

April 30, 2002

GOVERNORS

SUBJECT: Postal Service's Transformation Plan
(Product Number CQ-OT-02-002)

The Office of Inspector General has conducted substantial work related to the three commitments outlined in the Postal Service's Transformation Plan. We are providing the results of this work, which the Postal Service should consider when implementing the commitments.

If you have any questions or need additional information, please contact me at (703) 248-2300.

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Attachment

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Introduction

The Transformation Plan sets forth three commitments designed to maintain the Postal Service's financial viability and fulfill its universal service mission. The three commitments are: growth through added value to customers, controlling costs through operational efficiency, and enhancing its performance-based culture.

The Postal Service plans to accomplish these commitments through a variety of strategies that include changing legislation and regulations. The strategies are anticipated to generate \$5 billion in savings and cost avoidance through 2006.

OIG Work¹

Much of the Office of Inspector General's (OIG) work has examined issues related to the commitments and strategies the Postal Service proposes. For the Transformation Plan to be successful, the Postal Service should consider our work, as outlined below, in accomplishing the commitments through the strategies.

Commitment 1: Growth through Added Value to Customers (offer affordable products and services, generate new revenues, and adapt to technological advances)

- Automation efforts need to achieve anticipated returns on investment, account for all costs, and properly track performance.
- eCommerce initiatives need to protect privacy and security.
- Managers need to better coordinate their work--there were five overlapping public key infrastructure initiatives, four of which have now been cancelled.

¹ Attached is an appendix of OIG reports that is cross-referenced to the commitments and related enabling functions.

- Sound financial data needs to support business initiatives.
- Outdated studies used to support rate requests need to be replaced.

Commitment 2: Operational Efficiency (control costs)

- The Surface-Air Management System needs better security controls, contract administration, and more reliable information.
- Financial data used to support anticipated revenue needs to be improved--FedEx alliance to transport mail will not save as much money as anticipated.
- Financial decisions need better cost analysis--leasing instead of buying trailers costs \$85 million more.
- Operational procedures need to be followed to avoid unnecessary costs--damage to trailers costs \$1 million per year.
- The use of standard contract clauses to protect Postal Service interests would enhance our ability to prosecute cases--successful prosecutions in the area of contract fraud, have reduced costs and deterred fraud in the Postal Service's \$15 billion contracting environment.
- Continued coordination with the Postal Service's Law Department would reduce claims--investigation of fraudulent tort and indemnity claims has reduced liability for third party claims even more.

Commitment 3: Performance-Based Culture (maintain effective, diverse, and motivated workforce)

- Associate Supervisor Program needs improvement.
- Succession planning needs improvement.
- A performance-based pay system is needed.

- Grievance-arbitration process needs improvement--management has recognized this in a new agreement with the National Association of Letter Carriers.
- Changes are needed to improve workplace climate.
- Better oversight of administrative leave is needed to reduce costs.
- Workers' compensation costs need to be reduced through improved internal management controls--the investigation of medical providers perpetrating fraud against postal programs is a high priority.

Enabling Functions to Support Commitments (enhance financial management; adopt business-driven purchasing procedures; implement information technology with universal connectivity; and ensure safety, security, and privacy of mail)

- Stronger purchasing practices and contract administration are needed.
- Better controls are needed over vendor payments--almost \$1.4 million was paid to vendors for services already paid for or not rendered.
- Better password administration needs to be enforced.
- Intrusion detection software needs to be configured properly.
- Over 15,000 potential system vulnerabilities we have identified need to be corrected and prevented from reoccurring.
- Hacking and infecting Postal Service systems with worms and viruses needs to be prevented--increased deterrence measures have thwarted these crimes.
- Employees need to vigilantly protect against computer intrusion--through OIG's computer fraud awareness briefings, employees have increased their knowledge of potential risk factors affecting computer networks, thus

raising their vigilance and conformance with security requirements to deter unauthorized intrusions.

- Relocation benefits need to be made comparable to those offered by other organizations.
- Property management needs to be improved-- 30 properties purchased for \$45 million were never developed, never utilized, or referred for disposal.
- A single systems development methodology needs to be followed--our work resulted in the Postal Service creating a standard systems development methodology to identify operational problems early on, avoiding costly mistakes later.

Summary

OIG work has focused on many of the Transformation Plan's key issues. The Postal Service has an opportunity to use this work to address those issues.

APPENDIX I

OIG Work Related to Transformation Plan

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
Processing Operations Information System, Report Number DA-AR-02-002, dated March 22, 2002	#1
Performance of Automated Flat Sorting Machine 100 Report Number DA-AR-02-001, dated February 22, 2002	#1
Decision Analysis Report Process Report Number DA-AR-01-005, dated September 27, 2001	#1
Mailing Evaluation, Readability, and Lookup Instrument (MERLIN) First Article Testing Report Number DA-MA-01-002, dated September 24, 2001	#1
Delivery Operations Information System Report Number DA-AR-01-003, dated March 29, 2001	#1
Information Platform Planning Report Number DA-AR-00-004, dated September 28, 2000	#1
Mailing Evaluation, Readability, and Lookup Instrument (MERLIN) Proof of Concept Report Number DA-AR-00-003, dated July 31, 2000	#1
Tray Management System Report Number DA-AR-00-002, dated March 31, 2000	#1
Phase I Remote Encoding Center Consolidation Report Number DA-AR-00-001, dated February 10, 2000	#1

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
Point of Service ONE Report Number DA-AR-99-002, dated September 20, 1999	#1
USPS.com Disaster Recovery Plan Report Number EC-AR-01-002, dated March 28, 2001	#1
Protection of Internet Users' Information Report Number EC-AR-01-001, dated March 26, 2001	#1
USPS eBillPay Security and Privacy Issues Report Number EC-AR-00-001, dated September 5, 2000	#1
Public-Key Infrastructure Initiatives by the Postal Service Report Number EM-AR-02-009, dated March 29, 2002	#1
Review of Rate Case Development Process, in progress	#1
Postal Service Efforts to Address Data Quality Study Recommendations Report Number FT-AR-02-004, dated December 19, 2001	#1
Surface-Air Management System Report Number DA-AR-02-005, dated April 19, 2002	#2
Interim Audit Results of Security Risks Associated with the FedEx Transportation Agreement Report Number TR-MA-01-003, dated September 27, 2001	#2
Interim Audit Results on Excise Taxes and Third Party Ground Handling Costs Under the FedEx Transportation Agreement Report Number TR-MA-01-002, dated August 8, 2001	#2

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
Interim Audit Results of FedEx Transportation Agreement Report Number TR-LA-01-001, dated June 26, 2001	#2
Trailer Lease Justification Report Number TD-AR-02-002, dated March 29, 2002	#2
Trailer Damage Report Number TD-MA-02-002, dated March 22, 2002	#2
Review of the Associate Supervisor Program, Great Lakes Area, in progress	#3
Review of the Postal Service's Corporate Succession Planning Process, in progress	#3
Performance Measures Used in the Pay for Performance Program Report Number AC-AR-02-DRAFT, dated April 11, 2002	#3
Reasonableness and Distribution of Pay for Performance Incentive Awards Report Number AC-AR-02-DRAFT, dated April 11, 2002	#3
Use of the Economic Value Added Concept in the Pay for Performance Program Report Number LH-AR-02-001, dated December 5, 2001	#3
Follow-up Report on Postal Service Grievance-Arbitration Procedures, in progress	#3
Effectiveness of United States Postal Service Grievance- Arbitration Procedures Report Number LM-MA-99-002, dated March 26, 1999	#3

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
Grievance and Arbitration Management Information Report Number LR-MA-99-001, dated March 26, 1999	#3
National Capping Report on the Postal Service Violence Prevention and Response Programs Report Number LB-AR-01-020, dated August 23, 2001	#3
Alleged Harassment and Abuse at the New London, Connecticut Post Office Report Number LB-LA-01-003, dated May 29, 2001	#3
Allegations of a Tense and Stressful Work Environment at a Post Office in the Santa Ana District Report Number LB-AR-01-017, dated May 14, 2001	#3
Allegations of a Hostile Working Environment at a New York Metro Area Post Office Report Number LB-AR-01-018, dated May 11, 2001	#3
Review of Allegations of a Hostile Work Environment at a Post Office in the Greater South Carolina District Report Number LB-MA-01-001, dated March 29, 2001	#3
Allegations of a Hostile Working Environment at a Post Office in the Southeast Area Report Number LM-AR-00-001, dated March 20, 2000	#3
Review of Government Performance and Results Act Implementation, in progress	#3
Review of the United States Postal Service's Compliance with the Government Performance and Results Act, Phase II Report Number DS-MA-99-004, dated March 30, 1999	#3

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
Review of the United States Postal Service's Compliance with the Government Performance and Results Act Report Number DS-MA-99-001, dated March 26, 1999	#3
Follow-up Report on Postal Service's Oversight of Other Paid Administrative Leave Use Report Number LH-MA-02-001, dated November 29, 2001	#3
Assessment of Management Oversight of Administrative Leave Used in Los Angeles and San Diego Report Number LC-AR-01-008, dated July 10, 2001	#3
Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayments and Refundable Disbursements Report Number LH-AR-02-DRAFT, dated March 7, 2002	#3
Internal Controls Over International Merchant Purchase Authorization Card Purchases Report Number FT-AR-02-002, dated November 6, 2001	Enabling Function-- Purchasing and Materials Management
Responsibilities of Contracting Officers' Representatives Report Number CA-AR-01-002, dated April 30, 2001	Enabling Function-- Purchasing and Materials Management
Payments to Contract Stations and Vendors Providing Goods and Services Report Number FT-AR-02-011, dated March 6, 2002	Enabling Function-- Purchasing and Materials Management
Fiscal Year 2001 Information System Controls-User Account and Password Administration in UNIX Operating Systems at Eagan, Minnesota Report Number IS-AR-01-002, dated August 23, 2001	Enabling Function--Information Technology
Network Security at the San Mateo Computer Operations Service Center Report Number IS-AR-01-001, dated April 18, 2001	Enabling Function-- Information Technology

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
Security Vulnerability Technical Report - Security Testing of Servers at the Topeka Operations Central Repair Facility, Topeka, Kansas Report Number IS-AR-02-004, dated March 22, 2002	Enabling Function-- Information Technology
Network Vulnerability Assessment at the Maintenance Technical Support Center, Norman, Oklahoma Report Number IS-CS-02-003, dated February 4, 2002	Enabling Function-- Information Technology
Shared Real Estate Appreciation Loan Program Report Number FT-AR-02-001, dated October 17, 2001	Enabling Function-- Financial Management
Deviations from Postal Relocation Policy Report Number FT-AR-00-005, dated September 29, 2000	Enabling Function-- Financial Management
Equity Loss Payments Report Number FT-AR-00-004, dated September 29, 2000	Enabling Function-- Financial Management
Miscellaneous Relocation Expense Payments Report Number FT-AR-00-001, dated September 28, 2000	Enabling Function-- Financial Management
Relocation Benefits for Postal Service Officers Report Number FR-FA-00-010, dated May 2, 2000	Enabling Function-- Financial Management
Disposal of Excess Real Property Report Number CA-AR-02-002, January 28, 2002	Enabling Function-- Facilities Purchasing
Delivery Unit Notification System Application Development Review Report Number EM-AR-02-006, dated March 27, 2002	Enabling Function-- Information Technology
Vehicle Operations Information System Report Number EM-AR-02-005, dated March 26, 2002	Enabling Function-- Information Technology

<i>Report Title, Number, and Date Issued</i>	<i>Related Commitment/ Enabling Function</i>
eServices Registration Application Development Review Report Number EM-AR-02-004, dated March 26, 2002	Enabling Function-- Information Technology
Facilities Database Application Development Review Report Number EM-AR-02-003, dated March 26, 2002	Enabling Function-- Information Technology