



Office of Inspector General

Semiannual Fact Sheet

Spring 2013

The Office of Inspector General (OIG) — with the support of the Governors, Congress, and U.S. Postal Service management — plays a key role in maintaining the integrity and accountability of America's Postal Service, its revenue and assets, and its employees through our audit and investigative work.

The Postal Service is an invaluable part of the nation's communications infrastructure. For more than 230 years, the Postal Service has served to bind the nation

together, promote democracy, and enable commerce. Its mission remains largely unchanged despite the rapid changes in the way we communicate and share information. In fact, its role as a reliable, secure, and trusted delivery provider may be needed now more than ever.

The Office of Inspector General (OIG) supports the overall mission of the Postal Service through its own mission of maintaining the integrity and accountability of America's Postal Service, its revenue and assets, and its employees. The OIG's goal is to deliver optimal value to joint stakeholders through independent audits and investigations.



To view or receive the entire Semiannual Report to Congress, go to www.uspsoig.gov or call 888-877-7644.



Advertising Program Needs Better Monitoring

An OIG audit report found that the Postal Service did not adequately monitor its two largest advertising contracts, threatening the effectiveness and integrity of its advertising program. The Postal Service did not clearly define or understand the roles and responsibilities of the primary team members for its major advertising contractors, to whom it paid \$10 million in fiscal year (FY) 2011. The Postal Service paid \$631,712 in questionable bonuses to the contractors in FYs 2011 and 2012, and did not sufficiently track or allocate certain advertising costs, nor did it comply with internal controls for certifying and retaining advertising invoices.



Above, an image from the Postal Service's popular Priority Mail Flat Rate advertising campaign.

Senior management expressed concern over these contracts during our audit and allowed the major advertising contract to expire. They have taken significant steps to restructure advertising contract processes for consistency with current industry practices and to maximize the effectiveness of the Postal Service's advertising investments. We recommended the Postal Service establish a clearly defined process to evaluate contractors; and appropriately review, certify, and maintain invoices. We also recommended the agency track contractor labor costs and appropriately allocate advertising costs.

Management stated that the new competitive advertising contracts will not contain incentive fee payments. They also removed the incentive payment option from the one remaining legacy contract. Management plans to develop a new process for properly reviewing, certifying, and maintaining invoices. New contracting officer's representatives will be instructed on these processes. Management also plans to perform periodic reviews to ensure compliance, while Marketing and Sales officials plan to develop and communicate an internal process for certifying invoices. Management determined that the current tracking system captures labor costs so they are developing a custom report that will show these costs. Management is also assessing the current tracking system to determine the associated costs and feasibility of allocating costs to specific advertising campaigns.

The Office of Audit's Mission

The Office of Audit's mission is to protect assets and revenue, ensure efficient and economical mail delivery and operations, and safeguard the integrity of the postal system. Postal Service executives often work closely with their OIG counterparts to identify problems and collaborate on solutions. These efforts have resulted in significant savings opportunities. During this period, the OIG issued 92 audit reports and management advisories that resulted in about \$756 million in monetary impact.

Highlighted Statistics

For the period October 1, 2012— March 31, 2013

AUDITS

Reports issued	92
Significant recommendations issued	65
Total reports with financial impact	15
Funds put to better use	\$266,601,430
Questioned costs	\$386,239,273
Revenue Impact	\$103,345,727
TOTAL	\$756,186,430

Federal Shipping

Competitors to the Postal Service have consistently captured more than 98 percent of shipping revenue from federal agencies through General Services Administration (GSA) contracts. Although the federal shipping market from GSA contracts was estimated at \$336.9 million in FY 2012, the Postal Service earned only \$4.8 million of this revenue, or less than 2 percent of the overall market. In addition, the Postal Service earned \$95.9 million from shipping services for federal agencies outside the GSA contracts during FY 2012.

The Postal Service has opportunities to increase its share of this market by overcoming challenges that keep it from growing revenue in the federal shipping marketplace. Specifically, major challenges include pricing inflexibility and the lack of 2- and 3-day guaranteed express delivery products. In addition, the Postal Service faces challenges resulting from late entry into the GSA

market, the size and structure of its federal sector sales force, and the limited number of payment methods it accepts. Further, the Department of Defense provides preferential treatment to shippers that have their own air fleet and agree to make that fleet available during a national defense crisis. By overcoming these challenges, and enhancing customer intelligence to identify those federal agencies that predominantly ship lightweight packages, we estimate the Postal Service could generate \$17.4 million of additional revenue annually during FYs 2013 and 2014, and could have avoided lost revenue of \$21.4 million during FY 2011 and \$17.4 million for FY 2012. We recommended the Postal Service address the challenges it faces in the federal shipping marketplace and enhance customer intelligence on federal agencies' shipping practices.

Management is addressing the current GSA contract pricing structure and plans to discuss

payment methods and product selection for the federal sector. Management did not agree with the estimated \$34.8 million in revenue that could be generated during FYs 2013 and 2014 should they overcome the challenges that keep it from growing revenue in the GSA marketplace, stating that the lack of detailed data on the characteristics of federal shipments makes it nearly impossible to predict a value for Postal Service potential. Management also stated that revenue growth depends on competitive pricing and product offerings and, until these challenges are addressed, it is difficult to fully understand the extent of revenue that can be generated from federal shipping. Finally, as the Pricing group works toward determining the value of 2- and 3-day guaranteed express delivery products, management will conduct further research and learn more about federal agency shipping practices. Pending an evaluation, management will determine the next steps to take by January 2014.

The Office of Investigations Mission

The OIG also fulfills its traditional role of rooting out fraud, waste, and misconduct to protect the Postal Service's bottom line and maintain confidence in the mail. The OIG's dedication to integrity, accountability, and transparency means that no person in the organization is above the law or immune from the ethical standards set by the Postal Service. In this period, the OIG's Office of Investigations completed 1,693 investigations that led to 260 arrests and more than \$72 million in fines, restitutions, and recoveries, that went to the Postal Service.

Highlighted Statistics

For the period October 1, 2012— March 31, 2013

INVESTIGATIONS ¹

Investigations Completed	1,693
Arrests	260
Indictments/Informations	178
Convictions/pretrial diversions ²	299
Administrative actions	860
Cost Avoidance	\$225,278,052
Fines, Restitution, and Recoveries	\$2,016,953,988
Amount to the Postal Service ³	\$72,434,428

¹ Statistics include joint investigations with other law enforcement agencies.

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

³ Amounts include case results of joint investigations with other OIG, federal, state, and local law enforcement entities.



A joint investigation by the OIG, the Postal Service, and the General Services Administration OIG into the billing practices of government contractor W.W. Grainger resulted in the company paying the Postal Service \$4 million to settle allegations that it had submitted false claims under contracts with the Postal Service.

Major Fraud Investigations Division

Government contractor, W.W. Grainger, paid the Postal Service \$4 million from a settlement agreement as a result of a joint investigation by the OIG, the Postal Service Office of General Counsel, and the General Services Administration (GSA) OIG into the company's billing practices. Grainger reached a settlement with the Justice Department to resolve all allegations against the company that it had submitted false claims under contracts with the Postal Service and GSA.

Grainger sold hardware products and other supplies through GSA's Multiple Award Schedule, which provides the government and other GSA-authorized purchases with a streamlined process for procurement of commonly used commercial goods and services. The investigation determined that Grainger failed to meet its contractual obligations to provide GSA with current, accurate, and complete information about its commercial sales practices, including discounts afforded to other customers. As a result, government customers of Grainger ended up paying higher prices than necessary.

Grainger also failed to meet its contractual obligation to provide most-favored customer pricing in two Postal Service contracts for sanitation and maintenance supplies. Agents and auditors from the Postal Service OIG discovered that Grainger did not consistently adhere to this requirement, causing the Postal Service to pay more than it should have for purchases made under the two contracts.

The contractor agreed to a settlement of \$70 million, of which \$4 million would be allocated to the Postal Service. The Postal Service also realized a cost avoidance of about \$119 million through the renegotiation of future contracts with the contractor.

Abbott Laboratories Pays \$40 Million to Postal Service

The OIG's participation in the investigation of Abbott Laboratories and its unlawful promotion of its prescription drug Depakote contributed to the Postal Service receiving \$40 million in criminal fines against the company. The Postal Service received the fine payment in this reporting period.

Abbott Laboratories agreed to pay the government \$1.5 billion to resolve its criminal and civil liability arising from the company's unlawful promotion of Depakote for uses not approved as safe and effective by the Food and Drug Administration (FDA). Abbott admitted it maintained a specialized sales force trained to market Depakote in nursing homes for the control of agitation and aggression in elderly dementia patients, despite the absence of credible scientific evidence that Depakote was safe and effective for that use.

The investigation revealed the company had defrauded the Postal Service of about \$1.1 million through insurance reimbursements to recipients of Office of Workers' Compensation Program benefits. In addition to the criminal fines, \$1.1 million in restitution is pending within a civil settlement between the Postal Service and Abbott Laboratories.





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e-Government and the Postal Service: A Conduit to Help Government Meet Citizens' Needs



Over the past 20 years, e-Government — or the use of the Internet and other digital technologies by government agencies to provide services — has developed to respond to the changing needs of an

increasingly digital society. Federal, state, and local agencies have adopted a number of e-government initiatives to increase access to information and services, improve government operations, cut costs, and promote civic engagement. Recently, the White House released the Digital Government Strategy, which sets guidelines for federal agencies to follow in order to innovate and enhance the quality and efficiency of public services.

Still, a number of lingering gaps remain in security, access, and ease of use that have hindered full, public adoption of existing e-government services and the development of new services. First, a lack of appropriate identity authentication for sensitive online government transactions means some transactions still require human interaction, such as transactions that are complex or require a witness, identification, or sworn attestation. Second, some people lack access to the internet or are uncomfortable with accessing government services online. Finally, existing e-government services are often fragmented across multiple agencies or websites, making it difficult for users to easily access and navigate the services they need.

This white paper discussed the opportunity for the Postal Service to establish a one-stop, shared, multi-channel service platform to help all levels of government fill critical gaps, while addressing massive duplicative costs across agencies. By building a digital platform and leveraging its retail and delivery networks, address databases, and its trusted intermediary role, the Postal Service could offer other agencies a wide range of physical and digital e-government solutions. These services could include communication services, online identification, electronic payments, in-person services, and broadband access. The postal physical-digital platform could also provide a crucial bridge to enable users to access government services through whatever channel best meets their needs, while adding a layer of resiliency to essential public functions during emergencies.

▶ Let us hear from you!

The OIG sponsors a blog and audit projects forum to collect feedback and ideas from our stakeholders and the general public. We encourage you to share your ideas, concerns, and comments at:

- Pushing the Envelope Blog: blog.uspsoig.gov
- Audit Project Pages: auditprojects.uspsoig.gov

We need your help. Report postal crimes or misconduct.



Contact: 888-877-7644
www.uspsoig.gov

TOTAL OIG HOTLINE CONTACTS 59,695

For the period October 1, 2012— March 31, 2013



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