

September 28, 2001

KENNETH C. WEAVER
CHIEF POSTAL INSPECTOR

SUBJECT: Audit Report – Postal Inspection Service Fraud
Against Government Program (Report Number OV-AR-01-004)

This report presents the results of our self-initiated audit of the Postal Inspection Service Fraud Against Government Program (Project Number 00JA011OV000). Our objectives were to determine the Inspection Service's authority to conduct fraud against government investigations, whether the investigations benefited the Postal Service, and whether associated statistics were accurately captured and reported. This report is the first in a series of reports addressing the Inspection Service's fraud program. This audit was included in our fiscal year (FY) 2001 audit workload plan.

The audit revealed that the Inspection Service is authorized by statute to investigate fraudulent activity directed at other government agencies; however, these investigations are not intended to improve the financial viability or support the performance goals of the Postal Service. The Inspection Service reported that its investigations under the fraud against government program assisted in obtaining \$491 million in fines and restitution; however, they did not report that only \$2.9 million of these funds were due to be provided to the Postal Service. We also found that we could not determine the accuracy of arrest and conviction statistics reported by the Inspection Service because it did not fully document the extent of its involvement in fraud against government investigations. We recommended that Inspection Service management require the separate reporting of fines and restitution due to the Postal Service; fully document the investigative activity conducted on task forces and joint investigations; and ensure that arrest and conviction statistics are only reported when the Inspection Service motivates and materially contributes to the investigation.

Management provided comments to the report and partially agreed with our recommendations. Management stated that they will explore the feasibility and cost effectiveness of modifying their existing database information system to track and report fines and restitution due to the Postal Service. Management further stated that they are conducting a case file improvement initiative to assist in ensuring the appropriate documentation of investigative activity and reporting of arrest and conviction statistics. Management's comments and our evaluation of these comments are included in the report.

The Office of Inspector General (OIG) considers recommendation 1 as unresolved and plans to pursue it through the formal audit resolution process.

The OIG considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until OIG provides written confirmation that the recommendation can be closed. We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Cathleen A. Berrick, director, Oversight, at (703) 248-4543, or me at (703) 248-2300.

Kirt West
Assistant Inspector General for
Congressional and Oversight

cc: John M. Nolan
James J. Rowan, Jr.
Kenneth W. Newman
John R. Gunnels

TABLE OF CONTENTS

Executive Summary

Part I

Introduction	1
Background	1
Objectives, Scope, and Methodology	1
Prior Audit Coverage	2

Part II

Audit Results	3
Authority Exists to Conduct Fraud Against Government Examinations	3
Separate Reporting of Fines and Restitution Due to the Postal Service	6
Recommendation	7
Management's Comments	8
Evaluation of Management's Comments	8
Accuracy of Arrest and Conviction Statistics	10
Recommendations	11
Management's Comments	11
Evaluation of Management's Comments	12
Appendix A. Statistical Sampling for Fraud Against Government	13
Appendix B. Management's Comments	16

EXECUTIVE SUMMARY

Introduction

This report presents the results of our self-initiated audit of the Postal Inspection Service Fraud Against Government Program. Our objectives were to determine the Inspection Service's authority to conduct fraud against government investigations, whether the investigations benefited the Postal Service, and whether associated statistics were accurately captured and reported. This report is the first in a series of reports addressing the Inspection Service's fraud program. We initiated this review as part of the Office of Inspector General (OIG) statutory responsibility to provide oversight of the Postal Inspection Service.

Results in Brief

The audit revealed that the Inspection Service investigates fraudulent activity directed at other federal, state, and local government agencies under its fraud against government program. The Inspection Service participates in these investigations, under statutory authority, because the fraudulent activity involves information passing through the United States mail, but otherwise does not impact the Postal Service. These investigations are not intended to improve the financial viability or support the performance goals of the Postal Service, but rather help ensure that the mail provides a safe and secure method to carry out commerce, and is not used to further illegal activity. We will continue to assess the Inspection Service's support of Postal Service goals during our reviews of the Inspection Service's fraud against business and consumer programs.

The audit also revealed that the Inspection Service reported \$491 million in fines and restitution resulting from fraud against government investigations which it participated in, but did not report that only \$2.9 million of these funds were due to be provided to the Postal Service. We also found that the accuracy of arrest and conviction statistics, reported by the Inspection Service, could not be determined because the Inspection Service did not fully document the extent of its involvement on fraud against government investigations. Without the separate reporting of fines and restitution due to the Postal Service and assurance of the accuracy of arrest and conviction statistics, the benefit of the Inspection Service's involvement in investigations with other

government agencies could be misinterpreted by Congress, the Board of Governors, and Postal Service management. Full documentation of case activity would also provide better information for Inspection Service management to use in assessing the appropriate allocation of resources to these investigations.

**Summary of
Recommendations**

We recommended that management require the separate reporting of fines and restitution due to the Postal Service; fully document the investigative activity conducted on task forces and joint investigations; and ensure that arrest and conviction statistics are only reported when the Inspection Service motivates and materially contributes to the investigation.

**Summary of
Management's
Comments**

Management partially agreed with our recommendation to separately report fines and restitution due to the Postal Service, stating that they will explore the feasibility and cost effectiveness of modifying their existing database information system to track and report this information.

Management agreed with our recommendations to fully document the investigative activity conducted on task forces and joint investigations, and ensure that arrest and conviction statistics are only reported when the Inspection Service motivates and materially contributes to the investigation. Management further stated that they are conducting a case file improvement initiative, scheduled to continue into fiscal year 2002, to assist in ensuring the appropriate documentation of investigative activity and reporting of arrest and conviction statistics. Management's comments, in their entirety, are included in Appendix B of this report.

**Overall Evaluation of
Management's
Comments**

Management's comments regarding the separate reporting of fines and restitution due to the Postal Service are not fully responsive to the recommendation. The Inspection Service already maintains an ad hoc system that separately tracks fines and restitution due to the Postal Service. Further, Inspection Service officials stated that this system can provide accurate information for reporting purposes. If the Inspection Service determines that it is not cost effective to modify their existing database information system to track this information, we believe that they should utilize their existing ad hoc system for this purpose. Accordingly, we view this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

Management's comments regarding the documentation of their investigative activity and reporting of arrest and conviction statistics are responsive to the recommendations.

INTRODUCTION

Background

The Postal Inspection Service is authorized by federal laws and regulations to investigate and enforce over 200 federal statutes related to crimes against the United States mail, the Postal Service, and its employees. Under this authority, the Inspection Service investigates crimes in which the United States mail is used to further a scheme, whether originating from the mail, by telephone, or on the Internet.

The fraud program is the second largest Inspection Service criminal program and one of the most visible. The Inspection Service categorizes mail fraud into three broad victim types: fraud against government, fraud against business, and fraud against consumers. The objective of the fraud program is to protect the Postal Service and the American public from being victimized by fraudulent schemes where the use of the mail is an essential part of the scheme.

Resources allocated to the fraud against government program represented approximately 46 staff years during fiscal year (FY) 2000. The program accounts for 16 percent of fraud resources, or 3 percent of total Inspection Service program resources.¹ According to the FY 2000 Annual Report of Investigations, the Inspection Service conducted 622 investigations within the fraud against government program, resulting in 419 arrests and 359 convictions.²

Title 18, United States Code, Section 1341, Mail Fraud Statute, defines fraud as a scheme that uses the United States mail to obtain money or property by means of false or fraudulent representation. This statute was expanded in 1994 to include the delivery by any private or commercial interstate carrier.

Objectives, Scope, and Methodology

Our objectives were to determine the Inspection Service's authority to conduct fraud against government investigations, whether the investigations benefited the Postal Service, and whether associated statistics were accurately captured and reported. To accomplish our

¹ A staff year equals the total number of hours worked by a postal inspector during a fiscal year. We calculated FY 2000 staff years by dividing the total number of hours expended on the fraud against government program by the average number of hours per inspector staff year.

² Convictions may be as a result of arrests made during FY 2000 or prior reporting periods.

objectives, we statistically selected and reviewed 50 fraud against government investigations closed between October 1997 and August 2000.³ Specifically, we reviewed associated criteria, closed case files, Inspection Service database case summary reports, and program work hours. We interviewed Postal Service Headquarters officials from the Strategic Planning Office. We also interviewed headquarters Inspection Service personnel from the Fraud, Child Exploitation and Asset Forfeiture group, and the Strategic Planning and Management Process group. See Appendix A for the detailed sampling plan.

In addition, we benchmarked with officials from the Federal Bureau of Investigations, Housing and Urban Development Office of Inspector General, Social Security Administration Office of Inspector General, Defense Criminal Investigative Service, and Naval Criminal Investigative Service to determine their procedures for documenting investigative activity and capturing and reporting fraud program statistics.⁴

We conducted the audit from September 2000 through September 2001 in accordance with generally accepted government auditing standards. We reviewed management controls as they related to the audit objectives. We assessed the accuracy of data contained in the Inspection Service database and determined that it was sufficient to support our audit conclusions. We discussed our conclusions and observations with management officials and included their comments, where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objectives of this audit.

³ Our original sample included 51 closed case files. We did not review one closed case file because Inspection Service officials were unable to locate the file.

⁴ Information obtained from other federal agencies was self-reported and was not independently verified.

AUDIT RESULTS

Authority Exists to Conduct Fraud Against Government Investigations

The Inspection Service investigates fraudulent activity directed at other federal, state, and local government agencies under its fraud against government program. The Inspection Service participates in these investigations because the fraudulent activity involves information passing through the United States mail, but otherwise does not impact the Postal Service. The Inspection Service generally conducts these investigations either jointly with the affected agency or as part of a task force involving numerous agencies.

The Inspection Service participated in task forces and joint investigations of fraud committed against other government agencies for a projected 211,782 of the 231,897⁵ work hours expended on its fraud against government program from October 1997 through August 2000. These investigations included:

- A government employee improperly receiving benefits under government programs, including public housing subsidies, food stamps, and Pell grants.
- A social worker improperly obtaining public assistance, such as food stamps.
- A trading post on a Native American Reservation and its customers not paying applicable taxes on cigarettes sent through the mail.
- An individual improperly receiving unemployment benefits.

Title 18, United States Code, Section 3061, Investigative Powers of Postal Service Personnel, grants postal inspectors the authority to enforce laws regarding property in the custody of the Postal Service, property of the Postal Service, the use of the mails, and other Postal Service offenses.

⁵ The 231,897 work hours excludes work hours dedicated to area cases.

The Inspection Service participated in task forces and joint investigations based on this authority, even though the fraud was not directed at the Postal Service.

The Inspection Service's fraud against government program is not designed to improve the financial viability of the Postal Service, or directly support the Postal Service's performance goals of affordability, growth, and flexibility. These performance goals, as contained in the U.S. Postal Service Five-Year Strategic Plan, FY 2001 – FY 2005, involve earning customers' business by providing them with world-class quality at competitive prices; generating financial performance that assures the commercial viability of the Postal Service as a provider in a changing, competitive marketplace; and generating a positive cash flow to finance investments for the future while providing competitively-priced products and services.

Rather, the Inspection Service initiated fraud against government investigations to help address public concerns that impact the mail and the Postal Service's integrity. Specifically, fraud against government investigations helped maintain the sanctity of the mail and the public's positive image of the Postal Service through helping ensure the mail is safely and securely used to carry out commerce, and is not used to further illegal activity directed at other government agencies.

Inspection Service officials stated that the priorities of the Inspection Service, which was funded by the Postal Service at a cost of \$465 million during FY 2001, are not dictated by the Postal Service. Rather, the Inspection Service is a federal law enforcement agency with the statutory authority to enforce over 200 federal laws.

The next 5 years are a critical period for the Postal Service. They will test whether the Postal Service can meet the tough challenges of continued service improvements, significant cost reductions, and productivity increases, while growing the core business. The postmaster general recently stated that the Postal Service must grow revenue, and that its first and foremost effort must be to focus on the core business. Fraud against government investigations, although they help maintain the public's trust in the brand name of the Postal Service, are not intended to directly support this effort.

Given the Postal Service's current financial condition, and faced with the challenges of expected future losses, we believe that it is important to focus on the Postal Service's efforts in achieving their performance goals, as well as how other efforts, including the Inspection Service's fraud program, support these goals. Accordingly, we will continue to assess the Inspection Service's support of Postal Service goals during our reviews of the Inspection Service's fraud against business and consumer programs.

**Separate Reporting of
Fines and Restitution
Due to the Postal
Service**

The Inspection Service reported all fines and restitution awarded as a result of task forces and joint investigations worked, without separately identifying those monies due to the Postal Service. Specifically, the Inspection Service reported that their investigative efforts resulted in fines and restitution totaling \$491 million during the time period reviewed, October 1997 through August 2000. However, of these funds, only \$2.9 million was awarded to the Postal Service. The Inspection Service reported fines and restitution to the Congress, Board of Governors, Postal Service management, and external agencies.

For example, postal inspectors participated on a health care fraud task force that conducted an investigation resulting in the award of \$6.3 million in fines and restitution. However, the Inspection Service reported the entire \$6.3 million, without identifying that less than \$43,000 in fines was actually awarded to the Postal Service. In another example, inspectors participated in a joint investigation and reported almost \$1.5 million in restitution, yet did not identify that the Postal Service would not receive any of the funds awarded.

The Inspection Service Manual requires that inspectors report all court-ordered fines and restitution awarded on investigations worked, but does not require the separate reporting of those fines and restitution due to the Postal Service. As a result, Congress, the Board of Governors, and Postal Service management could misinterpret the actual monetary benefit to the Postal Service derived from these investigations.

We benchmarked with other federal agencies and determined that they, too, report all fines and restitution awarded from task forces and joint investigations worked, regardless of which agency was awarded the money. Furthermore, we determined that these agencies did not separately report funds awarded only to their agency. However, we also found that monies awarded to these agencies are normally deposited in the Department of Treasury's general fund, rather than provided to the individual agencies. In contrast, monies awarded to the Postal Service are made available to the Postal Service

only, to be used at their discretion. As a result, we believe it is in the best interest of the Postal Service to identify and track these funds.

In addition, the Inspection Service could not initially identify the total amount of fines due to the Postal Service as a result of fraud against government investigations. Inspection Service officials stated that they did not track fines awarded to the Postal Service under these investigations because the total dollar amount due was immaterial. Inspection Service officials were able to subsequently create a report identifying total fines awarded to the Postal Service for FYs 1998 through 2000. However, this information was generated from an "ad hoc" computer database, rather than the Inspection Service Database Information System, and could not be verified for accuracy.

Since fines awarded to the Postal Service represent funds that would be available for use once received, we believe it is important that the Postal Service be aware of monies due as a result of these efforts. We plan to assess the Inspection Service's process for tracking fines and restitution during a follow-on review.

As a result of not separately reporting those fines awarded to the Postal Service from task forces and joint investigations worked, the benefit of fraud against government investigations and their impact on the Postal Service could be misinterpreted by Congress, the Board of Governors, and Postal Service management. In addition, management may not be aware of monies awarded to the Postal Service, as a result of these investigations, to assist in meeting business goals. Therefore, we believe it is important that monies earmarked for the Postal Service be reported separately from fines and restitution awarded to other agencies.

Recommendation

We recommend that the chief postal inspector:

1. Modify the Inspection Service Manual to require the reporting of fines and restitution awarded to the Postal Service separately from fines and restitution awarded to other agencies as a result of fraud against government investigations.

**Management's
Comments**

Management partially agreed with the recommendation stating that, during FY 2002, they will explore the feasibility and cost effectiveness of modifying their existing database information system and reporting requirements to add a separate breakdown of fines due to the Postal Service. Management stated that the database information system is the recognized Inspection Service system for reporting agency statistics. Management further stated that in the interim, they will continue to maintain their manual ad hoc system of tracking this information in the event it is needed and published. Management stated that although ad hoc systems can provide accurate information, they generally provide an interim solution and may require additional manual effort.

Although management agreed to explore the feasibility and cost effectiveness of modifying their existing system, they stated that they met with officials from the Postal Service Corporate Accounting Office to determine their interest in the separate tracking and reporting of fines and restitution due to the Postal Service. According to Inspection Service management, Corporate Accounting officials stated that fines and restitution due to the Postal Service were too "immaterial" to justify the costs in resources to track and verify these funds, and uncertainty existed as to whether the funds would ever actually be collected.

**Evaluation of
Management's
Comments**

Management's comments are not fully responsive to the recommendation. We continue to believe that fines and restitution awarded to the Postal Service should be reported separately from total fines and restitution awarded from task forces and joint investigations worked. As identified in the report, fines awarded to the Postal Service as a result of these investigations can be used at the discretion of Postal Service management, unlike fines generated from investigations conducted by other federal agencies, which are provided to the Department of Treasury.

The Inspection Service already maintains an ad hoc system that separately tracks fines and restitution due to the Postal Service. Further, although Inspection Service officials stated that they preferred exploring the modification of their

existing database information system to track this information, officials agreed that their ad hoc system can provide accurate information for reporting purposes.

In addition, we did not recommend that the Postal Service Corporate Accounting Office separately track and report fines and restitution due to the Postal Service. Rather, we recommended that the Inspection Service report this information separately from total fines and restitution awarded on task forces and joint investigations worked. However, we contacted officials from the Postal Service Corporate Accounting Office to obtain their position regarding the Inspection Service's separate reporting of fines and restitution due to the Postal Service. Officials stated that they had no objections to the Inspection Service separately tracking and reporting this information. In addition, officials stated that this information could be tracked and reported outside of the Inspection Service's Database Information System.

If the Inspection Service determines that it is not cost effective to modify their existing database information system to track fines and restitution awarded to the Postal Service, we believe that they should utilize their ad hoc system to track and report this information. Accordingly, we view this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

**Accuracy of Arrest
and Conviction
Statistics**

We could not determine the accuracy of arrest and conviction statistics reported for the fraud against government program. Inspection Service case files and database information did not fully identify the investigative activity performed by the Inspection Service while participating in task forces and joint investigations. As a result, we could not determine whether arrest and conviction statistics were appropriately reported for these investigations.

We could not identify the investigative activity conducted by the Inspection Service for 6 of the 39 task forces and joint investigation case files reviewed, and 18 of the 39 task forces and joint investigations selected for review in the Inspection Service database. These cases resulted in the Inspection Service reporting 34 arrests and 33 convictions for investigations where the Inspection Service did not adequately document their investigative activity.

For example, two inspectors devoted a total of 5 work hours to a case on social security benefits fraud that was open for 480 days. However, the inspectors did not document their investigative activity conducted on the case, yet reported an arrest and conviction. In another example, two inspectors devoted a total of 16 work hours to a case on health care fraud that was open for 729 days. However, the inspectors did not document their investigative activity conducted on the case, but reported an arrest and conviction.

The Inspection Service Manual requires that investigative efforts motivate and materially contribute to the identity and arrest of a person for a Postal Service crime in order to report arrest and conviction statistics. The Inspection Service Manual further requires that inspectors maintain a record of the investigation in the case files, to include complete, detailed notes of steps taken during the investigation; prepare reports summarizing significant case developments in the Inspection Service database; and that management review and approve all documented case summaries.

Inspection Service management did not ensure that inspectors fully documented the investigative activity conducted on these investigations as required by the Inspection Service Manual. While it is possible statistics

may have been appropriately reported even though the investigative activity conducted was not documented, we believe that it may be difficult for management to make this determination since investigations are monitored, to a large extent, through the review of the Inspection Service database and case files.

We benchmarked with other federal law enforcement agencies to determine their practices for reporting arrest and conviction statistics and documenting the investigative activity conducted. We determined that these agencies require that investigators actively participate in investigations in order to report arrests and convictions. We also identified that these agencies require investigators to fully document the investigative activity conducted on these investigations so that an individual unfamiliar with the case could determine the work performed.

Inspection Service officials stated that they consider arrest and conviction statistics when determining the appropriate allocation of resources within the fraud program. Officials further stated that they determine whether arrest and conviction statistics are properly reported by overseeing the investigative activity conducted, largely by reviewing the Inspection Service database and case files. Without fully documenting the investigative activity conducted on task forces and joint investigations, management cannot be certain that they are reporting accurate program statistics, and that resources are appropriately allocated to these investigations.

Recommendation

We recommend the chief postal inspector:

2. Require that all investigative activity conducted on fraud against government investigations be documented in the Inspection Service database and case files in accordance with the Inspection Service Manual.

**Management's
Comments**

Management agreed with the recommendation and stated that they recognize there are opportunities for improvement in this area. Management further stated that they are conducting a process improvement initiative for case file management, which will continue into FY 2002. Management added that they also plan to implement other initiatives to reinforce their commitment to case

management, including increased case management supervision, training for Inspection Service managers, and the addition of a case management module for in-service training courses.

**Evaluation of
Management's
Comments**

Management's comments are responsive to the recommendation. It is important that Inspection Service management require their inspectors to adequately document their investigative activity in accordance with established policy. Adequate documentation will assist management in ensuring that associated statistics are appropriately reported, and resources effectively allocated.

Recommendation

3. Require that arrest and conviction statistics are reported only when inspectors motivate and materially contribute to investigations in accordance with the Inspection Service Manual.

**Management's
Comments**

Management agreed with the recommendation stating that they recognize that opportunities exist for improvements in case file management, and that these opportunities will be addressed during their ongoing process improvement initiative. Management further stated that Inspection Service policy already requires that arrest and conviction statistics be reported only when the Inspection Service motivates and materially contributes to the investigation. Management added that Inspection Service policy also permits the claiming of statistics when the inspector's investigation of a Postal Service offense develops additional significant evidence which is brought to the prosecutor's attention.

**Evaluation of
Management's
Comments**

Management's comments are responsive to the recommendation. Inspection Service management should ensure that inspectors motivate and materially contribute to investigations, which may include the development of significant evidence, before reporting arrest and conviction statistics. We recognize in the report that Inspection Service policy already requires this level of contribution before associated statistics can be reported.

APPENDIX A. STATISTICAL SAMPLING FOR FRAUD AGAINST GOVERNMENT

PURPOSE OF THE SAMPLING

The audit included an assessment of the Inspection Service's involvement with task forces or joint investigations. In support of this assessment, the audit team employed a stratified sample design that allowed statistical projection of a review of the Inspection Service's participation in individual cases within the fraud against government program.

DEFINITION OF THE AUDIT UNIVERSE

The audit universe consisted of individual cases that were closed between October 1, 1997, and August 29, 2000, based on information obtained from the Inspection Service database. The subject code for area cases was excluded from the audit coverage. From the Inspection Service database, the audit team identified the list of cases that met the timeframe criterion, resulting in an audit universe of 433 cases of fraud against government, with area cases excluded from the universe. The Inspection Service was the source of the database information. The Inspection Service database information did not include all factors necessary to refine the universe listing before the selection of the sample. For example, not all cases could be identified from the database as being a task force or joint investigation.

The database also identified a total of 231,897 work hours for the fraud against government program for FYs 1998 through 2000, for those subject codes that were not area cases. The audit team conducted a supplemental review of the database information for subject code 606 (health care fraud), because that code constituted about one-third of the work hours. We were concerned that there might be cases containing a large number of hours that were specifically Postal Service related rather than task force and joint investigation related, to the extent that a ratio projection would not be applicable. No such dedicated Postal Service cases could be detected in the database information. We recognize that there is about a 1 month discrepancy in the total period covered by the cases and the work hours, and did not attempt to make any work hour adjustments for that 1 month.

SAMPLE DESIGN AND MODIFICATIONS

This audit used a stratified sample design with fraud cases allocated into two categories based on the case subject codes. The audit team allocated the subject codes to the strata based on the audit team's assessment of the subject's "probable utility to the Postal Service" (high versus low). A total of 51 cases of fraud against government were randomly selected for review, to

provide a two-sided 95 percent confidence interval with approximately 13 percent precision, based on evaluator expectations of approximately a 50 percent level of compliance on one or more attributes. The sample selection was random within each stratum, with 40 cases from stratum I ($N_I=422$) and 11 cases from stratum II ($N_{II}=11$).

The sample size was based on an evaluation of attributes associated with the case files. The audit team decided to include the work hours associated with cases, which is a variable rather than an attribute. Individual casework hour information was not accessible until individual case records were reviewed.

STATISTICAL PROJECTIONS OF THE SAMPLE DATA

Sample attribute data was projected using the formulas for estimation of a population proportion for a stratified sample, as described in Chapter 5 of Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, c.1996. Additionally, the presence of non-task force cases necessitated computations for subpopulations for one attribute, because the database could not be searched to remove other such cases from the universe. Physical review of the source documents for all cases in the universe would have been required. To perform the subpopulation calculations, we adapted the formulas from Chapter 11 (Estimation of Means and Totals Over Subpopulations) of Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, for use with stratified samples. For all attributes, the universe size is 433 cases.

We applied the ratio estimation methodology found in Chapter 6 of Elementary Survey Sampling to calculate total work hours for task forces and joint investigations. The work hours associated with task forces and joint investigations in the sample were divided by the total work hours to obtain the ratio factor for the calculation. We applied a factor of $(1+1/n)$ to the bound to account for bias⁶ associated with use of a ratio estimation methodology.

In making the projections, we included the effect of the single missing case file by treating the missing case file as not involving a task force or joint investigation. Because the missing case was in the small, census stratum, it had very little effect on the projections.

⁶ The use of $1/n$ in calculating ratio estimate bias is based on discussions in Chapter 6 of Sampling Techniques, Cochran, 1977.

CASES RELATED TO EXTERNAL TASK FORCES OR JOINT INVESTIGATIONS

Based on projection of the sample results, we are 95 percent confident that 341 to 424 cases were related to external task forces or joint investigations (78.9 percent to 98 percent of the audit universe). The unbiased point estimate is that 383 of the cases, or 88.4 percent of the audit universe, were related to external task forces or joint investigations. [The missing file is counted as not involving a task force or joint investigation.]

EXTERNAL TASK FORCE AND JOINT INVESTIGATIONS WORK HOURS

In the sample, we observed external task force and joint investigations work hours ranging from 1 hour to 1,743 hours; across the two strata, the sample taskforce work hours totaled 8,244 out of the sample total of 9,027 work hours. We calculate that the total external task force and joint investigations work hours amount for FYs 1998 through 2000 (based on cases only through August 29) is between 205,128 and 218,437 hours. The unbiased estimate of the FYs 1998 through 2000 (through 29) total external task force or joint investigations work hours amount is 211,782. [The missing file is counted as not involving a task force or joint investigation.]

APPENDIX B. MANAGEMENT'S COMMENTS



UNITED STATES POSTAL INSPECTION SERVICE

OFFICE OF INVESTIGATIONS

August 15, 2001

RONALD K. STITH
ASSISTANT INSPECTOR GENERAL
FOR OVERSIGHT AND BUSINESS EVALUATIONS

SUBJECT: Response to Draft Audit Report – Fraud Against Government Investigative Program (Report Number OV-AR-01-DRAFT)

This is in response to the request for comments regarding the findings and recommendations contained in the draft audit report on the fraud against government investigative program.

First and foremost, we wholeheartedly agree with the assessment (page 4), that the fraud against government program (FG) was initiated "to help address public concerns that impact the mail and the Postal Service's integrity. Specifically, fraud against government investigations helped maintain the sanctity of the mail and the public's positive image of the Postal Service through helping to ensure the mail is safely and securely used to carry out commerce, and is not used to further illegal activity directed at other government agencies." Most importantly, the report recognizes that FG investigations "help maintain the public's trust in the brand name of the Postal Service" (page 4). We agree that government agencies are deserving of the same protections from fraud as consumers and businesses.

Accordingly, we strongly believe this program directly supports the core business and performance goals of the Postal Service. In fact, the Postmaster General has endorsed our efforts as being directly supportive of the Postal Service and preserving the trust in the integrity of the U.S. Mail.

The following comments specifically address the three recommendations in the draft audit report:

- *"That management require the separate reporting of fines and restitution due to the Postal Service."*

Benchmarking with other federal agencies determined that similar to the Inspection Service, "they report all fines and restitution awarded from task forces and joint investigations worked, regardless of which agency was awarded the money." It was noted "that these agencies did not separately report funds awarded only to their agency." Similar to these agencies, the Inspection Service's case reporting system was not designed to separately report "monies earmarked for the Postal Service."

The report claims "Inspection Service officials stated they did not track fines awarded to the Postal Service under these investigations because the total dollar amount due was immaterial." As clarification, the Inspection Service met with Postal Service management to determine its interest in this information. Postal Service Corporate Accounting responded the amounts were too "immaterial" to justify the costs in resources to track and

475 1st Fx. Ave. Plaza Wf. SW, Room 2100
WASHINGTON DC 20260-2100
TELEPHONE: 202-798-5644
FAX: 202-286-1563

- 2

verify. Moreover, based on the known track record of criminal fines in general, they cited the uncertainty that these funds would actually be collected.

However, the Inspection Service agrees during FY 2002 to explore the feasibility and cost effectiveness of modifying our existing case database system and reporting requirements to add a specific breakdown of fines due to the Postal Service. In the interim, we will continue to maintain our manual ad hoc system of tracking this information in the event it is needed and published.

- ☐ *"Fully document the investigative activity conducted on task forces and joint investigations."*

We agree there are opportunities for improvement in this area. In fact, we have underway a process improvement initiative for case file management, which will continue into FY 2002.

- ☐ *"Ensure that arrest and conviction statistics are only reported when the Inspection Service motivates and materially contributes to the investigation."*

Inspection Service policy on claiming and reporting arrests mandates the criteria cited in this recommendation. Specifically, the policy states "the inspector's investigative efforts with another law enforcement agency [should] motivate and materially contribute to the identity and arrest of a person for a postal crime." It also permits claiming credit "when the inspector's investigation of a postal offense develops additional significant evidence, which he brings to the attention of the prosecutor, preferably in writing." As stated above, we agree opportunities exist for case file management improvements and they will be addressed during our case file management process improvement initiative in FY 2002.

If you have questions, please contact me at (202) 268-5445.



K. W. Newman
Deputy Chief Inspector
Investigations

Postal Inspection Service
Fraud Against Government Program

OV-AR-01-004



UNITED STATES POSTAL INSPECTION SERVICE

OFFICE OF INVESTIGATIONS

September 4, 2001

Ms. Cathleen Berrick
Director, Oversight
Office of the Inspector General
U.S. Postal Service
1735 North Lynn St
Arlington, VA 22209-2005

SUBJECT: Fraud Against Government Investigative Program Draft Report

The following responses pertain to the follow-up questions you submitted via electronic mail to Acting Deputy Chief Inspector James J. Rowan Jr., Professional Standards and Resource Development, on August 27, 2001.

The first three questions in the electronic message related to the Inspection Service's comments on the first recommendation concerning the reporting of fines and restitution.

We believe the most efficient and effective method to collect accurate and reliable information regarding fines and restitution would be to modify the Inspection Service Database Information System (ISDBIS). ISDBIS is the recognized management information system for reporting Inspection Service statistics. We do not recommend ad-hoc systems for reporting purposes. Ad-hoc systems of information can provide accurate information for reporting purposes but those generally provide an interim solution and may require additional manual effort. It is in the best interest of the Inspection Service to explore the feasibility and cost effectiveness of modifying ISDBIS. In the interim, we will continue to maintain our manual ad-hoc system of tracking this information in the event it is needed and published.

In regards to the comment that fines awarded to the Postal Service were "too immaterial," we recommend that you contact Corporate Accounting directly for their position on this issue. It was our understanding the reference to "immaterial" meant that the dollar amount of the fines collected for the Postal Service (knowing the uncertainty that the fines would actually be collected) versus the cost for implementing a tracking system was not cost effective in their opinion.

Concerning the fourth question on the case management process improvement initiative, one component of the Inspection Service's FY2002 Performance Plan is a management challenge to ensure the accuracy and timeliness of data in our management information systems by enhancement of case management activities. This will entail a comprehensive review of case management activities and the implementation of any recommendations relating to case management requirements.

475 L'Enfant Plaza, SW
WASHINGTON, DC 20040-2160
TELEPHONE: (202) 288-5445
FAX: (202) 288-4583

In addition, we plan to implement several initiatives to reinforce our commitment to case management that include case management training for Inspection Service managers during the National Leadership and Training Conference in November 2001; the addition of four new field performance manager positions that will be working closely with the field divisions on a variety of issues to include case management; and the addition of a case management module for in-service training courses.

We believe our written response dated August 15, 2001 accurately described our position on this audit. We hope we have addressed your follow-up questions in this memo. If you have any additional questions or need more information, please contact Inspector in Charge Larry Maxwell at (202) 268-5015.



K. W. Newman
Deputy Chief Inspector
Investigations