October 25, 2004

LYNN MALCOLM
ACTING VICE PRESIDENT, FINANCE, CONTROLLER

WILLIAM P. GALLIGAN
VICE PRESIDENT, DELIVERY AND RETAIL

KEITH STRANGE
VICE PRESIDENT, SUPPLY MANAGEMENT

DEWITT HARRIS
VICE PRESIDENT, EMPLOYEE RESOURCE MANAGEMENT

ANTHONY J. VEGLIANTE
VICE PRESIDENT, LABOR RELATIONS

SUBJECT: Audit Report – Reports Distribution
                      (Report Number IS-AR-05-001)

This report presents the results of our self-initiated audit of cost reduction opportunities
associated with reports distribution (Project Number 04BG005IS000). Specifically, our
objective was to determine if costs associated with generating and distributing
mainframe outputs printed by the Eagan Host Computer Services could be reduced.

The Postal Service has the ability to increase the efficiency of output distribution and
reduce cost within the spirit of the Postal Service paper reduction policy. This can occur
if the Postal Service implements an output distribution policy that conveys its preference
for using electronic media over printing and distributing hardcopy outputs. Our review
showed a potential financial impact of $3,220,411 annually for the specific outputs
reviewed. Based on input from Postal Service managers, we recommended a steering
committee be formed to establish and implement policies for reducing internal printed
outputs and expand the scope to a global effort to reduce printed outputs. These funds
represent funds put to better use and will be reported as such in our Semiannual Report
to Congress.

In the draft version of this report, we directed recommendations to multiple Senior Vice Presidents because the issues in this report were global throughout the Postal Service. Likewise, the addressees on the draft version were those same individuals. However, following additional discussions with Postal Service management we have directed this final report to the appropriate functional Vice Presidents. Additionally, we have revised the language in recommendation number 8 to provide more flexibility than originally stated. We made nine recommendations to Postal Service management addressing these issues.

Management generally agreed with recommendations 1-8 and has initiatives in progress or planned that should correct the issues in this report. Management disagreed with recommendation 9, however, action is planned which meets the intent of the recommendation. Management's comments and actions taken or planned are responsive to our recommendations. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector General (OIG) considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information please contact Gary Rippie, Director, Information Systems, or me at (703) 248-2300.

/s/ John M. Seeba

John M. Seeba
Assistant Inspector General
  for Audit

Attachment

cc: Richard J. Strasser, Jr.
     Suzanne F. Medvidovich
     Patrick R. Donahoe
     John A. Rapp
     Robert L. Otto
     Thomas G. Day
     Margaret A. Weir
     Peter Myo Khin
     Dennis M. Baca
     Marie K. Martinez
     Jo Ann E. Mitchell
     Kevin T. McNamara
     Richard A. Lena
     Deborah J. Judy
     Van E. Rouse
     Camille B. Wider
     John R. Mularski
     Steven R. Phelps

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EXECUTIVE SUMMARY

Introduction	This report presents the results of our self-initiated audit of cost reduction opportunities associated with report distribution (Project Number 04BG005IS000). The objective of our audit was to determine if costs associated with generating and distributing mainframe outputs printed by the Eagan Host Computing Services can be reduced.
	Nearing the conclusion of our audit, we held preliminary discussions with Postal Service management who suggested the establishment of a steering committee to address specific opportunities. The proposal also suggested expanding the scope to encompass output reduction opportunities on a postal-wide basis. We believe moving in this direction will place the Postal Service in a position to fully address cross-organizational issues raised in this report.
Results in Brief	Controlling the distribution of printed outputs by the Eagan Host Computing Services is essential to increasing efficiency and minimizing associated costs. The Postal Service has the potential to increase the efficiency of output distribution and reduce cost within the spirit of their paper reduction policy. This can occur if the Postal Service establishes a steering committee to promote its existing electronic infrastructure and implement an output distribution policy that conveys its preference for using electronic media over printing and distributing hardcopy outputs.
	Specific areas of opportunity for increasing the use of electronic media relate to printed outputs that:

- Have an electronic distribution method already in place.
- Are capable of being distributed electronically as part of ongoing initiatives.

In addition, frequencies for mailing some printed outputs may be reduced. We refer these outputs for further review.

The financial impact of the specific opportunities results in $3,220,411 annually. We agree with Postal Service managers that a one-time offsetting investment cost may be required. However, additional benefits may also be

achieved by evaluating outputs and cost factors we did not consider in our review. These monetary benefits represent funds put to better use for the Postal Service and will be reported as such in our Semiannual Report to Congress.

Summary of Recommendations	To minimize cost and maximize use of the existing electronic infrastructure, we recommended the Postal Service form an organizational steering committee comprised of key stakeholders to establish an electronic distribution policy. In addition, we recommended the steering committee implement this policy and review additional opportunities throughout the organization.

As detailed in the body of the report, we further recommended the appropriate Vice Presidents, where feasible:

- Increase use of electronic payments for payroll checks and vendor checks to the extent possible, including a revision of the vendor payment policy.

- Reduce or discontinue printing and/or mailing management reports that are available electronically, where possible.

- Incorporate electronic earnings statements and W-2s into planned initiatives.

Summary of Management's Comments	Management generally agreed with our findings and recommendations to establish a steering committee and capture the $3.2 million saving opportunity identified. While management agreed with 7 recommendations in their entirety, it partially agreed to one recommendation and disagreed but took the desired action for the other recommendation. Management's comments, in their entirety, are included in the appendix of this report.

Overall Evaluation of Management's Comments	Management's comments and actions taken or planned are responsive to our findings and recommendations and should correct the issues identified in the report.

INTRODUCTION

Background

The Postal Service has two Host Computing Service Centers in Eagan, Minnesota, and San Mateo, California. Annually, millions of pages of outputs are printed and mailed from these centers using state of the art resources as depicted below.

This picture illustrates the magnitude of printing and supplies used to produce various forms of output.

While electronic reporting tools are used for distributing many outputs, the Eagan Host Computing Services prints over 1,750 types[1] of outputs based on customer requirements. For a three-month period, 77 percent of printed outputs we reviewed were associated with only a few business areas. Payroll-related outputs account for about a third of printed volume. Approximately 15 percent of the printed volume is prepared for distribution manually.

Many of these outputs are mailed, which result in added costs to process, transport, and deliver. The fiscal year (FY) 2003 costs for supplies, labor, disposal, and mailing related costs are at least $5.7 million.[2]

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[1] Mainframe job names are assigned to printed outputs. We summarized on the first six characters to distinguish type.

[2] Total related costs of $5.7 million consist of $2.2 million relating to labor, supplies, and disposal and at least $3.5 million in costs associated with postage for the 47 outputs selected for review and discussed in this report.

The Postal Service has conducted several prior efforts to reduce printed outputs. These efforts resulted in reduction and elimination of some outputs. We commend these past initiatives; however, initiatives were not done on a consistent or continuous basis.

An electronic infrastructure is essential to support the distribution of outputs. The Postal Service has made recent gains in this area, providing additional opportunities to increase efficiency. Currently, the Postal Services computer infrastructure reaches at least 81 percent of facilities and 55 percent of employees. For example, Personal Central Kiosks provide Web access for employees, including craft, to their confidential personnel information in the workplace. Within the last two years, the Postal Service has provided secure Web-based access to over 300,000 employees who would not otherwise have access to a Postal Service computer in the workplace.

To further enhance its reach to employees and facilities, the Postal Service is currently working on self-service solutions such as:

- Human Capital Enterprise (HCE) - This is a major effort between Human Resources, Information Technology, and Finance/Controller to incorporate human resource functionalities for all Postal Service employees into a single integrated shared services environment.

- Advanced Computing Environment (ACE) - This effort is multi-year technology infrastructure refreshment that involves standardizing and upgrading workstations, messaging systems, and servers as well as reducing the number of server locations, help desks, and contract field support personnel.

- Portal Solutions - This effort provides employee access to personnel information from the Internet. Employees will be able to obtain access to this information through personal computers outside the Postal Service network.

- Enterprise Data Warehouse - Authorized users can query and analyze data from key business areas including; Retail, Supply Management, Finance, Network Operations, Facilities, Marketing, and Human Resources.

- Shared Service Accounting - This effort consolidates resources and financial/accounting like activities typically spread across 80 districts into three accounting service centers in Eagan, St. Louis, and San Mateo. Its purpose is to service multiple internal partners at lower costs and with higher service levels with the common goal of enhancing the Postal Service's value.

Objective, Scope, and Methodology	The objective of our audit was to determine if costs associated with generating and distributing mainframe outputs printed by the Eagan Host Computing Services could be reduced.

We interviewed personnel, conducted tests where necessary and assessed policy issues related to printed data. To assess related internal controls, we reviewed applicable policies, procedures, and other relevant materials.

To identify cost reduction opportunities, we reviewed mainframe print logs covering a three-month period ending January 2004. We selected and analyzed 47 outputs representing 77 percent of the printed volume, based on total lines printed. In addition, we interviewed Eagan and headquarters officials and business area personnel to determine if existing printed outputs were:

- Available on-line or distributed electronically.
- Could be reduced or eliminated.
- Capable of being on-line.

We also assessed costs associated with outputs selected for review. Financial opportunities identified in this report are limited to supplies, costs of processing, delivering, transporting, and other transactional costs. We used

conservative estimates that did not include direct variable costs such as labor, equipment, and overhead to avoid duplicating cost savings with other Postal Service initiatives.

This audit was conducted from November 2003 through October 2004, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We relied on the results of previous general control audits to ascertain the reliability of information used. Based on the results of these audits and in conjunction with interviews, we determined the information is sufficiently reliable to meet the audit objectives. We discussed our observations and conclusions with appropriate management officials and included their comments, where appropriate.

As we neared completion of our audit, Postal Service management suggested reviewing an expanded scope of outputs generated nation-wide through the establishment of a steering committee. Based on these actions, we customized our recommendations to encompass the broader objective.

Prior Audit Coverage

There were no previous reports issued to the Postal Service by the Office of Inspector General, the Government Accountability Office, or the Postal Inspection Service that specifically addressed internal report distribution at the Postal Service.

AUDIT RESULTS

The Postal Service has the ability to increase the efficiency of output distribution and reduce cost within the spirit of the Postal Service paper reduction policy. This can occur if the Postal Service implements an output distribution policy that conveys its preference for using electronic media over printing and distributing hardcopy outputs. Our review showed a potential financial impact of $3,220,411 annually for the specific outputs reviewed.

Controlling Printed Outputs	Controlling the distribution of printed outputs produced at the Eagan Host Computing Services is essential to increasing efficiency and minimizing associated costs. The Postal Service has the potential to increase the efficiency of output distribution and reduce cost within the spirit of its paper reduction policy. This can occur if the Postal Service takes full advantage of the existing electronic infrastructure, and implements an output distribution policy that requires the use of electronic media over printing and distributing hardcopy outputs.
Output Distribution Policy	Our assessment of controls noted the Postal Service is without a documented policy for requesting, approving, and reducing printed outputs. This occurred because there have not been corporate policies and procedures to provide guidance on electronic distribution and monitoring of printed outputs. While we recognize the business areas determine the need, some outputs printed and distributed from Eagan Host Computer Services were available in electronic form.

Industry best practices state that output distribution lists be initially approved and subsequently reviewed at least once a year. The number of printed copies should also be evaluated and outputs not used be eliminated. This process would allow outputs to be received only by necessary users. Establishing such a policy will increase efficiency by reducing production costs as discussed in subsequent sections of this report. A policy would provide business users with guidance towards electronic reporting and consideration of cost reductions.

Postal Service management suggested a steering committee could be formed to establish and implement a policy for promoting the use of the current electronic infrastructure. Establishing a steering committee made up of all key stakeholders such as Engineering, Information Technology, Operations, Finance, and Supply Management will be essential in accomplishing an agency-wide electronic distribution effort and directing future reviews to reduce printed outputs.

Environmental Considerations	As an additional benefit, actively promoting the electronic distribution of data will further contribute to achieving waste reduction goals set by environmental management. According to Handbook AS-552, <u>Pollution Prevention Guide</u> (D-19):

- The Postal Service is committed to the reduction of waste at the source of generation.

- In office settings, the Postal Service is encouraged to use electronic mail rather than paper memos and distribution copies.

- Distribution lists should be limited.

- If paper copies are necessary, the Postal Service should circulate one memo or report with a cover sheet indicating distribution.[3]

Incorporating electronic reports distribution policy in the pollution guide would help the Postal Service meet its environmental goals in addition to efficiency and cost reduction goals.

Recommendation	We recommend the Vice President, Delivery and Retail; Vice President Labor Relations; Vice President, Employee Resource Management; Vice President, Supply Management; and Acting Vice President, Finance, Controller:

1. Form an organizational steering committee comprised of key stakeholders to:

    a) Establish an electronic distribution policy.

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[3] Handbook AS-552, <u>Pollution Prevention Guide</u>, August 1996, D-19, Paper, Items 3 and 4.

b) Implement this policy Postal Service-wide.

c) Review additional opportunities for reducing paper outputs.

Management's Comments	Management agreed with our recommendation to establish a cross-functional team comprised of key stakeholders. The team will be formed in FY 2005.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation and actions planned should correct the issues identified in the finding.

Opportunities for Cost Reduction	The Eagan Host Computing Services has the capability to increase the efficiency of output distribution and reduce cost. Out of the 47 outputs reviewed, cost reduction opportunities exist for 57 percent of the outputs. Specific areas of opportunity for increasing the use of electronic media relate to outputs that:

- Have an electronic distribution method already in place.
- Are capable of being distributed electronically as part of ongoing initiatives.

In addition, the frequencies for mailing some printed outputs may be reduced, specifically, time cards and employee receivable statements.

The financial impact of the 47 outputs reviewed is $3,220,411 annually. Reviewing printed outputs generated Postal Service-wide could provide additional monetary savings.

Outputs With an Electronic Distribution Method Already in Place	An electronic distribution method is already in place for 49 percent of printed outputs reviewed. These outputs consist of printed checks and management reports that are available electronically.
Payroll Checks	While the Postal Service has made significant progress in paying employees electronically, it printed 6.4 million payroll checks during FY 2003. Our analysis of payroll activity during March 2004 showed 28 percent of employees[4] continue to receive paper checks.

Historically, the payroll direct deposit program has been implemented on a voluntary basis. In addition, existing Postal Service labor agreements do not specifically address electronic payments, which may be a negotiable item. Increasing participation to a comparable level with federal agencies could provide $648,392 annually in cost savings to the Postal Service.

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[4] Twenty-eight percent (228,466 of 809,380) of all employees continue to receive paper checks.

Benchmarking the use of direct deposit for payroll to federal agencies showed:

- Electronic funds transfer provisions within the Debt Collection Act[5] require federal agencies to utilize electronic funds transfer payment with limited exceptions.

- Department of Defense pays all of its 5.9 million employees electronically as a condition of employment.

- Other federal agencies for which the United States Treasury disburses payroll achieved 98 percent electronic funds transfer participation. To achieve this percentage, agencies with unionized employees used companion mailers to describe the benefits of electronic funds transfer and strongly encouraged participation. Ultimately, employees had to certify they did not have bank accounts if they insisted on receiving a paper check.

Given these facts, we believe the Postal Service has an opportunity to increase payroll electronic funds transfer participation and recommend pursuit of this opportunity in future negotiations.

Recommendations	We recommend the Vice President, Labor Relations and Vice President, Employee Resource Management:

2. Incorporate a direct deposit campaign for craft and non-craft employees similar to the successful efforts used by federal agencies with employee unions.

We recommend the Vice President, Labor Relations; Vice President, Employee Resource Management; and Acting Vice President, Finance, Controller:

3. Negotiate the use of direct deposit as a condition of employment for existing and/or new employees in future labor and nonlabor agreements.

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[5] Public Law 104-134, Debt Collection Improvement Act of 1996, Section 31001 (X).

Management's Comments	Management agreed with recommendation 2 and is currently encouraging employees to utilize direct deposit through various internal media. Management partially agreed to recommendation 3 citing it could not unilaterally mandate the use of direct deposit but will attempt to do so consistent with overall bargaining priorities and strategies.
Evaluation of Management's Comments	Management's comments are responsive to recommendations 2 and 3 and actions taken or planned should correct the issues identified in the findings.
Vendor Checks	The Postal Service has significant opportunities to pay its vendors electronically. Specifically, over 2 million (78 percent) vendor check payments were printed and distributed during FY 2003.[6] As a matter of policy, the Postal Service has the option of making vendor payments by check, by electronic funds transfer, or by government credit card.[7] Increasing vendor participation in the electronic funds transfer program could provide $787,674 annually in cost savings to the Postal Service.

Benchmarking the use of electronic funds transfer for vendor payments to federal agencies showed:

- Federal agencies for which the United States Treasury disburses vendor payments utilize electronic funds transfer 65 percent of the time, on average.

- According to federal purchasing regulations, contractor registration is required, including electronic funds transfer information, in order to conduct business before awarding any contract, basic agreement, basic ordering agreement, or blanket purchase agreement, on or after October 1, 2003.[8]

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[6] Eagan Host Computer Services prints and distributes vendor checks for the Minneapolis, St. Louis, and San Mateo Centers.
[7] Purchasing Manual Issue 3, Appendix B, Section B.3, Contract Clause 4-1.
[8] Best Practice: Federal Acquisition Circular 2001-16 Amendment, Item I-Central Contract Registration (FAR Case 2002-018).

- The Department of Defense supports the registration process through its Central Contract Registration website. Contractors are required to register company information annually.

We reviewed data for 80,022 vendors who received checks (237,885) printed during the 2nd quarter of FY 2004. Results showed:

- Forty-six percent (36,950) of the vendors received an average of three checks. One vendor received as many as 878 checks during the quarter.

Electronic funds transfer requires a set-up and completion process by the accounting service center, which typically is not used for one-time vendor payments. We agree that set-up cost for a one-time payment may not be cost effective. However our analysis of a single quarter showed:

- Fifty-four percent (43,072) represented one-time payments to vendors including corporations and small businesses.

- The average amount of single payments during the quarter was $1,435. The government credit card allows for payments up to $10,000.

Given these facts, we believe the Postal Service has significant opportunities to increase vendor electronic funds transfer participation.

Recommendation	We recommend the Vice President, Supply Management; and Acting Vice President, Finance, Controller: 4. Revise the Postal Service vendor payment policy to require vendors, to the extent possible, to accept electronic funds transfer or government card with limited exceptions.
Management's Comments	Management agreed with the intent our recommendation and stated the current contractual policy is sufficient. They also stated they would work to enhance internal process improvements to increase the use of electronic funds transfer (EFT) payments in FY 2005.

| **Evaluation of Management's Comments** | Management's comments are responsive to the recommendation and actions planned should correct the issues identified in the finding. |

Management Reports We noted that 8 of 11 management reports reviewed were mailed to thousands of sites, even though many users could view them electronically. Management reports with an existing electronic medium are used by the following business areas:

Delivery & Retail Outputs	**Savings Opportunities ($)**
Rural Route Evaluations	$139,577
Rural Carrier Hours	$136,700
Rural Route Master Listing	$76,939
Total	**$353,216**

Finance Outputs	**Savings Opportunities ($)**
Payroll Adjustments	$72,447
Employee On-Rolls Statistics	$26,958
Total	**$99,405**

Human Resource Outputs	**Savings Opportunities ($)**
Retirement Related	$0*
Employee Master Listing	$0*
Employee Reference Listing	$60,983
Total	**$60,983**

*Financial impact not captured because outputs not mailed.

This occurred because there has not been a consistent and continuous policy for encouraging electronic distribution and monitoring of printed outputs. We estimate the Postal Service can avoid at least $513,604 annually by maximizing its use of electronic means for viewing management reports.

To demonstrate the need for improvement, we highlight the following examples:

- Rural route evaluation reports were produced 29 times during FY 2003 and distributed in separate mailings totaling about 108,000. Mailings during the year ranged from 2,000 to 13,000 locations. Four copies are generated for each mailing; three are mailed to respective post offices and one mailed to the corresponding district

office. Only one copy is required for the post office route book and that report can be viewed electronically. If additional copies were needed, a user would still be able to print locally.

- Employee on-roll statistics were being printed and distributed to field offices by the Eagan Host Computing Services. This report is currently available and in use within the Enterprise Data Warehouse. As the Postal Service continues to populate and increase its use of the enterprise data warehouse with self-service payroll, human resource, and other employee information, we believe there will be less of a need for the Eagan Host Computing Services to support management reports in printed form.

Recommendations	We recommend the Vice President, Delivery and Retail:

5. Reduce or discontinue, to the extent possible, management reports for Delivery and Retail that are available electronically.

We recommend the Acting Vice President, Finance, Controller:

6. Reduce or discontinue, to the extent possible, management reports for Finance that are available electronically.

We recommend the Vice President, Employee Resource Management:

7. Reduce or discontinue, to the extent possible, management reports for Human Resources that are available electronically.

Management's Comments	Management agreed with recommendations 5 through 7 to reduce management reports in paper form, where feasible. They also stated that additional costs associated with printing reports locally would be considered as a part of the decision to move to electronic reports distribution.
Evaluation of Management's Comments	Management's comments for recommendation 5 through 7 are responsive to the recommendations and actions taken or planned should correct the issues identified in the finding.

Outputs Capable of Being Distributed Electronically	The audit also showed employee earning statements and W-2 forms are capable of being distributed electronically as part of ongoing initiatives that enhances infrastructure. These outputs currently do not have an electronic distribution method in place. This occurred because the Postal Service has not given priority to reengineering payroll processes in current human resources technology initiatives. The Postal Service can avoid costs of $1,270,741 annually by incorporating these outputs into on-going initiatives such as the Human Capital Enterprise.
Earning Statements/W-2s	Though the Postal Service does not currently have an infrastructure in place to provide electronic earnings information to its employees, federal departments have embraced the benefits of distributing electronic earnings information on a voluntary basis. For example, the Department of Defense publicizes a 44 percent sign-up rate for 5.9 million employees to its electronic earnings website. Likewise, the National Finance Center, which provides secure services to more than 100 federal agencies, publicizes a 57 percent enrollment rate to its employee personal page website that provides earnings and benefits information.

According to the National Finance Center:

- All client agencies offer their employees the opportunity to enroll in the employee personal page.

- Enrollment at most agencies is voluntary. Once enrolled, an employee can then make an election to discontinue receiving a paper earning and leave statement. Clearly, the higher the percentage of employees who elect to go paperless, the greater the savings for that agency.

- All employees at the Department of Justice Headquarters and the Department of Treasury, Office of Inspector General, receive paperless earning and leave statements.

The use of electronic earnings and benefit information is expected to grow significantly in the future. As it grows, so do the savings for federal agencies that move in this direction.

Recommendation	We recommend the Acting Vice President, Finance, Controller:
	8. To the extent possible, capture the reported cost savings by prioritizing and incorporating electronic earnings statements and W-2s into planned initiatives.[9]
Management's Comments	Management agreed with the spirit of our recommendation to reduce employee earnings information provided in paper form. They stated the Postal Service has identified some obstacles that must be overcome before this recommendation can be implemented. Most notably, cost and privacy issues must be thoroughly studied and vetted through the appropriate functional groups. Postal Service management plans to refer this recommendation to the steering committee for action, and will keep the OIG abreast of that committee's recommendation.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation and actions planned should correct the issues identified in the finding.
Outputs Where Mailing Frequencies May Be Reduced	Our analysis further showed that employee receivable statements and time cards have mail frequencies that may be reduced.
Employee Receivable Statements	Employee receivable statements is an area that may have opportunities where the Postal Service can reduce mailing frequencies. Currently invoices are the first form of notification of a debt owed. Subsequently, monthly statements are mailed reflecting historical transactions regardless of amount owed. The Postal Service does not have a business requirement for producing receivable statements that includes the reduction of printing and mailing outputs.
	Our analysis of monthly receivable statements printed and mailed by the Eagan Host Computing Services in February 2004 showed that at least 50 percent (4,884 of 9,677) of monthly statements analyzed pertain to employee debts to the Postal Service.

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[9] The phrase "to the extent possible" was not included in the original draft report and was added based upon discussions with Postal Service management.

As depicted below, 21.56 percent of statements mailed to employees valued $0.

Employee Statements Up to $25

Range of $	Count	Percent of Count	Percent of Field	Total Due
<0.01	1,053	21.56%	0%	$0
0.01 - 25.00	85	1.74%	0%	$869
>25.00	3,746	76.70%	100%	$6,949,226
Totals	4,884	100.00%	100%	$6,950,095

While statements serve as a collection reminder or notification of receipt of payment, the employee relations manual specifies procedures for collecting debts from employees, including salary offsets. The employee relation's manual is silent on the frequency of distributing employee receivable statements.

We recognize employee statements cannot be eliminated. However, there are no legal barriers to prevent the Postal Service from reducing the frequency of the mailings. As such, we believe the mailing of these statements can be changed from monthly to another production frequency, such as, quarterly.

Timecards
Employee time cards also have mail frequencies that may be reduced. Generally, time cards are mailed weekly to small post offices. The Postal Service does not have a business requirement for reducing the production of time cards for small post offices that includes the reduction of printing and mailing of these outputs. Our analysis of time card distributions showed that:

- Ninety-five percent of over 20,000 weekly mailings were sent to locations with five or less employees.

- It may be cost-prohibitive to deploy electronic badge readers to facilities with small numbers of employees.

- Manual work-a-rounds may be feasible since the deployment of Time and Attendance Collection System (TACS), Rural TACS and Telephone Voice Response (TVR) has changed the business

environment. For example, the Postal Service could eliminate 75 percent of time card distributions if it changed its production run from weekly to monthly.

Recommendation	We recommend the Acting Vice President, Finance, Controller: 9. Review opportunities for reducing the distribution frequency for employee receivable statements and timecards.
Management's Comments	Management disagreed with this recommendation and stated that at this time they are not in a position to reduce timecards. They also believe that employees should receive receivable statements just like any other receivable. However, they acknowledged that these areas may be suitable for electronic conversion and thus will refer this matter to the steering committee for action and resolution.
Evaluation of Management's Comments	Management's action to refer timecards and employee statements to the steering committee for further review is responsive to our recommendation.

APPENDIX. MANAGEMENT'S COMMENTS

LYNN MALCOLM
ACTING VICE PRESIDENT
FINANCE, CONTROLLER

UNITED STATES
POSTAL SERVICE

September 30, 2004

RONALD D. MERRYMAN
DEPUTY ASSISTANT INSPECTOR GENERAL,
FOR TECHNOLOGY, MARKETING AND OVERSIGHT

SUBJECT: Management Response-Reports Distribution
(Report Number IS-AR-04-DRAFT)

The Postal Service appreciates the efforts of the Office of Inspector General to identify reports, currently produced in hardcopy format, which can be converted and distributed electronically. Consistent with our ongoing efforts to eliminate unnecessary costs, this report is another step toward developing an economically feasible and comprehensive reports distribution plan.

Since the issuance of the draft audit report, postal staff has been in contact with the audit team to resolve several issues in connection with the report. That cooperative effort led to the modification of recommendation 8 (the revised recommendation is stated below). Moreover, an agreement was reached to refer recommendation 9 to the soon to be formed steering committee for action, as the Postal Service is not currently in a position to agree to the course of action outlined in the draft report. Finally, consistent with longstanding policy regarding addressees to audit reports, all senior level postal vice presidents have been removed as addressees and replaced with their direct reports.

While the Postal Service is in agreement with the general thrust of the report, there are some factual discrepancies that bear mentioning. As part of this audit, the Inspector General used rural delivery report, PS Form 4241-A (Rural Route Evaluation), as an example of a report that could be provided electronically. Currently, this report is produced by the Eagan Host Computing Service each time a work hour or salary change occurs on a rural route and hardcopies are mailed to the appropriate delivery offices. Four copies of each form are mailed with the district, local post office, route book, and carrier each receiving a copy. With the exception of the carrier copy, which contains personal salary information, the other forms are identical. While the Postal Service agrees that the district hardcopy, and in some instances the local post office hardcopy, could be eliminated, carrier and route book copies of this report are necessary as carriers and some smaller office postmasters have limited computer access ability to view these reports on-line.

Likewise, the report states that the Postal Service can save $60,983 by distributing the Employee Reference Report electronically. Currently, that report is no longer provided in hardcopy. The information is now available electronically through our local personnel offices.

Finally, the comment regarding employee zero balance statements is somewhat misleading. With respect to this finding, the Postal Service follows standard industry practice, which is to provide such a statement if there is activity for the period.

With the exception of the $60,983 discussed above, the Postal Service agrees with the monetary findings contained in the draft report. Also, no proprietary information was noted; therefore, the final report is releasable under FOIA.

475 L'ENFANT PLAZA SW RM 8011
WASHINGTON DC 20260-5200
202-268-4177
FAX: 202-268-6934

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1. We recommend the Vice President, Delivery and Retail; Vice President, Labor Relations; Vice President, Employee Resource Management; Vice President, Supply Management; and Acting Vice President, Finance, Controller form an organizational steering committee comprised of key stakeholders.

Response:

Management agrees with this recommendation and plans to form a cross-functional team comprised of key stakeholders and representation from the OIG. The team will be formed during FY2005.

2. We recommend the Vice President, Labor Relations and Vice President, Employee Resource Management incorporate a direct deposit campaign for craft and non-craft employees similar to the successful efforts used by federal agencies with employee unions.

Response:

Management agrees with this recommendation and is currently encouraging employees to utilize direct deposit through various internal media.

3. We recommend the Vice President, Labor Relations; Vice President, Employee Resource Management; and Acting Vice President, Finance, Controller negotiate the use of direct deposit as a condition of employment for existing and/or new employees in future labor and non- agreements.

Response:

Management partially agrees with this recommendation. The Postal Service Law Department, in an August 1998 memorandum, determined that the Postal Service cannot unilaterally mandate the use of direct deposit for employees; rather such a change would be subject to collective bargaining with the various unions and employee associations. To the extent the use of direct deposit can be negotiated in future labor contracts and association agreements, the Postal Service will attempt to do so consistent with overall collective bargaining priorities and strategies.

4. We recommend the Vice President, Supply Management; and Acting Vice President, Finance, Controller revise the Postal Service vendor payment policy to require vendors, to the extent possible, to accept electronic funds transfer or government card with limited exceptions.

Response:

Management agrees with the intent of this recommendation. Current contractual payment policy is sufficient and is found in Purchasing Manual Clause, 4-1, para i.(1). This clause allows the Postal Service to dictate the most appropriate method of payment, including: check, EFT, or credit card. We will work to enhance internal process improvements to increase EFT payment use at the Postal Service and anticipate implementing changes in FY2005.

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5. We recommend the Vice President, Delivery and Retail reduce or discontinue, to the extent possible, management reports for Delivery and Retail that are also available electronically.

Response:

Management agrees to review those reports currently available electronically and, where feasible, eliminate or reduce the manual distribution of those reports. However, the additional costs associated with printing reports locally will be considered as part the decision to move to electronic reports distribution.

6. We recommend the Acting Vice President, Finance, Controller reduce or discontinue, to the extent possible, management reports for Finance that are also available electronically.

Response:

See response to 5 above.

7. We recommend the Vice President, Employee Resource Management reduce or discontinue, to the extent possible, management reports for Human Resources that are also available electronically.

Response:

See response to 5 above.

**8. We recommend the Acting Vice President, Finance, Controller, to the extent possible, capture the reported cost savings by prioritizing and incorporating electronic earnings statements and
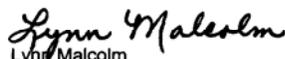W-2s into planned initiatives.**

Response:

Management agrees with the spirit of this recommendation. The Postal Service has identified some obstacles that must be overcome before this recommendation can be implemented. Most notably, cost and privacy issues must be thoroughly studied and vetted through the appropriate functional groups. To that end, we plan to refer this recommendation to the steering committee for action, and we will keep the OIG abreast of that committee's recommendation.

9. We recommend the Acting Vice President, Finance, Controller review opportunities for reducing the distribution frequency for employee receivable statements and timecards.

Response:

Management disagrees with this recommendation. At this time we are not in a position to reduce timecards. Additionally, we believe employees should receive statements just like any other receivable. However, we acknowledge that this is an area that may be suitable for electronic conversion and will refer this matter to the steering committee for action and resolution.

Lynn Malcolm
Lynn Malcolm
Acting Vice President
Finance, Controller