits within the Postal Service?

Yes. In January 1999, the Postmaster General reemphasized to all Postal Service officers the audit role of the OIG. Specifically, the OIG is responsible for performing or contracting for all Postal Service audits as well as establishing procedures for management requested audits. In addition, the OIG serves as the focal point with other agencies to coordinate work efforts and avoid any duplication.
APPENDIX A

Reports Issued to Postal Management

For the period October 1, 2000, through March 31, 2001

OVERVIEW

Office of Inspector General

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

Inspection Service

Inspection Service audit groups were aligned by the type of audits performed which are primarily performance, financial, contract, and facility audits. The Inspection Service provided Postalwide attention in selected areas until September 30, 2000, when all audit functions were transitioned to the OIG.

SUMMARY

The following is a summary by principal area of reports issued to Postal Service management for both the OIG and Inspection Service. The following pages list each organization’s reports separately.

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<th>Principal Area</th>
<th>Number of Reports Issued</th>
<th>Questioned Costs</th>
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Definitions

**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.

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

**Unrecoverable Costs** - A cost that perhaps should not have been incurred and is not recoverable.

1 Unsupported costs are included with the amounts shown as questioned costs.
### REPORT LISTING
The following is a list of each report grouped by core business processes and enabling functions.

#### OIG REPORTS

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#### FINANCIAL MANAGEMENT

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**TECHNOLOGY**

**INFORMATION SYSTEMS**

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**ELECTRONIC COMMERCE**

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<th>Unsupported Costs</th>
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<th>Unrecoverable Costs</th>
<th>Issue Date</th>
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<tbody>
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**TECHNOLOGY TOTALS**

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<th>Issue Date</th>
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<tbody>
<tr>
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<td><strong>$0</strong></td>
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**LABOR MANAGEMENT**

**VIOLENCE IN THE WORKPLACE**

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<th>Unsupported Costs</th>
<th>Recommend Funds Put to Better Use</th>
<th>Unrecoverable Costs</th>
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<td>Review Violence Prevention and Response Programs in the Santa Ana District</td>
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<td>Review of the Violence Prevention and Response Programs in the Sacramento District</td>
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**LABOR MANAGEMENT TOTALS**

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<th>Issue Date</th>
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<td>Recommend Funds Put to Better Use</td>
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<tr>
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<td>Review of the Violence Prevention and Response Programs in the Greensboro District</td>
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<td>LB-AR-01-012</td>
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<td>LC-AR-01-001</td>
<td>Review of the Violence Prevention and Response Programs in the Spokane District</td>
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<td>Review of the Violence Prevention and Response Programs in the Las Vegas District</td>
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<tr>
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<tr>
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<td>Subject Title/Project Type</td>
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<td>Un-supported Costs</td>
<td>Recommend Funds Put to Better Use</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------------</td>
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<td>-------------------</td>
<td>----------------------------------</td>
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<td>LC-AR-01-006</td>
<td>Review of the Violence Prevention and Response Programs in the Arizona District</td>
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<tr>
<td>LB-AR-01-014</td>
<td>Assessment of Management Actions in Response to Safety Violations at a Facility</td>
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<tr>
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<td>Review of Safety and Health Inspections in the Pacific Area</td>
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<tr>
<td>LB-MA-01-001</td>
<td>Review of Allegations of a Hostile Work Environment at a Post Office in the Greater South Carolina District</td>
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<td>LB-AR-01-013</td>
<td>Equal Employment Opportunity Complaint Settlement Agreement</td>
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<tr>
<td>LB-LA-01-001</td>
<td>Abandoned Postal Records Found at a Dallas Facility</td>
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**LABOR MANAGEMENT TOTALS**: $0 $0 $0 $0

**OVERSIGHT**

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Subject Title/Project Type</th>
<th>Questioned Costs</th>
<th>Un-supported Costs</th>
<th>Recommend Funds Put to Better Use</th>
<th>Un-recoverable Costs</th>
<th>Issue Date</th>
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</thead>
<tbody>
<tr>
<td>OV-LA-01-001</td>
<td>Security Badge Controls at Postal Service Headquarters</td>
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<td>$0</td>
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<td>OV-MA-01-001</td>
<td>Use of Postal Police Officers on the Central Artery/Tunnel Construction Project</td>
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<tr>
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<td>Audit of Inspection Service International Travel and Assignments</td>
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**OVERSIGHT TOTALS**: $0 $0 $0 $0

**OTHER SIGNIFICANT REVIEWS**

**SUPPORT OPERATIONS REVIEW**

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<tr>
<th>Report Number</th>
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<th>Un-supported Costs</th>
<th>Recommend Funds Put to Better Use</th>
<th>Un-recoverable Costs</th>
<th>Issue Date</th>
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<tbody>
<tr>
<td>OS-AR-01-001</td>
<td>Controls Over Signature Devices</td>
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<td>OS-MA-01-001</td>
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**EXECUTIVE INVESTIGATIONS**

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<thead>
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<th>Report Number</th>
<th>Subject Title/Project Type</th>
<th>Questioned Costs</th>
<th>Un-supported Costs</th>
<th>Recommend Funds Put to Better Use</th>
<th>Un-recoverable Costs</th>
<th>Issue Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>0CX013EX000</td>
<td>Executive Investigations</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<td>Subject Title/ Project Type</td>
<td>Questioned Costs</td>
<td>Unsupported Costs</td>
<td>Recommend Funds Put to Better Use</td>
<td>Unrecoverable Costs</td>
<td>Issue Date</td>
</tr>
<tr>
<td>---------------</td>
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<td>01/19/01</td>
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<td>$0</td>
<td>$0</td>
<td>10/31/00</td>
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**OTHER SIGNIFICANT REVIEWS TOTALS**

**OIG TOTALS**

$39,031,995 $5,988,850 $28,245,962 $42,315,838

**INSPECTION SERVICE REPORTS**

**PERFORMANCE**

**SERVICE INVESTIGATIONS**

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Subject Title/ Project Type</th>
<th>Questioned Costs</th>
<th>Unsupported Costs</th>
<th>Recommend Funds Put to Better Use</th>
<th>Unrecoverable Costs</th>
<th>Issue Date</th>
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<tbody>
<tr>
<td>0072-1328202-SI(2)</td>
<td>Return-to-Sender Mail on Hand</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>01/02/01</td>
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<tr>
<td>0071-1314927-SI(2)</td>
<td>National Mail Condition Review</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>02/23/01</td>
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**PERFORMANCE TOTALS**

$0 $0 $0 $0

**FINANCIAL MANAGEMENT**

**REVENUE INVESTIGATIONS**

<table>
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<th>Report Number</th>
<th>Subject Title/ Project Type</th>
<th>Questioned Costs</th>
<th>Unsupported Costs</th>
<th>Recommend Funds Put to Better Use</th>
<th>Unrecoverable Costs</th>
<th>Issue Date</th>
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<tbody>
<tr>
<td>0061-1318200-R1(1)</td>
<td>Postage Meter</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>0061-1297848-R1(1)</td>
<td>Postage Meter</td>
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<td>03/26/01</td>
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**FINANCIAL MANAGEMENT TOTALS**

$0 $0 $0 $0

**INSPECTION SERVICE TOTALS**

$0 $0 $0 $0

**GRAND TOTALS**

$39,031,995 $5,988,850 $28,245,962 $42,315,838
APPENDIX B

Findings of Questioned Costs

For the period October 1, 2000, through March 31, 2001

OFFICE OF INSPECTOR GENERAL AND INSPECTION SERVICE

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Reports</th>
<th>Total Questioned Costs</th>
<th>Unsupported Costs Included In Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports for which no management decision was made at the beginning of the reporting period</td>
<td>40</td>
<td>$76,890,998</td>
<td>$17,898,909</td>
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<tr>
<td>Reports requiring management decision that were issued during the reporting period</td>
<td>11</td>
<td>$39,031,995</td>
<td>$5,988,850</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>51</strong></td>
<td><strong>$115,922,993</strong></td>
<td><strong>$23,887,759</strong></td>
</tr>
<tr>
<td>Reports for which a management decision was made during the reporting period (i+ii)</td>
<td>14</td>
<td>$5,608,794</td>
<td>$1,805,781</td>
</tr>
<tr>
<td>(i) Dollar Value of disallowed cost</td>
<td></td>
<td>$5,101,869</td>
<td></td>
</tr>
<tr>
<td>(ii) Dollar value of cost not disallowed</td>
<td></td>
<td>$506,925</td>
<td></td>
</tr>
<tr>
<td>Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing</td>
<td>37</td>
<td>$110,314,199</td>
<td>$22,081,978</td>
</tr>
<tr>
<td>Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)</td>
<td>20</td>
<td>$56,243,795</td>
<td>$8,525,127</td>
</tr>
<tr>
<td>Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)</td>
<td>8</td>
<td>$15,806,068</td>
<td>$7,571,625</td>
</tr>
</tbody>
</table>

Note 1 – Reports for which no management decision was made within six months of issuance:

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Case Number</th>
<th>Project Type</th>
<th>Total Questioned Costs</th>
<th>Unsupported Costs Included In Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/27/00</td>
<td>CA-CAR-00-024</td>
<td>Contract Audit</td>
<td>$131,750</td>
<td>$0</td>
</tr>
<tr>
<td>4/27/00</td>
<td>CA-CAR-00-026</td>
<td>Contract Audit</td>
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<tr>
<td>5/17/00</td>
<td>CA-AR-00-001</td>
<td>United States Postal Service Warranty Repair of Tractors</td>
<td>977,598</td>
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<tr>
<td>6/6/00</td>
<td>CA-CAR-00-029</td>
<td>Contract Audit</td>
<td>13,107</td>
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<tr>
<td>6/26/00</td>
<td>CA-CAR-00-031</td>
<td>Contract Audit</td>
<td>5,065,428</td>
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<td>7/28/00</td>
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<td>CA-CAR-00-046</td>
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<td>82,314</td>
<td>61,065</td>
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<td>CA-CAR-00-045</td>
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<td>3,264,062</td>
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<tr>
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<td>9/29/00</td>
<td>CA-CAR-00-064</td>
<td>Contract Audit</td>
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<tr>
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<td>FT-LA-00-002</td>
<td>Terminated Cleaning and Station Contracts</td>
<td>216,861</td>
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<td>9/29/00</td>
<td>MK-AR-00-002</td>
<td>Audit of the Management Controls Over the Sales Force Augmentation Program</td>
<td>5,200,000</td>
<td>5,200,000</td>
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OIG TOTALS $55,154,230 $8,525,127
<table>
<thead>
<tr>
<th>Report Date</th>
<th>Case Number</th>
<th>Project Type</th>
<th>Total Questioned Costs</th>
<th>Unsupported Costs Included In Questioned Costs</th>
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<tbody>
<tr>
<td>4/3/00</td>
<td>184-1126310-AC(1)</td>
<td>Contract Audit</td>
<td>$514,696</td>
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<tr>
<td>8/30/00</td>
<td>184-1210121-AC(1)</td>
<td>Contract Audit</td>
<td>574,869</td>
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<td><strong>INSPECTION SERVICE TOTALS</strong></td>
<td></td>
<td><strong>$1,089,565</strong></td>
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<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$56,243,795</strong></td>
<td><strong>$8,525,127</strong></td>
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Note 2 – Reports for which no management decision was made within one year of issuance:

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Case Number</th>
<th>Project Type</th>
<th>Total Questioned Costs</th>
<th>Unsupported Costs Included In Questioned Costs</th>
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<tbody>
<tr>
<td>2/21/00</td>
<td>CA-CAR-00-006</td>
<td>Contract Audit</td>
<td>$121,452</td>
<td>$54,185</td>
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<tr>
<td>3/14/00</td>
<td>CA-CAR-00-014</td>
<td>Contract Audit</td>
<td>38,607</td>
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<tr>
<td>3/14/00</td>
<td>CA-CAR-00-015</td>
<td>Contract Audit</td>
<td>464,644</td>
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<tr>
<td>3/29/00</td>
<td>CA-CAR-00-018</td>
<td>Contract Audit</td>
<td>90,366</td>
<td>0</td>
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<tr>
<td>3/31/00</td>
<td>CA-MA-00-001</td>
<td>Contract Audit Practices</td>
<td>92,214</td>
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<tr>
<td>2/29/00</td>
<td>TR-AR-00-005</td>
<td>Southwest Area Expenditures for Extra Highway Trips Using Leased Equipment</td>
<td>848,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td><strong>OIG TOTALS</strong></td>
<td></td>
<td><strong>$1,655,283</strong></td>
<td><strong>$54,185</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Case Number</th>
<th>Project Type</th>
<th>Total Questioned Costs</th>
<th>Unsupported Costs Included In Questioned Costs</th>
</tr>
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<tbody>
<tr>
<td>12/7/98</td>
<td>184-1243166-AC(1)</td>
<td>Contract Audit</td>
<td>$7,087,038</td>
<td>$5,841,563</td>
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<tr>
<td>11/17/99</td>
<td>181-1294644-AC(1)</td>
<td>Contract Audit</td>
<td>7,063,747</td>
<td>1,675,877</td>
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<td></td>
<td><strong>INSPECTION SERVICE TOTALS</strong></td>
<td></td>
<td><strong>$14,150,785</strong></td>
<td><strong>$7,517,440</strong></td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$15,806,068</strong></td>
<td><strong>$7,571,625</strong></td>
</tr>
</tbody>
</table>
APPENDIX C

Recommendations That Funds Be Put to Better Use

For the period October 1, 2000, through March 31, 2001

OFFICE OF INSPECTOR GENERAL AND INSPECTION SERVICE

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Reports</th>
<th>Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports for which no management decision was made at the beginning of the reporting period</td>
<td>11</td>
<td>$108,132,118</td>
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<tr>
<td>Reports requiring management decision that were issued during the reporting period</td>
<td>2</td>
<td>$28,245,962</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>13</strong></td>
<td><strong>$136,378,080</strong></td>
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</tbody>
</table>

- Reports for which a management decision was made during the report period (i + ii) 7 $97,433,672
- (i) Value of recommendations agreed to by management $97,301,628
- (ii) Value of recommendations that were not agreed to by management $132,044
- Reports for which no management decision was made by the end of the reporting period 6 $38,944,408
- Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports) 1 $28,457,395
- Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports) 5 $10,487,013

Note 1 – Reports for which no management decision was made within six months of issuance:

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Case Number</th>
<th>Project Type</th>
<th>Recommend Funds Put to Better Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/29/00</td>
<td>MK-AR-00-001</td>
<td>Review of Stamp Fulfillment Services</td>
<td>$28,457,395</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Performance Measures</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL** $28,457,395

Note 2 – Reports for which no management decision was made within one year of issuance:

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Case Number</th>
<th>Project Type</th>
<th>Recommend Funds Put to Better Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/30/98</td>
<td>181-1252372-AC(1)</td>
<td>Contract Audit</td>
<td>$1,710,680</td>
</tr>
<tr>
<td>12/18/98</td>
<td>181-1253441-AC(1)</td>
<td>Contract Audit</td>
<td>145,532</td>
</tr>
<tr>
<td>11/24/98</td>
<td>181-1254410-AC(1)</td>
<td>Contract Audit</td>
<td>137,480</td>
</tr>
<tr>
<td>05/20/95</td>
<td>181-1165940-AC(1)</td>
<td>Contract Audit</td>
<td>8,370,460</td>
</tr>
<tr>
<td>08/27/99</td>
<td>181-1294162-AC(1)</td>
<td>Contract Audit</td>
<td>122,861</td>
</tr>
</tbody>
</table>

**TOTALS** $10,487,013
The name and format of this appendix has changed to provide a more detailed illustration of reports containing significant recommendations pending final action by management. On October 1, 2000, the OIG assumed complete responsibility for tracking corrective actions for all significant recommendations. As a result, the OIG performed an extensive analysis to identify reports with significant recommendations requiring confirmation that appropriate corrective actions have been taken. This appendix identifies those reports. During the next 6 months, the OIG will be working with Postal Service management to validate whether appropriate corrective actions have been taken, and if so, enable us to remove them from this appendix.

### OFFICE OF INSPECTOR GENERAL

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Title</th>
<th>Number of Recommendations</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>FL-AR-98-001</td>
<td>The Sugar House Renovation Project</td>
<td>1</td>
<td>3/30/98</td>
</tr>
<tr>
<td>RG-MA-98-001</td>
<td>Kansas City Fulfillment Services Center</td>
<td>1</td>
<td>3/30/98</td>
</tr>
<tr>
<td>CA-MA-98-002</td>
<td>Irregularities at the Greensboro, NC Bulk Mail Center</td>
<td>2</td>
<td>3/31/98</td>
</tr>
<tr>
<td>CAG-AR-98-001</td>
<td>Unisite</td>
<td>4</td>
<td>4/22/98</td>
</tr>
<tr>
<td>QR-MA-98-001</td>
<td>Drug-Free Workplace Program</td>
<td>1</td>
<td>6/2/98</td>
</tr>
<tr>
<td>PA-MA-98-002</td>
<td>Violence in the Workplace - Identification of Area Hot Spots</td>
<td>3</td>
<td>8/28/98</td>
</tr>
<tr>
<td>CA-AR-98-003</td>
<td>Procurement Prequalification Process</td>
<td>9</td>
<td>9/30/98</td>
</tr>
<tr>
<td>CA-MA-98-003</td>
<td>Supplier Diversity and Minority Contracting</td>
<td>5</td>
<td>9/30/98</td>
</tr>
<tr>
<td>FA-MA-98-001</td>
<td>Stamp Services</td>
<td>1</td>
<td>9/30/98</td>
</tr>
<tr>
<td>FR-LA-98-001</td>
<td>Bank Secrecy Act</td>
<td>1</td>
<td>9/30/98</td>
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<tr>
<td>HC-AR-98-001</td>
<td>Workers’ Compensation Case Management</td>
<td>3</td>
<td>9/30/98</td>
</tr>
<tr>
<td>OV-MA-98-002</td>
<td>Crime Laboratories’ Accreditation Progress</td>
<td>1</td>
<td>9/30/98</td>
</tr>
<tr>
<td>PA-AR-98-001</td>
<td>Bulk Mail Center Manual Operations</td>
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<td>9/30/98</td>
</tr>
<tr>
<td>PA-AR-98-002</td>
<td>Total Factor Productivity</td>
<td>2</td>
<td>9/30/98</td>
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<tr>
<td>PA-MA-98-003</td>
<td>Retroactive Contributions to the Thrift Savings Plan</td>
<td>1</td>
<td>9/30/98</td>
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<tr>
<td>PA-MA-98-004</td>
<td>Status of Management Actions Taken for Inspection Service Reports on Labor Management</td>
<td>1</td>
<td>9/30/98</td>
</tr>
<tr>
<td>RG-MA-98-005</td>
<td>Review of Revenue Forecasting - International Business Unit</td>
<td>3</td>
<td>9/30/98</td>
</tr>
<tr>
<td>RG-MA-98-007</td>
<td>Stamp Out Breast Cancer Act and Stamp</td>
<td>1</td>
<td>9/30/98</td>
</tr>
<tr>
<td>DA-AR-99-002</td>
<td>Point of Service ONE</td>
<td>1</td>
<td>9/20/99</td>
</tr>
<tr>
<td>Report Number</td>
<td>Report Title</td>
<td>Number of Recommendations</td>
<td>Issue Date</td>
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<tr>
<td>CA-AR-99-001</td>
<td>Opportunities to Increase Savings Through the Use of Natural Gas Vehicles</td>
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<td>CA-AR-99-002</td>
<td>Removal of Underground Storage Tanks</td>
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<td>9/30/99</td>
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<tr>
<td>CA-AR-99-003</td>
<td>Responsibilities of Contracting Officer's Representatives</td>
<td>9</td>
<td>9/30/99</td>
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<tr>
<td>RP-MA-00-001</td>
<td>Indefinite Quantity Contracts</td>
<td>1</td>
<td>11/8/99</td>
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<tr>
<td>FR-LA-00-001</td>
<td>Sure Money Electronic Funds Transfer Service Expansion to Dominican Republic</td>
<td>2</td>
<td>11/23/99</td>
</tr>
<tr>
<td>RG-MA-00-001</td>
<td>Cost and Benefit of the International Collection Program</td>
<td>1</td>
<td>12/3/99</td>
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<tr>
<td>DS-MA-00-001</td>
<td>Acceptance of Delivery Vehicles</td>
<td>1</td>
<td>12/15/99</td>
</tr>
<tr>
<td>FR-MA-00-001</td>
<td>Budget Cost Containment Measures</td>
<td>1</td>
<td>12/22/99</td>
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<tr>
<td>TR-AR-00-003</td>
<td>Commercial Air Carrier: Performance Measurement System</td>
<td>2</td>
<td>1/31/00</td>
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<tr>
<td>TR-AR-00-004</td>
<td>Commercial Air Carrier Performance: Effectiveness of Pay for Performance</td>
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<td>1/31/00</td>
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<td>TR-AR-00-005</td>
<td>Southwest Area Expenditures for Extra Highway Trips Using Leased Equipment</td>
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<td>2/29/00</td>
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<tr>
<td>DS-AR-00-001</td>
<td>External First-Class Mail Measurement System</td>
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<td>3/27/00</td>
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<td>TR-AR-00-006</td>
<td>Commercial Air Carrier Performance: Payment for Ground Handling Services</td>
<td>2</td>
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<td>CA-MA-00-001</td>
<td>Contract Audit Practices</td>
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<td>DA-AR-00-002</td>
<td>Tray Management System</td>
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<td>Breast Cancer Research Stamp Program Review-Phase II</td>
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<td>FR-FA-00-010(R)</td>
<td>Relocation Benefits for Postal Service Officers - Revised</td>
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<td>AC-AR-00-002</td>
<td>Integrity of Plant Verified Drop Shipment</td>
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<td>BI-MA-00-001</td>
<td>Highway Transportation Contracts</td>
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<td>DA-MA-00-002</td>
<td>Priority Mail Processing Center Network</td>
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<td>6/30/00</td>
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<td>FA-AR-00-002</td>
<td>Salt Lake City District 2002 Winter Olympic Plans</td>
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<td>6/30/00</td>
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<td>TR-AR-00-008</td>
<td>Extra Trip Expenditures at the Dallas Bulk Mail Center</td>
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<td>AC-AR-00-003</td>
<td>Revenue Assurance Process</td>
<td>3</td>
<td>7/14/00</td>
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<tr>
<td>CA-LA-00-001</td>
<td>Review of Minority Contracting Opportunities Under Advertising Contract</td>
<td>2</td>
<td>7/14/00</td>
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<td>OV-MA-00-002</td>
<td>Review of Postal Inspection Service Forensic Scientist Salaries</td>
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<td>7/17/00</td>
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<td>TR-AR-00-009</td>
<td>Extra Trips Expenditures within the Mid-Atlantic Area</td>
<td>4</td>
<td>7/27/00</td>
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<td>FA-MA-00-007</td>
<td>Review of the Managed Network Services Contract &amp; Billing Process of the Contractor</td>
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<tr>
<td>FT-FA-00-001</td>
<td>Money Order Blank Stock and Imprinters</td>
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<td>8/25/00</td>
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<td>FT-AR-00-002</td>
<td>International List Service Transmittal of Funds Bank Secrecy Act Compliance</td>
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<td>8/29/00</td>
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<td>TR-AR-00-010</td>
<td>Use of Chauffeur-Driven Vehicles by Postal Service Executives</td>
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<td>8/29/00</td>
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<td>EC-AR-00-001</td>
<td>USPS eBillPay Security and Privacy Issues</td>
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<td>9/5/00</td>
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<td>DA-AR-00-004</td>
<td>Information Platform Planning</td>
<td>1</td>
<td>9/28/00</td>
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<td>FT-AR-00-001</td>
<td>Miscellaneous Relocation Expense Payments</td>
<td>2</td>
<td>9/28/00</td>
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<tr>
<td>AC-AR-00-004</td>
<td>Use of Robotic Tray Handling System</td>
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<td>9/29/00</td>
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<tr>
<td>AC-AR-00-005</td>
<td>International Mail Processing</td>
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<td>9/29/00</td>
</tr>
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<td>DA-AR-00-006</td>
<td>Point of Service ONE Phase II</td>
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<td>9/29/00</td>
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<tr>
<td>FA-AR-00-005</td>
<td>Seattle Processing and Distribution Center</td>
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<td>9/29/00</td>
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<tr>
<td>FT-AR-00-004</td>
<td>Equity Loss Payments</td>
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<td>9/29/00</td>
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<td>IS-AR-00-004</td>
<td>State of Computer Security in the Postal Service</td>
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<td>9/29/00</td>
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<td>LB-AR-00-003</td>
<td>Evaluation of Postal Service Criteria for Workplace Violence Prevention and Response Program</td>
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<td>9/29/00</td>
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<tr>
<td>MK-AR-00-001</td>
<td>Review of Stamp Fulfillment Services Performance Measures</td>
<td>1</td>
<td>9/29/00</td>
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<tr>
<td>OV-AR-00-005</td>
<td>Review of the United States Postal Inspection Service</td>
<td>2</td>
<td>9/29/00</td>
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<tr>
<td>TR-AR-00-011</td>
<td>Dedicated Christmas Air Network Phase 1</td>
<td>3</td>
<td>9/29/00</td>
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<tr>
<td>MK-AR-00-002(R)</td>
<td>Management Controls over the Sales Force Augmentation Program - Revised</td>
<td>3</td>
<td>10/31/00</td>
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</tbody>
</table>
## Inspection Service

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Title</th>
<th>Number of Recommendations</th>
<th>Issue Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>TR-AR-01-001</td>
<td>Adequacy of Mail Transport Equipment Service Center Network Internal Controls</td>
<td>4</td>
<td>10/31/00</td>
</tr>
<tr>
<td>LB-AR-01-013</td>
<td>Equal Employment Opportunity Complaint Settlement Agreement</td>
<td>1</td>
<td>12/21/00</td>
</tr>
<tr>
<td>CA-MA-01-001</td>
<td>Privacy Data Contained in Contract Files</td>
<td>2</td>
<td>12/24/00</td>
</tr>
</tbody>
</table>

## Contract Audits

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Contractor</th>
<th>Report Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>0181-1165940-AC(1)</td>
<td>Contract Audit</td>
<td>5/20/95</td>
</tr>
<tr>
<td>0181-1237199-AC(1)</td>
<td>Contract Audit</td>
<td>4/14/98</td>
</tr>
<tr>
<td>0181-1252372-AC(1)</td>
<td>Contract Audit</td>
<td>10/30/98</td>
</tr>
<tr>
<td>0181-1253441-AC(1)</td>
<td>Contract Audit</td>
<td>12/18/98</td>
</tr>
<tr>
<td>0181-1254410-AC(1)</td>
<td>Contract Audit</td>
<td>11/24/98</td>
</tr>
<tr>
<td>0184-1126310-AC(1)</td>
<td>Contract Audit</td>
<td>4/3/00</td>
</tr>
<tr>
<td>0184-1210121-AC(1)</td>
<td>Contract Audit</td>
<td>8/30/00</td>
</tr>
<tr>
<td>0184-1243166-AC(1)</td>
<td>Contract Audit</td>
<td>12/7/98</td>
</tr>
</tbody>
</table>
APPENDIX E

Investigative Statistics

For the period October 1, 2000, through March 31, 2001

OFFICE OF INSPECTOR GENERAL

Statistics

<table>
<thead>
<tr>
<th>Type of Investigation</th>
<th>Arrests</th>
<th>Convictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrests</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Information/Indictments</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Convictions/Pretrial Diversions</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Suspension/Debarments</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Administrative Actions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postal Service Employee</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Contractor</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Fines, Restitution, and Recoveries</td>
<td>$3,236,800</td>
<td>$25,893,263</td>
</tr>
<tr>
<td>Cost Avoidance, Savings and Funds Put To Better Use</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INSPECTION SERVICE

<table>
<thead>
<tr>
<th>Type of Investigation</th>
<th>Arrests</th>
<th>Convictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue &amp; Asset Protection Program</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure Investigations</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Financial Investigations</td>
<td>133</td>
<td>135</td>
</tr>
<tr>
<td>Workers’ Compensation Fraud</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Revenue Investigations</td>
<td>45</td>
<td>33</td>
</tr>
<tr>
<td>Robbery</td>
<td>45</td>
<td>41</td>
</tr>
<tr>
<td>Burglary</td>
<td>74</td>
<td>72</td>
</tr>
<tr>
<td>Miscellaneous External Crimes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes counterfeit and contraband postage, money order offenses, vandalism, and arson</td>
<td>330</td>
<td>289</td>
</tr>
<tr>
<td>Assaults Against Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes threats and assaults against on-duty postal employees</td>
<td>191</td>
<td>148</td>
</tr>
<tr>
<td>Employee Narcotics Cases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes employees and non-employees selling narcotics on postal property</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>Mail Theft by Employees, Non-Employees or Contractors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes theft and possession of stolen mail</td>
<td>3,451</td>
<td>2,526</td>
</tr>
<tr>
<td>Miscellaneous Employee Crimes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes theft of postal property and sabotage of equipment</td>
<td>34</td>
<td>27</td>
</tr>
<tr>
<td>Bombs/Explosive Devices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mailing of Controlled Substances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes hazardous material, firearms and weapons, intoxicants, explosives other than bombs, extortion and false documents</td>
<td>843</td>
<td>535</td>
</tr>
<tr>
<td>Child Exploitation, Mailing of Obscene Matter, and Sexually Oriented Advisement</td>
<td>179</td>
<td>126</td>
</tr>
<tr>
<td>Mailing of Miscellaneous Nonmailables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes hazardous material, firearms and weapons, intoxicants, explosives other than bombs, extortion, and false documents</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td>Mail Fraud</td>
<td>937</td>
<td>756</td>
</tr>
</tbody>
</table>

INSPECTION SERVICE TOTALS

6,376 | 4,787

1 Statistics include joint investigations with other federal law enforcement agencies.

2 Some of these arrests occurred in a prior semiannual reporting period, however, they were not reported until the current reporting period.

3 Convictions reported in this time frame may be related to arrests made in prior reporting periods.
APPENDIX F

Summary of Postal Service Investigative Activities Under 39 USC § 3013

For the period October 1, 2000, through March 31, 2001

The Postal Reorganization Act requires the Postmaster General to furnish information on the investigative activities of the Postal Service on a semiannual basis. 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 to the OIG rather than to the Board of 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 Postal Service investigative activities; use of subpoena power; and any additional information the OIG may require. This change in reporting requirements was effective the beginning of this reporting period.

ABUSE OF MAILS

The Postal Service reports to the OIG information related to investigative activities designed to protect the public against unscrupulous mailers perpetrating fraudulent schemes. 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. This information is reported in appendix E - Summary of Inspection Service Actions Under 39 USC § 3005 and § 3007.

INSPECTION SERVICE

<table>
<thead>
<tr>
<th>Type of Scheme</th>
<th>Complaints Filed</th>
<th>Consent Agreements</th>
<th>False Representation Orders</th>
<th>Cease &amp; Desist Orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance fee</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Boiler rooms/Telemarketing</td>
<td>4</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Contest/Sweepstakes</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud against government agencies</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Lotteries (foreign and domestic)</td>
<td>24</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td>2</td>
<td>1</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Merchandise:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Failure to furnish</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Failure to pay</td>
<td>2</td>
<td>2</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Misrepresentation</td>
<td></td>
<td>1</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2</td>
<td>2</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Work at home</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>43</td>
<td>14</td>
<td>28</td>
<td>16</td>
</tr>
</tbody>
</table>
ADMINISTRATIVE ACTIONS

Administrative Action requests 50
Temporary Restraining Order requests 0
Temporary Restraining Orders issued 0
Civil Injunction (1345) requests 3
Civil Injunctions (1345) issued 3
Cases using Direct Purchase Authority 0
Refusals of Direct Purchase Authority 0
Civil penalties (Section 3012) imposed 0

Expenditures incurred for:
Test Purchases $ 0
Expert Testimony $ 0
Withholding Mail Orders issued 73
Voluntary Discontinuances 186

POSTAL SERVICE ADMINISTRATIVE SUBPOENA AUTHORITY

The Postal Service reports to the Office of Inspector General information on the number of cases in which the Postal Service issued administrative subpoenas in connection with deceptive mailing. The following section identifies the number and nature of cases in which the Postal Service exercised this authority to request relevant business and associated records.

<table>
<thead>
<tr>
<th>Case Number</th>
<th>Date Requested</th>
<th>Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>USPS-00-013</td>
<td>09/08/00</td>
<td>Work at Home</td>
</tr>
<tr>
<td>USPS-01-001</td>
<td>10/10/00</td>
<td>Medical Fraud-Quackery</td>
</tr>
<tr>
<td>USPS-01-002</td>
<td>10/23/00</td>
<td>Advance Fee</td>
</tr>
<tr>
<td>USPS-01-003</td>
<td>10/11/00</td>
<td>Merchandise-Failure to Pay</td>
</tr>
<tr>
<td>USPS-01-004</td>
<td>10/11/00</td>
<td>Merchandise-Failure to Pay</td>
</tr>
<tr>
<td>USPS-01-005</td>
<td>10/11/00</td>
<td>Merchandise-Failure to Pay</td>
</tr>
<tr>
<td>USPS-01-006</td>
<td>11/13/00</td>
<td>Work at Home</td>
</tr>
<tr>
<td>USPS-01-007</td>
<td>12/20/00</td>
<td>Internet Fraud</td>
</tr>
<tr>
<td>USPS-01-008</td>
<td>12/20/00</td>
<td>Internet Fraud</td>
</tr>
<tr>
<td>USPS-01-009</td>
<td>02/06/01</td>
<td>Medical Fraud-Quackery</td>
</tr>
<tr>
<td>USPS-01-010</td>
<td>02/06/01</td>
<td>Medical Fraud-Quackery</td>
</tr>
<tr>
<td>USPS-01-011</td>
<td>02/15/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-012</td>
<td>02/20/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-013</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-014</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-015</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-016</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-017</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-018</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
<tr>
<td>USPS-01-019</td>
<td>03/21/01</td>
<td>Sweepstakes Fraud</td>
</tr>
</tbody>
</table>
INVESTIGATIVE EXPENDITURES AND OBLIGATIONS

The investigative expenditures and obligations for this reporting period are as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Year End Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$157,491,729</td>
</tr>
<tr>
<td>Nonpersonnel</td>
<td>$34,688,397</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$192,180,126</td>
</tr>
<tr>
<td>Capital Obligations</td>
<td>$6,626,289</td>
</tr>
</tbody>
</table>

OTHER INVESTIGATIVE ACTIVITIES

The Postal Service also reports to the Office of Inspector General additional information related to significant investigative activities and other investigative matters. This section outlines a number of significant investigative activities the Postal Service has initiated and is pursuing, to include the Mail Task Forces and the KNOW FRAUD Program. Inspection Service and Office of Inspector General criminal statistical information is summarized in Appendix F.

MAIL TASK FORCES

The Postal Inspection Service has partnered with the financial services, manufacturing, and direct marketing industries on behalf of the U.S. Postal Service to form three task forces to combat fraud: Credit Card Mail Security, Rebate Fraud and Mail Order Security. Each task force helps to reduce mail fraud, theft, and processing problems by identifying and exchanging information on best practices, fraud trends and loss-prevention techniques; and to develop improved processes and procedures.

The Credit Card Mail Security Task Force was created in 1992 and has dramatically reduced nonreceived issued credit card fraud losses by 68 percent, while credit card purchases have increased more than 86 percent. In 1995, the Postal Inspection Service teamed with the coupon rebate industry to combat mail-in rebate fraud. The group's efforts reduced fraud by an estimated $100 million in 1997. In 1996, the Postal Inspection Service and the direct marketing industry created the Mail Order Task Force to facilitate this continued success by joining together to prevent and detect fraud and theft. In a pilot program, the Mail Order Task Force has reduced nonreceipt losses by 10 to 15 percent for direct marketing companies experiencing mail processing problems.

KNOW FRAUD

In an effort to educate and help consumers, President Clinton launched KNOW FRAUD, a consumer protection effort, in November 1999 and cited it as an excellent example of “coordination among the federal government’s consumer protection agencies.” To launch the KNOW FRAUD program, the Inspection Service joined forces with several federal, state, and private agencies, including the Department of Justice, Federal Bureau of Investigation, Federal Trade Commission, Securities and Exchange Commission, National Association of Attorneys General, American Association of Retired Persons, and Better Business Bureau. The KNOW FRAUD initiative has included a postcard mailing to 120 million American households alerting consumers to the dangers of telemarketing and mail fraud.

The KNOW FRAUD partnership is now focusing on identity theft. Work is underway by the partners to get an identity theft prevention message to consumers. A toll-free ID theft hotline, 1-877-438-4338, and a KNOW FRAUD website were established to provide consumers with additional information and to link consumers with law enforcement officials who would share information.
DEFINITIONS OF SCHEMES

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

Boiler rooms/Telemarketing. An office or suite of offices with banks of telephones and telephone solicitors who use high-pressure techniques to persuade consumers to respond to bogus offers.

Contest/Sweepstakes. Schemes in which the respondent is required to pay a fee to obtain prizes of money, gifts or other items of value. "Prizes" are either never shipped or are inferior to what was promised.

False billings. Mailing solicitations in the guise of billings.

Fraud against government agencies. Any scheme that attempts to defraud a U.S. government agency except the U.S. Postal Service.

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

Medical. Sales by mail of misrepresented health products or services, including fraudulent medical degrees.

Merchandise failure to furnish. A mail order operator that does not provide ordered merchandise.

Merchandise failure to pay. Mail order merchandise that is acquired without providing payment.

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

Miscellaneous. Any other scheme not described in a specific category.

Work at home. Schemes, such as envelope stuffing, that do not provide home employment.
APPENDIX G

Closed Congressional and Governors Inquiries

For the period October 1, 2000, through March 31, 2001

This appendix lists the 103 Congressional and Governors inquiries the OIG closed during this reporting period. The OIG reviewed these inquiries to help identify systemic issues and to determine the need for future Postalwide audits.

CONGRESSIONAL

PERFORMANCE

<table>
<thead>
<tr>
<th>Requestor</th>
<th>Allegations/Concern</th>
<th>Response Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senator, New York</td>
<td>Mail delivery problem</td>
<td>13-Oct-00</td>
</tr>
<tr>
<td>White House</td>
<td>Allegation of delayed mail</td>
<td>17-Oct-00</td>
</tr>
<tr>
<td>Representative, Virginia</td>
<td>Allegation of delayed mail</td>
<td>17-Oct-00</td>
</tr>
<tr>
<td>Senator, Virginia</td>
<td>Allegation of delayed mail</td>
<td>17-Oct-00</td>
</tr>
<tr>
<td>Senator, Virginia</td>
<td>Allegation of delayed mail</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>Representative, California</td>
<td>Allegation of threats to shut down a commercial mail receiving agent</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Representative, Virginia</td>
<td>Allegation of delivery problem</td>
<td>25-Oct-00</td>
</tr>
<tr>
<td>Senator, New York</td>
<td>Allegation of delivery problem</td>
<td>25-Oct-00</td>
</tr>
<tr>
<td>Representative, Arkansas</td>
<td>Allegation of mailers confusing customers</td>
<td>25-Oct-00</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of customer needs not being met</td>
<td>09-Nov-00</td>
</tr>
<tr>
<td>Representative, Pennsylvania</td>
<td>Allegation of falsified mail processing times</td>
<td>09-Nov-00</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Review of hazards due to height regulations not being enforced on the mail boxes</td>
<td>31-Jan-01</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Review of recurring concerns regarding the delivery of small newspapers and periodicals</td>
<td>26-Feb-01</td>
</tr>
<tr>
<td>Senator, Arizona</td>
<td>Customer Service complaint</td>
<td>29-Mar-01</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of problems with certified mail service</td>
<td>30-Mar-01</td>
</tr>
</tbody>
</table>

FINANCIAL MANAGEMENT

<table>
<thead>
<tr>
<th>Requestor</th>
<th>Allegations/Concern</th>
<th>Response Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of inappropriate site selection process</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>Senator, Tennessee</td>
<td>Allegation of problems with the POS accounting system</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Representative, Virginia</td>
<td>Allegation of inappropriate contract practices</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Senator, Virginia</td>
<td>Allegation of inappropriate contract practices</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Representative, California</td>
<td>Review of funds used for retirement ceremony</td>
<td>26-Oct-00</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Review of a case concerning obtain equitable leasing</td>
<td>21-Feb-01</td>
</tr>
</tbody>
</table>

LABOR MANAGEMENT

<table>
<thead>
<tr>
<th>Requestor</th>
<th>Allegations/Concern</th>
<th>Response Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of harassment, intimidation, and abuse of authority</td>
<td>16-Oct-00</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of managerial abuses in the form of age, race, disabled veteran status, and union participation discrimination</td>
<td>16-Oct-00</td>
</tr>
<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of improper request for medical information from health care provider</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>Requestor</td>
<td>Allegations/Concern</td>
<td>Response Date</td>
</tr>
<tr>
<td>------------------------------</td>
<td>------------------------------------------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Representative, Maryland</td>
<td>Allegations of abusive management, including harassment, intimidation, and discrimination</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>Chairman, House Postal</td>
<td>Allegation of management misconduct creating a hostile work environment</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>Subcommittee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chairman, House Postal</td>
<td>Allegation of retaliation, harassment, and abuse</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>Subcommittee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Representative,</td>
<td>Review of working conditions at a post office</td>
<td>18-Oct-00</td>
</tr>
<tr>
<td>New Mexico</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Representative, California</td>
<td>Allegation of a hostile working environment and age discrimination</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Chairman, House Postal</td>
<td>Allegation of retaliation</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Subcommittee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chairman, House Postal</td>
<td>Allegation of violence, retaliation, and ineffective labor management dispute procedures</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Subcommittee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senator, Indiana</td>
<td>Allegations of mismanagement and hostile work environment</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Senator, Mississippi</td>
<td>Allegations of intimidation</td>
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<tr>
<td>Senator, Michigan</td>
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<tr>
<td>Representative, Alabama</td>
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<tr>
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<tr>
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<tr>
<td>Representative, California</td>
<td>Allegation of management violating regulations and harassing employees</td>
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<tr>
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<tr>
<td>Chairman, House Postal</td>
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<tr>
<td>Senator, Tennessee</td>
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<tr>
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<tr>
<td>Senator, Minnesota</td>
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<tr>
<td>Representative,</td>
<td>Request for review of customer service, labor management, and bidding irregularities</td>
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<tr>
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<td>Representative, Arizona</td>
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<tr>
<td>Representative, Virginia</td>
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<tr>
<td>Senator, New Jersey</td>
<td>Allegations that enough jobs for the elderly are not listed in <a href="http://www.usps.gov">www.usps.gov</a></td>
<td>29-Dec-00</td>
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<tr>
<td>Chairman, House Postal</td>
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<tr>
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<td>Allegations of sexual harassment, assault, discrimination, retaliation, and other violent crimes</td>
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<tr>
<td>Representative, New Jersey</td>
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<tr>
<td>Representative, South Carolina</td>
<td>Allegation of rural carriers not receiving just compensation for extra hours worked</td>
<td>07-Feb-01</td>
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<td>Allegations of a hostile work environment</td>
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<tr>
<td>Senator, North Carolina</td>
<td>Allegation of employment problems with the Postal Service</td>
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<tr>
<td>Senator, Washington</td>
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<td>Senator, Pennsylvania</td>
<td>Allegation of denial of promotion due to nepotism</td>
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<tr>
<td>Representative, California</td>
<td>Allegation of ongoing harassment and extremely hostile working conditions</td>
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<tr>
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<td>Allegations of sexual harassment and a hostile work environment</td>
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<td>Chairman, House Postal Subcommittee</td>
<td>Allegation of inappropriate sexual involvement by a manager and misuse of government vehicles</td>
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<tr>
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<td>Allegation of personal mistreatment</td>
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<tr>
<td>Senator, Michigan</td>
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<tr>
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<td>Request for information regarding an assault prosecution declination</td>
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<tr>
<td>Representative, New York</td>
<td>Allegation of Inspection Service mishandling of hostile work environment claim</td>
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<tr>
<td>Representative, Maryland</td>
<td>Allegations of mail tampering not handled properly by Inspection Service</td>
<td>19-Oct-00</td>
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<tr>
<td>Representative, Maryland</td>
<td>Review of postal police duties for classification</td>
<td>19-Oct-00</td>
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<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Review of postal police duties for classification</td>
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<tr>
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<td>Allegation of Inspection Service not following risk abatement plans</td>
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<tr>
<td>Senator, Maryland</td>
<td>Allegation of Inspection Service handling of an investigation</td>
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<tr>
<td>Representative, Washington</td>
<td>Allegation of failure to address mail tampering complaint</td>
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<tr>
<td>Senator, Maryland</td>
<td>Review of initial Inspection Service investigation of criminal conduct</td>
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<tr>
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<td>Allegation of Inspection Service willful neglect in conducting an investigation</td>
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<tr>
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<tr>
<td>Representative, California</td>
<td>Allegations of incorrect practices in compensation case</td>
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<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Review of the effectiveness of changes to the consistency of disciplinary actions of the Postal Inspection Service</td>
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<tr>
<td>Representative, California</td>
<td>Allegations of Inspection Service handling of delayed or lost mail, or stolen items investigation</td>
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<tr>
<td>Senator, Montana</td>
<td>Allegation of Inspection Service handling of contractor</td>
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<tbody>
<tr>
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<td>Privacy act information disclosure</td>
<td>16-Oct-00</td>
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<tr>
<td>Representative, Maryland</td>
<td>Request for information concerning employment with OIG</td>
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<tr>
<td>Chairman, House Postal Subcommittee</td>
<td>Oversight questions from the September 19th hearing</td>
<td>03-Jan-01</td>
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<tr>
<td>Requestor</td>
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<tr>
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<td>Questions about OIG hiring practices</td>
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<tr>
<td>Representative, South Carolina</td>
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<tr>
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</tr>
<tr>
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<tr>
<td>Representative, Massachusetts</td>
<td>Request for a copy of report on investigation of retaliation</td>
<td>21-Feb-01</td>
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</table>

**GOVERNORS**

**PERFORMANCE**

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<thead>
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<tbody>
<tr>
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<td>Allegations of improprieties surrounding the procurement process</td>
<td>19-Oct-00</td>
</tr>
<tr>
<td>Chairman</td>
<td>Allegations of various violations of Postal Service purchasing policies and regulations, ethical conflicts of interest, vandalism of Postal Service property, and racial discrimination</td>
<td>07-Nov-00</td>
</tr>
<tr>
<td>Governor</td>
<td>Allegations of mismanagement by Postal Service managers</td>
<td>12-Jan-01</td>
</tr>
<tr>
<td>Governor</td>
<td>Review of improper acceptance of tickets</td>
<td>22-Jan-01</td>
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**FINANCIAL MANAGEMENT**

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<tr>
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**TECHNOLOGY**

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<tr>
<td>Governor</td>
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**LABOR MANAGEMENT**

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<tbody>
<tr>
<td>Chairman</td>
<td>Allegations that management (1) intentionally manipulated the EEO process causing a backlog of complaints, (2) spent over $150,000 defending their position against his complaint filings over the last 5-years, and (3) covered up Inspection Service audit of postal executives</td>
<td>20-Oct-00</td>
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<tr>
<td>Governor</td>
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<tbody>
<tr>
<td>Governor</td>
<td>Concerns about handling of employment application for OIG</td>
<td>14-Feb-01</td>
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REPORT FRAUD, WASTE, ABUSE, & MISMANAGEMENT

HOTLINE
1-888-USPS-OIG (1-888-877-7644)
ALL CALLS ARE CONFIDENTIAL
Notes
Notes
Notes
U.S. Postage Stamps

ISSUED FROM OCTOBER 1, 2000, THROUGH MARCH 31, 2001

PAGE

3 U.S. CAPITOL – honors the U.S. Capitol, which houses the chambers of the Senate and House of Representatives.

11 WASHINGTON MONUMENT EXPRESS MAIL – honors the Washington Monument as a great tribute to the first American President, George Washington.

12 ROY WILKINS – commemorates this advocate for change, civil rights and peace, who is the 24th honoree in the Black Heritage series.

19 DEEP SEA CREATURES – provides a view of fascinating and mysterious sea life—showing a glimpse into a vast and alien world seen by few people.

20 FLOWERS – features photographs of pastel-colored flowers by Robert Peak, of Winter Park, Florida.

25 AMERICAN EAGLE – celebrates the style that decorated U.S. mail collection boxes in the 1920s and 1930s.

33 GEORGE WASHINGTON – utilizes a black and white photograph of a bust by Jean-Anoine Houdon, signed and dated 1785 and on display at Mount Vernon.

45 HATTIE W. CARAWAY – honors Mrs. Caraway who was appointed to the Senate in 1931 and became the first woman to chair a Senate committee.

48 THE PAN-AMERICAN INVERTS – celebrates the Pan-American exposition held in Buffalo, New York, featuring reproductions of the rare, original artwork from the exposition.

56 STATUE OF LIBERTY – features a photograph of the Statue of Liberty which was dedicated on October 28, 1886.

71 YEAR OF THE SNAKE – celebrates the lunar new year, featuring intricate paper cut design of a snake and grass style calligraphy.

72 AMERICAN ILLUSTRATORS – brings together the creations of 20 Society of Illustrators Hall of Fame artists from the classic era of American illustration.

84 FRUIT – colorfully illustrates apples and oranges.

91 NOBEL PRIZE – jointly honors the centennial of the distinguished Nobel Prize by issuing commemorative stamps in the U.S. and Sweden.

101 FARM FLAG – portrays the U.S. flag flying over a farm to celebrate agricultural life.

ACKNOWLEDGEMENTS

This report represents the outstanding efforts and accomplishments of OIG and Inspection Service staff. The production of this report would not have been possible without the contributions and dedication of the many OIG and Inspection Service staff who contributed to this effort, particularly, Laurence Hawkins and Jim Nugent of the OIG; and Kenneth Newman of the Inspection Service.